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These eight general objectives are the same for all accounts. Select a sample of cancelled checks. (4) impartial conservatism. If the statement eliminates either the risk or materiality portion, it is meaningless. Disclaimer or Adverse Note: Lack of independence requires a disclaimer regardless of materiality, sales invoice file.* 14-27 (OBJeCtIVe 14-3)
The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued a report called Fraudulent Financial Reporting: 1998-2007, An Analysis of Public Companies. Audit sampling is applied to the evaluation of audit evidence rather than treated as a separate topic. • Repairs and maintenance expense has also increased. Cho & Tam
has been the auditor of Pacific Products for the past 15 years and Thomas Cho has been the partner-in-charge since then. If, however, the auditor is justified in reducing inherent risk, provided that changes in relevant circumstances have not occurred.
With reference to your answer to c, identify a quantitative dollar amount for planning materiality if any, and support this with a discussion of more than one of the commonly used bases. Qualified Opinion paragraph, the financial statements referred to
above present fairly, in all material respects, the financial position of Laughlin Corporation as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Recorded sales can then be compared to the total amount of sales
on the cash register tape. Often, contracts contain a cancellation clause that might mitigate enforceability. In a conversation between Kelly and you, she commented on the following, "In order to fully understand the design and implementation of controls, we have to use all the eight types of evidence. Notes Payable Notes payable for the year ended
December 31, 2016, consists of three notes payable to the bank. No follow-up actions are required to address the exception noted for attribute 6, given the large difference between SER and TER. A report on the effectiveness of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Similarly, auditors should
evaluate the effectiveness of IT general controls before evaluating automated application controls or manual controls dependent on IT output. A CPA can refuse to testify in a state with privileged communications statutes. Examine sales transactions in the sales journal for unusually large amounts and also compare total monthly sales with prior years
However, many competent accountants do not have an understanding of the auditing process. Download the report at www.coso.org to answer the following questions (information on fraud techniques can be found on pp. An increasing portion of the GAO's audit efforts are devoted to evaluating the operational efficiency and effectiveness of various
federal programs. However, a properly designed nonstatistical sample that considers the same factors as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results that are as effective as a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly designed statistical sample can provide results and a properly
Each Exception Rate — 5 Percent Population Exception Rate and Sample Size of 50 Number of Exceptions Percentage of Exceptions Percentage of Exception Probability Cumulative Probability 0 0 .0769 1 2 .2025 .2794 2 4 .2611 .5405 3 6 .2199 .7604 4 8 .1360 .8964 5 10 .0656 .9620 6 12 .0260 .9880 7 14 .0120 1.0000 Of course, auditors do not take repeated samples
from known populations. After assessing control risk for each objective, the auditor then determines the extent of tests of controls that must be performed. To assess control risk below the maximum for these objectives, the auditor must identify and test separate controls that support those objectives. Contingent liabilities are potential liabilities that
must be disclosed in the client's footnotes. (4) Any amount that is individually significant is automatically identified or Disclaimer of Opinion or a disclaimer of Opinion on internal control over financial reporting
What do you believe the auditor should do in the circumstances? 108), help minimize any substandard practice. The breakdown of revenues (in thousands) from different products is listed in the chart below: SEgmENT REPORTING 2016 2015 2014 $ 31,479 $ 27,557 $ 26,991 Hand Tools 21,463 19,684 18,403 Landscaping Equipment 14,309 15,645
13,494 Electrical goods 17,170 15,849 11,042 Residential Construction Equipment 21,463 18,372 15,949 Commercial Construction Equipment 11,447 10,498 9,815 Power Tools Paint Products 25,755 23,621 26,991 $143,086 $131,226 $122,685 notes to financial statements 1. Management consulting services Nonassurance Services provided by Cpass
Most accounting and bookkeeping services, and management consulting services fall outside the scope of assurance services. Remittance advices are separated from the checks in the mailroom and forwarded to the accounting department. Two major
categories of scope restrictions exist: those caused by a client and those caused by conditions beyond the control of either the client or the auditor. Nonroutine transactions may increase the risk of material misstatement because they often involve a greater extent of management intervention, including more reliance on manual versus automated data
collection and processing, and they can involve complex calculations or unusual accounting principles not subject to effective internal controls due to their infrequent nature. Additional information should be obtained to evaluate the possible effects on the financial statements. For example, if the deadline for submitting the audit report is soon after
the balance sheet date, a significant portion of the audit must be done before the end of the year. The listing of findings will be updated quarterly to provide auditors with current information on matters most frequently found in peer reviews. It is important to distinguish between accuracy and occurrence or completeness. Assessing control risk
requires the auditor to consider the design, implementation, and operation of controls to evaluate whether they will likely be effective in meeting analytical procedures and those intended to eliminate or reduce detailed substantive procedures. (4) measure the
sufficiency of the audit evidence by quantifying sampling risk. These methods are also used to obtain an understanding of IT general controls at service organizations, including coverage of the different types of reports
provided in SOC 1, SOC 2, and SOC 3 engagements. The client has rights to accounts receivable. Such an agreement may tempt a practitioner to issue the wrong opinion and is a violation of the rule on contingent fees. We provide further study of the standards and make frequent reference to specific standards throughout the text. 430) • A flowchart
description of the accounting system and internal controls for the acquisition and payment cycle (Figure 12-13)—the flowchart shows that although each of the company's three divisions has its own receiving department, the purchasing and accounts payable functions are centralized. The purpose of Part IV is to obtain an understanding of internal
control and assess control risk for Pinnacle Manufacturing's acquisition and cash disbursement transactions. 294). Third, the escrow accounts were not reflected on the books of First Securities, or in filings with the SEC, or in connection with customers' other investment accounts. Much litigation has arisen from auditors' too willing acceptance of
client representations or from client pressure. (2) Vouch a sample of recorded sales from the sales journal to shipping documents. All other conditions, except for lack of auditor independence, require only a distinction between immaterial and material. It is common to put this type of qualification in an added paragraph preceding the opinion and to
refer to the added paragraph in the opinion paragraph. Consider the impact of several factors on the assessment of inherent risk. Fateen would occasionally change a transaction on the register and pocket the extra money. 10-16 (Objective 10-7) Identify three verbal and three nonverbal cues that may be observed when making inquiries of an
individual who is being deceitful. Define the Sampling Unit 532 The sampling Unit 532 The sampling unit is defined by the auditor based on the definition of the population and objective of the audit test. As a member body of IFAC, the AICPA agrees to have ethics standards that are at least as stringent as the IESBA ethics standards. In which one of the following situations
would a CPA be in violation of the AICPA Code of Professional Conduct in determining the audit fee? The principal auditor may also decide that a qualification is required in the overall report if the other auditor qualified his or her portion of the audit. This by itself does not prevent a CPA from practicing public accounting, but it is an important social
sanction. acl pRoblem 15-37 (Objective 15-7) This problem requires the use of ACL software, which can be accessed through the textbook Web site. "Extended Auditor's Reports: A Review of Experience in the First Year," Financial Reporting Council, March 2015 (www.frc.org.uk); and 3. "Directive 2014/56/EU of the European Parliament and of the
Council," European Parliament and the Council of the European Union, April 16, 2014 (www.europarl.europa.eu). Sales transactions are internally verified (C8). Then, in early November 2001, company officials were forced to admit that they had falsely claimed almost $600 million in earnings dating back to 1997, requiring the restatement of four
years of audited financial statements. Application controls are designed for each software application and are intended to help a company satisfy the transaction-related management assertions discussed in previous chapters. Identify existing Controls Next, the auditor uses the information discussed in the previous section on obtaining and
documenting an understanding of internal control to identify the controls that contribute to accomplishing transaction-related audit objectives. This system contains numerous automated controls. Such frauds are relatively easy to detect if the auditor examines evidence supporting fixed asset additions. He rationalized not reviewing audit planning
information because (1) the audit was being overseen by Marry Sarah, a manager in whom he had confidence, and (2) he could "recover" from any problems during his end-of-audit review. "aND tHE OSCar GOES tO . Assume that an auditor selects a sample of 100 duplicate sales invoices from a population, tests each to determine whether a shipping
document is attached, and determines that there are three exceptions. • Public Practice. summary This chapter provides insight into the environment in which CPAs operate by highlighting the significance of the legal liability facing the CPA profession. Similarly, the auditor cannot be an underwriter, Chapter 4 / Professional ethiCs 115 voting trustee,
promoter, or trustee of a client's pension fund; or act in any other capacity of management; or be an employee of the company. Arens, Randal J.Elder, Mark S. Inquiries of client Vouch—The use of documents to verify recorded transactions or amounts. Note: When the auditor lacks independence, no report title is included. What is the main
responsibility of the auditor to the company? Guns Limited is a front for an international terrorist organization SPECTACLE. (3) Include all audit procedures on the audit program that are consistent with the sampling unit you selected. Foremost of all ethical responsibilities of CPAs is the need for independence. Beach & Hoover Refining 4. A librarian
is responsible for controlling the use of computer programs, transaction files, and other computer records and documentation. Koss Corporation, a manufacturer of headphones located in Milwaukee, and their auditors found this out the hard way when the company was notified by American Express that their principal accounting officer, who also
served as vice president of finance and secretary, had been wiring funds from Koss Corporation's account to fund her lavish lifestyle. • The conclusions that were reached about the segment of the audit under consideration should be plainly stated. Wilsall Trading Company showed positive results as usual
and the CPA firm issued an unqualified opinion. Considering management's involvement, the CPA firm was not deemed negligent. Referring to Figure 12-3, the auditor assessed control deficiencies and asking, "What is the likelihood that a material
misstatement would not be prevented or detected, or corrected if it occurred, by these controls, and what is the effect of the deficiencies or weaknesses?" If the likelihood is low, then control risk is low, and so 416 Part 2 / The AudiT Process forth. Chapter 13 / Overall audit Strategy and audit PrOgram 457 evidence mix Objective 13-3 Understand the
concept of evidence mix and how it should be varied in different circumstances. J.B. Auditor's conclusion WILL IT STAND UP IN COURT? In recognition of the important role that whistleblowers can play in the financial fraud setting, the Sarbanes-Oxley Act of 2002 for the first time created a uniform federal protection for financial fraud
whistleblowers. For guidance as to what constitutes a discreditable act, the AICPA bylaws provide clearer guidelines than the AICPA bylaws provide clearer guidelines thas bylaws provide clearer guidelines than the AICPA bylaws provid
statements. For each internal control, identify the type(s) of specific control activity (or activities) to which it applies (such as adequate documents and records). A more detailed examination of that requirement is included to aid in understanding and to show the complexity of one of the rules. statistical audit
sampling The statistical sampling method most commonly used for tests of controls and substantive tests of transactions is attributes sampling. Specific risks related to Part 2 / The AudiT Process USING KEY RISK INDICATORS FOR RISK AWARENESS COSO has issued thought guidance to assist management and the board in the development of key
risk indicators (KRIs) to provide early signals of increasing risk exposures. Using the Invoices file, calculate the sample size and sampling interval for a record sample to be used for tests of transactions. The Restatement Rule is that foreseen users must be members of a reasonably limited and identifiable group of users who have relied on the CPA's
work, such as creditors, even though those persons were not specifically known to the CPA at the time the work was done. There is a direct relationship of the occurrence transaction-related audit objective if a class of transactions decreases the related account balance (e.g., cash receipts
transactions decrease accounts receivable). Biases and Motives of the provider If information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with those of the provider are inconsistent with those of the decision maker, the information may be biased in favor of the provider are inconsistent with the prov
the manager reported the sales for the next day as having occurred the previous day. 8 10 Credit was not approved. A sense of superiority by executives is the most commonly cited condition related to attitude and rationalization. Accounts receivable is stated at realizable value (realizable value). For example, each key control in Figure 12-3 that the
auditor intends to rely on to support a control risk below the maximum must be supported by sufficient tests of conduct restrict the permissible forms of organization and prohibit a member from practicing under a firm name that is misleading. The
two criminals were sentenced to 10 years in jail. For example, does management take significant risks or is it risk averse? For example, product quality can have a significant impact on the financial statements through lost sales and through warranty and product quality claims. When fraud risk factors are identified during an audit, the auditor's
documentation should include the risk Factors Identified (1) Yes Yes (2) Yes No (3) No Yes (4) No No Chapter 10 / Assessing And Responding to FRAud Risks 365 b. This includes scheduling of cash receipts subsequent to year-end for all outstanding accounts receivable to determine collectibility at
year-end. Control risk represents the auditor's assessment of the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the client's internal controls. (For example, the software can be used to read the inventory master file and list items and parts with a high unit cost or total value. The
auditor can examine supporting documentation for a sample of sales returns and allowances recorded during several weeks subsequent to the closing date to determine the date of the original sale. Figure 7-2 illustrates how the auditor may make an independent calculation of interest expense on notes payable by multiplying the average ending
balances and interest rates for both short-term and long-term notes payable as a substantive test of the reasonableness of recorded interest expense. Legally, information is called privileged information if legal proceedings cannot require a person to provide the information, even if there is a subpoena. (3) reasons for being unwilling to assume
responsibility for the other auditor's work. They were of the opinion that the budgets were overblown and the estimates of scrap levels grossly understated. Self-interest in, or relationship with, a client or persons associated with the client. Auditors also use local area
networks and groupshare software programs to access audit documentation simultaneously from remote locations. LegaL ConCepts aFFeCting LiaBiLity A CPA is responsible for every aspect of his or her public accounting work, including auditing, taxes, management advisory services, and accounting and bookkeeping services. probabilistic Versus
Nonprobabilistic Sample Selection applying Statistical and Nonstatistical Sampling in practice and Sample Selection Methods ample selection methods. There are a number of techniques that auditors can use to select a sample. What deficiencies exist in the client's internal control? We plan for this difference to satisfy the market in which we
operate. By Chulick, the president Pam Dilley examines underlying document and document understanding of internal controls. Obtain and document understanding of internal controls and online access controls. Obtain and document understanding of internal controls and online access controls.
supermarkets in Singapore and is having its shares listed on the stock exchange. Chapter 6 / Audit Responsibilities And objectives and the accumulation of audit evidence. The smallest customer order number is 69443 and the largest is 94442.
"International Financial Reporting Standard 7: Financial Instruments: Disclosures" mentions that disclosures of fair value are not required for an investment in equity instrument. When it comes to determining a sample size for tests of controls, the majority of the firms
surveyed use the tables in the AICPA Audit Sampling Audit Guide, although one firm indicated that they use their own audit software. Various Internet, radio, newspaper, magazine, and television advertisements were purchased at the local and regional levels using the Company's new catchphrase, "Hardware for Hard Workers." The new jingle has
been partially responsible for the fiscal 2016 increase in sales of 9%. If the mean value of the inventory is $255,000 ($85 × 3,000). The effect on the auditor's report is the same for either, but the interpretation of materiality is likely to be different.
                                                                                                                                                                                                                                                                                                                                                                         the sales journal, looking for large and unusua
tests of controls. 14-9 (OBJeCtIVe 14-4) What is the difference between the auditor's approach in verifying sales returns and allowances and that for sales? Indicate whether Busch should keep its existing loan, accept the offer from United National Bank, or accept the offer from First City Bank. This division, also new to Pinnacle, is currently in its
second year of operations. What is the overarching purpose for performing all of these procedures? How are these two factors related to audit procedures, sample size, items to select, and timing? Analyze exceptions. These records are used as a starting point for documenting the auditor's understanding of the control system, since aspects of the
system are often unchanged from year to year. In the form of a chart (see Table 14-2) for Kwan Pharmaceutical Co, design an audit program for Sales Returns (Credit Memos): (1) List the auditor may conclude that there is a
were encountered during the annual audit of Marvel Wholesale Distributing Company: Customer orders are received by the sales order department. Jennifer Crowe's audit client has a material investment in Polex, Inc. An officer, director, or significant shareholder participates in litigation against the firm. Which standard is relevant when dealing with
the issue of "Going Concern"? Although safeguards may be applied from one or more than one category, it is not possible to rely on safeguards implemented by the client alone to eliminate or reduce significant threats to an acceptable level. This analysis helps the auditor identify business risks associated with the client's strategies that may affect
we fail to give you a receipt." Why would the restaurant post this sign? phases of the audit process The four phases of the audit process the four phases of the audit process in the first column are the primary way that audits are organized, as described in Chapter 6. 55 12. A qualified audit report for inadequate disclosure may be required if the client refuses to properly disclose the
items. Use Table 15-8 (p. Performance materiality is commonly set at 50-75% of overall materiality. The firm Ram Chartered Accountants cooperate in a money laundering case involving the directors of Ponyo Pte. required 10-26 (Objectives 10-1, 10-4, 10-6) The
following misstatements are included in the accounting records of the Jasmine Manufacturing Company: 1. The best source of that information is the State Board of Accountancy for the state in which the person plans to be certified. Determining whether the necessary internal control procedures are prescribed and are being followed satisfactorily
CPA firms face a larger field of competitors in the market for other assurance services. An addressed envelope is enclosed for your convenience in replying. The collectibility of all notes was discussed with the controller. However, the amounts of the receivables are material in relation to the company's financial statements. Confidential Client
Information rule A member in public practice shall not disclose any confidential client information without the specific consent of the client. In addition, auditors should take care to match each unpaid sales transaction with evidence of its subsequent payment as a test for disputes or disagreements over individual outstanding invoices. The term
"explanatory paragraph" was replaced in the AICPA auditing standards with "emphasis-of-matter" or "other-matter" paragraphs. The auditor often starts assessment inquiry with broad, open-ended questions that allow the interviewee to provide detailed responses that can later be followed up with more specific questions. The accounting function's
use of complex IT networks, databases, the Internet (including cloud computing), and centralized IT functions is now commonplace. For audits where there is extensive reliance on internal control, control risk will be assessed as low. In rare cases, auditors have even been held liable for criminal acts.
Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 567 2. You can then compare your estimate with recorded revenue as a test of the reasonableness of recorded revenue as a test of the reasonableness of recorded revenue. The plan should usually issued
the co-op payment to ABC in the form of a credit memo offsetting expenses on ABC's merchandise purchases from that supplier. These usually involve nonroutine transactions and unpredictable expenses, such as legal expense or repairs and maintenance. An auditor obtains copies of a client's customer credit limit master file and a customer order
file, and then instructs the auditor's computer to list transactions that exceed the customer's authorized credit limit. Independence rule A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council. Because the exception rate is based on a sample
conducts a peer review of the quality controls of another CPA firm, it is normal practice to examine several sets of audit files. The auditor decides whether to accept a new client or continue serving an existing one. This was a wake-up call for companies around the world about the reality and extent of cybersecurity threats. All make it a criminal practice to examine several sets of audit files.
offense to defraud another person through knowingly being involved with false financial statements. 13-15 (Objective 13-4) Why is it desirable to design tests of details of balances before performing tests of controls and substantive tests of transactions? If you choose to use systematic sample selection method, (1) Calculate the interval required under
such sampling method. The $3,500 identified misstatement is a known misstatement. Further, 38 percent 64 percent and 90 percent of gross profits for 2007, 2008 and 2009 respectively were fictitious. Table 13-7 also shows that tests of details of balances are normally done last. For example, in auditing income tax expense, to identify whether
there have been any material violations of federal or state tax laws, the auditor might hold discussions with client personnel and examine reports issued by the Internal Revenue Service after completion of an examine reports issued by the Internal Revenue Service after completion of the client's tax return. 14-6 (OBJeCtIVe 14-3) List the most important duties that should be segregated in the sales and
collection cycle. Jojo Gong CPA prepares the financial statements for Guns Limited. For example, the auditor should document specific transactions at year-end to determine whether transactions were recorded in the proper period. But, you were able to perform alternative procedures to support the existence and valuation of the inventory at year
end. The other testing areas proceeded normally, and none of the reviewers noticed the note about the missing A/R confirmations on the workpaper. As a result, auditing standards for U.S. public and private companies are mostly similar.
reporting and Misappropriation of assets In Chapter 6, we discussed the auditor's responsibilities to assess the risk of fraudulent financial reporting and misappropriation of assets. Risk assessment, technology, fraud, and auditing of internal control issues are integrated throughout the chapters. When she goes through the documents and records,
she finds employment agreements entered into with Johnny's parents and monthly acknowledgement receipts from his parents for the salaries paid by the company. This can be seen in Figure 12-3 for transaction-related audit objectives. Accounts receivable is stated at realizable value 8. Fiberchem 4. For example, section 1.200 is the section on
Number Sample Allowance for of exceptions rate (TER - SER) EPER TER ARO Initial sample size 1. Identify the six characteristics that determine the reliability of evidence. Every evidence decision relates to at least one of the audits, and some may relate to two or all three audits. Consequently, we were unable to determine
whether any adjustments to these amounts were necessary. Risk of material misstatements 6. (Read the bottom of the Payroll detail file screen.) b. Sampling risk is the risk that an auditor reaches an incorrect conclusion because the sample is not representative of the population. The Integrity and Objectivity Rule also applies to members in business
9169 Credit not authorized, but the sale was for only $7.65. Give one example in which each can be used. All they had to do was to obfuscate it with sheer complexity," noted John Dingell, U.S. Congressman from Michigan. (3) Have separate warehouse space for the more valuable items, with sequentially numbered tags. 15-24 (Objectives 15-1, 15-2,
15-6) The following questions concern audit sampling. Figure 13-6 Methodology for Designing Tests of Details of Balances —Accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement for accounts receivable Identify significant risks and assess risk of material misstatement risks and assess risks and assess r
perform tests of controls and substantive tests of controls and substantive tests of transactions for sales and collection cycle Design tests of details of accounts receivable balance to satisfy balance-related audit objectives 462 Part 2 / The AudiT Process Audit procedures Sample size Items to select
Timing PEER REvIEW DATA IMPROvES AUDITS To help improve audit practices, the AICPA Peer Reviews are retained electronically using an MFC form to identify problem areas. Approximately 20% of the audit of Lumberton Farms,
Inc., was performed by a different CPA firm, selected by you. Many of these firms are affiliated with firms in other countries and therefore have an international capability. In applying the audit risk model, auditors are concerned about both overauditing and under-auditing. An employee, other than the bookkeeper, periodically prepares a bank
reconciliation. However, only probabilistic techniques are applicable when using statistical sampling. Part 1 / THE AUDITING PROFESSION The need for assurance is not new. This makes sense because the exceptions for the latter are likely to have a more direct impact on the correctness of the financial statements than the former. 122) involved
fictitious revenue entries in the general ledger. A suicide note was found inside the car that admitted fraud for over 20 years. The listing of the 519 accounts making up the accounts payable balance of $12,969,686 at December 31, 2016, is available online. However, Mitchell & Moss had no knowledge of the embezzlement
nor can their conduct be categorized as reckless. When positive confirmations are used, auditing standards require follow-up procedures for confirmations not returned by the customer. A federal court ruled in KPMG's favor, claiming the audit associates exercised a level of professional discretion in performing their duties and had a level of
specialized knowledge sufficient to meet the overtime exemption requirements in FLSA. Connor Bradley is the partner in charge of the audit of Southern Pinnacle Bank. Are transactions properly authorized? The second concern is the possibility that current financial information was changed by client personnel to conform to the budget. This may
indicate to the auditor a need to reevaluate the fraud risk assessment and the impact on the nature, timing, and extent of audit evidence. Her husband is a supplier to the company. Although Al&Bee has expanded its business during the year, its sales have not increased as much as expected, partly attributable to the slow down of economies in the
region. H. You read an article in the file titled, "EPA Regulations Encouraging SolarPowered Engines Postponed?" After reading the article, you realize that the regulations management is relying upon to increase sales of the Solar-Electro division might not go into effect for at least ten years. Which items can be changed after the audit is 95%
noncompliance with the Sarbanes-Oxley Act of 2002, as well as the rules of the PCAOB and the Securities and Exchange Commission governing the audits of public companies. What types of performance measurements might affect the risk of material misstatement? Iv. Considering the types of errors and fraud that can occur. The opinion must
clearly state the nature of the departure from accepted principles and the amount of the misstatement, if it is known. Satyam's auditors sent confirmations to verify the existence of the bank balances. The auditor can either determine whether the estimated likely misstatement actually exceeds $50,000 by performing additional audit tabLe 8-2
Table 12-1 (p. Which of the following statements reflects an auditor's responsibility for detecting fraud? This control was tested in the 2015 fiscal year-end audit. Compliance audits • Determine whether accounting personnel are following the procedures prescribed by the company controller. assess Control risk for each related audit Objective After
controls and control deficiencies are identified and associated with transaction-related audit objectives, the auditor can assess control risk for transaction-related audit objectives. In planning your audit of BILT's accounts receivable, the controller of BILT notifies you that many of their paper records (e.g. invoice duplicates and shipping documents)
were destroyed in a fire at their accounting department last year. The shape of the frequency distribution of the population, as illustrated in Figure 17-4. The lawsuit can be for breach of contract, a tort action for
negligence, or both. As described in Chapter 3, the auditor may issue separate or combined audit reports on the financial statements and on internal control over financial reporting. Her work included determining sample sizes. Invoices are sent for shipped goods, and are recorded in the sales journal, but are not posted to any customer accounts.
Review of how long the accounts department takes to issue an official receipt to a customer who has paid using a bank transfer. The audit report is the final step in the entire audit process. It is customary for some Turkish companies to factor receivables to speed up cash collection and reduce doubtful accounts risk. As part of its Clarity Project, the
ASB issued a Preface to the Codification of Auditing Standards that contains the "Principles Underlying an Audit in Accordance with Generally Accepted Auditing Standards" (referred to as the principles). began operations in 1987 in Gary, Indiana, as a retail hardware store chain. The company establishes a number of key performance indicators for
many financial processes. However, in some instances the auditor may learn that the control deficiencies are significant such that the client's financial statements may not be auditable. Understand the role of the Public Company Accounting Oversight Board and the effects of the Sarbanes-Oxley Act on the CPA profession. 643 (1968). 8-32 (Objective
8-3, 8-7, 8-8) You've been asked to review the gross margin percent for Erie Books for the evidence-planning worksheet that was introduced in Chapter 9 on page 282. To test for the
occurrence objective, the auditor starts by selecting a sample of invoices, shipping documents, and customer orders, as illustrated in Figure 14-4 (p. The client is in excellent financial condition. There is no independent comparison of dates on shipping documents to dates recorded
Table 13-4 shows the tests of details of balances segment of an audit program for accounts receivable. 508 The results of the tests of details of balances. In this chapter, we discuss how auditors obtain and document
their understanding of internal controls and assess control risk as part of the audit planning process. This was the first year WRS operated at a profit since 2011 because the municipalities received increased federal and state funding for environmental purposes. State which of the six transaction-related audit objectives each of the audit procedures
fulfilled. Inventory turnover calculated based on annualized Cost of sales (2) the percentage of items in a population that possess a particular attribute. Such programs possess a particular attribute. Such programs possess a particular attribute.
output in either sorted or selection order. Prepare organized audit documentation. When all differences have been resolved, including those discovered in performing alternative procedures, the auditor must reevaluate internal control. A misstatement of inventory does not mean that cash, accounts receivable, and other elements of the financial
statements, or the financial statements as a whole, are materially incorrect. This case established a precedent, commonly called the Ultramares doctrine, that ordinary negligence is insufficient for liability to third party is a primary beneficiary.
Control risk. Generalize from sample to population Actual exceptions in sample Actual sample size Acceptable risk of overreliance 13. Common-size income statement data for the past three years for Hillsburg Hardware are included in Figure 8-4. Each subpopulation is then independently tested. How does adoption of cloud computing affect the
control environment of the organization? These are useful for understanding recent events and the financial status of the business and for viewing the statements from the perspective of a user. Company management also reported a material weakness in internal control in their 2011 financial statements. A cashier stole cash receipts that had been
recorded in the cash register. A conclusion can then be reached about the financial statements taken as a whole. For these reasons, the audit of revenue is often a significant focus of PCaOB inspections of registered firms. State the purpose of each of these procedures. This chapter also discussed management assertions and the related objectives of
the audit and the way the auditor subdivides an audit to result in specific audit objectives. For example, the client often retains a customer order, a shipping document, and a duplicate sales invoice for each sales transaction. Discuss the following items with client personnel and observe activities: a. Obtain reasonable assurance about whether the
financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial respects, in accordance with an applicable financial respects, and accordance with an applicable financial respects, and accordance with an applicable financial respects, and accordance with an applicable financial respects.
goods. Notice that much of the information in Figure 15-8 is consistent with information presented in the nonstatistical sampling example illustrated in Figure 15-8 is consistent with information presented in the nonstatistical sampling example illustrated in Figure 15-8 is consistent with information presented in the nonstatistical sampling example illustrated in Figure 15-8 is consistent with information presented in the nonstatistical sampling example illustrated in Figure 15-8 is consistent with information presented in the nonstatistical sampling example illustrated in Figure 15-8 is consistent with information presented in Figure 15-8 is consistent with information with information with information with information with information with infor
required to provide a reasonable level of care while performing work for those they serve. For example, assume that the auditor wants to trace credits from the accounts receivable master files, but the credits are not numbered in a way that a
random sample can be easily selected. Provided courtesy of The Center for Audit Quality. In certain situations, an unmodified opinion audit report on the financial statements is issued, but the report deviates from the standard wording. For example, if the auditor confirms accounts receivable balances and finds overstatements caused by mistakes in
billing customers, then both accounts received, and 21 were records. Responsibility also means pursuing excellence, self-restraint, and leading by example, including perseverance and engaging in continuous improvement. For each control, list a test of control to
test its effectiveness. Department heads review these listings to ensure that each employee actually worked during the pay period. imPact Of it environment impacts control risk assessment and testing. Unfortunately, nonnegligent performance
can be difficult to demonstrate to a court, especially in jury trials when laypeople with no accounting experience make up the jury. Reluctance to end an interview. The top one shows sample sizes for a 5 percent ARO, while the bottom one is for a 10 percent ARO. In addition, he examined documentation related to the sales transactions, including the
customers' purchase orders, shipping documents, and invoices generated by ABC. Suspension of judgment—withholding judgment until appropriate evidence is obtained 3. 120 Although independence is critical to public confidence in CPAs, it is also important that auditors adhere to the other rules of conduct listed in Table 4-4 (p. Auditors follow a
four-step approach to reduce assessed control risk. If the receivable was actually collected in cash or the goods were returned, the original sale likely occurred, unless the auditor has reason to believe that the payment or return of goods was also fraudulent. This number is recorded and then later compared by the operators with the computer output
generated after batch processing and file updating occur. It makes little sense to perform extensive substantive analytical procedures before the client has recorded all transactions for the year and finalized the financial statements. (See the seventh key control in Figure 12-3.) In these cases, it is common for the auditor to reperform the control
activity to see whether the proper results were obtained. They can also be helpful in identifying potential misstatements are fairly stated. Determine the largest and smallest payroll transaction (gross pay) for all pay
periods combined. Although the criteria for legal actions against auditors by third parties who are part of a limited group of persons whose reliance is "foreseen" by the auditor. It is especially useful to determine whether controls that were not previously operating effectively have
been improved. For example, if an auditor determines that the exception rate for the internal verification of sales invoices is approximately 3 percent, then on average 3 of every 100 invoices are not properly verified. Which of the following statements is correct regarding the financial statement presentation? Typically, companies list those risks in
order of importance. When the CUER is greater than the TER, it is necessary to take specific action. State the Objectives of the audit test Decide Whether audit Sampling applies Define a Misstatement 606 Steps—audit Sampling for tests of transactions (see p. • There have been no restrictions on the scope of the
 auditor's work. Procedures should depend on such things as the size of the firm, the number of practice offices, and the nature of the practice. After studying this chapter, you should be able to Pacific Products is a medium-sized privately held manufacturer of premium wooden products, selling to furniture shops across the Asia Pacific region. Sales
Invoice A sales invoice is a document or electronic record indicating the description and quantity of goods sold, the price, freight charges, insurance, terms, and other relevant data. The auditor will use one of several approaches to determine whether the design and implementation of automated controls are appropriate and that they are operating
effectively. (4) An auditor should design the audit to provide reasonable assurance of detecting errors and fraud that are material to the financial statements. (27) 6. 8780 Client unable to locate the duplicate sales invoice. Many consumers consider the information in Consumer Reports more reliable than information provided by the product
 accountants continues to increase. In addition, the PCAOB considers existing international standards in developing its standards. ratio estimation is similar to difference estimation, the PCAOB considers existing international standards in developing its standards.
population misstatement. If the controls necessary to satisfy any one of the objectives are inadequate, the likelihood of misstatements related to that objective is increased, regardless of the controls for the other objectives. Credit Memo A credit memo indicates a reduction in the amount due from a customer because of returned goods or an
allowance. The Securities Exchange Act of 1934 provides additional protection by requiring public companies and others to file detailed annual reports with the commission. (2) A fee based on the outcome of a bankruptcy proceeding. The revenue from the equipment was recorded at the beginning of the lease, but revenues from servicing and
financing were recognized over the life of the lease contract. Review accounts receivable trial balance for large and unusual receivable trial balance for large and unusual receivable trial balance for large and unusual receivables (3). Because material related party transactions must be disclosed, all related party transactions must be disclos
usual sense, they are indexed and filed. Source: Copyright by American Institute of CPAs, All rights reserved. Total operating expenses increased by $1,219,000 or approximately 4.3% from 2014, responsibiliTies When fraud is suspeCTed Frauds are often detected through the receipt of an anonymous tip, by management review, by internal audit, or
by accident. The most common case in which conditions beyond the client's and auditor is appointed after the client's balance sheet date. 51 0.22 0.27 0.21 1.01 2.32 0. What are the costs and benefits of using statistical sampling versus nonstatistical sampling? An auditor uses assessment inquiry the client's balance sheet date.
to corroborate or contradict prior information. Any member who accepts a referral fee to obtain a client shall disclose such acceptance or payment to the client. Carol therefore assessed the risk level to be low and adopted the usual audit approach
for the sales and collection cycle. Audit documentation should indicate who performed the audit work, and the date of that review. Another type of attestation involves internal controls at service organizations. Practitioners are allowed to organize in any of six forms, as long as they are
permitted by state law: proprietorship, general partnership, general corporation, professional corporation, professional groups such as CPAs,
and codes of conduct within organizations. You should read all of the reference material preceding the instructions for "Quick Sort" before locating the appropriate command to answer questions a. Why is independence so essential for auditors? Its sales have grown at a reasonable rate throughout the past few years and its performance is not
materially affected by the economic slowdown as Co&Dan sells necessity items. The information technology and internal control processes an organization has in place to protect computers, networks, programs, and data from unauthorized access is often referred to as cybersecurity. For example, casinos handle extensive amounts of cash with little
formal records of cash received. 176 Audits are performed by dividing the financial statements into smaller segment of the population. Testing whether revenue was recognized in the correct period. Before concluding that information is reliable, auditors
must understand and test computer-based controls in the same way they need to understand and test manual controls. The methodology and implications of exceptions analysis are explained more fully in the next chapter. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance
of records that, in reasonable detail, accurately and fairly reflect the transactions of the asserts of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of
the company are being made only in accordance with authorizations of management and directors of the company's assets that could have a material effect on the financial statements. the Financial
Statements have Not Been prepared in accordance with Generally accepted accounting principles, a departure from the unmodified
opinion audit report is required. Morris and Williams, a regional CPA firm, is providing information systems consulting to one of the control. The AICPA Code of Professional Conduct provides a standard of conduct
for practitioners and is discussed in Chapter 4. At the end of each day, one of the clerks delivers the proceeds to the treasurer. In most audits, the emphasis should be on confirming larger and older balances because these are most likely to include a significant misstatement. The criteria for evaluating information also vary depending on the
information being audited. For client-imposed restrictions, the auditor should be concerned about the possibility that management is trying to prevent discovery of misstated information. Although consultation with other accountants is appropriate, it can lead to a loss of independence in certain circumstances. He also rechecks the clerk's calculations.
Unfortunately, a few conduct themselves below the minimum level set by the profession. This variation makes it difficult for a CPA firm with clients in different states to operate as a PC. No, the true exception rate remains unknown. Independence of provider. Which of the following is not a primary purpose of audit documentation? If the auditor is
convinced that the client has an excellent system of internal control, one that includes adequate internal controls are not adequate internal controls are not adequate internal controls are not adequate internal controls for providing reliable data, the amount of audit evidence to be accumulated can be significantly less than when controls are not adequate internal controls are not adequate internal controls.
effective and economical for companies to focus on fraud prevention and deterrence. Auditors assess fraud risk at both the overall financial statement level and at the assertion level for classes of transactions, account balances, and presentation and disclosure. Although firms have insurance to help alleviate the impact of assessed damages, the
premiums are high and the policies available to the firms require large deductibles. After the wedding, Michelle's father-in-law suggested that Michelle become the chief financial officer of the company. Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 555 discussion Questions and pRoblems required 15-25
(Objectives 15-1, 15-2, 15-5) Auditing standards provide general guidance to auditors regarding audit sampling or specify which sampling but do not require statistical sampling or specify which sampling but do not require statistical sampling or specify which sampling but do not require statistical sampling or specify which sampling but do not require statistical sampling or specify which sampling but do not require statistical sampling but do not require statistical sampling but do not require statistical sampling or specify which sampling but do not require statistical sampling but do not require 
the CPA firm's written program prescribed. Frequent turnover of key financial and internal audit personnel and ongoing conflicts with labor unions and employees may also indicate integrity problems. Use audit software to create a list of all credits to the repair and maintenance expense account for follow-up testing. It is worth noting that auditors
disagree about whether engagement risk should be considered in planning the audit. When auditors are confident that all transactions were correctly recorded in the journals and correctly posted, considering all six transactions were correctly recorded in the journals and correctly posted, considering all six transactions were correctly recorded in the journals and correctly posted, considering all six transactions were correctly recorded in the journals and correctly posted, considering all six transactions were correctly recorded in the journals and correctly posted in the journal posted in th
in enhancing auditor independence. How will those benchmarks differ for the audit of a manufacturing company and a government unit such as a school district? Be sure to include a sample size for each procedure. Practicing auditors may also take specific action to minimize their liability. In our example, when the auditor specified a TER of 7
percent at a 5 percent ARO and the CUER was 6.6 percent, the requirements of the sample have been met. Other internal control frameworks exist around the world, such as the Financial and Business Reporting, and Canada's Guidance
on Assessing Control (known as "CoCo"). (See the glossy insert in this textbook.) Hillsburg's Annual Report to Shareholders described the company as a wholesale distributor of hardware equipment to independent, high-quality hardware stores in the midwestern United States. Auditors must assess the ability of management as a part of the evaluation
of the likelihood of bankruptcy. Obtain a letter from management stating that there are no unrecorded liabilities. If any of the requirements for the standard unmodified opinion audit report are not met, the standard unmodified opinion audit report are not met.
suppliers' despatch note and checked the quality of the goods received. The misstatement occurred by physically transporting banks have offered to replace Busch Corporation's existing loan agreement with a new one. This report is filed to report
significant events that are of interest to public investors. Many risks are common to all clients in certain industries. Sometimes, they might also reviewed except when the auditor decides to perform random testing. 574 Part
3 / APPlicAtion of the Audit Process to the sales and collection cycle Cash receipts Cutoff For most audits, a proper cash receipts cutoff because the improper cutoff of cash affects only the cash and the accounts receivable balances, not earnings. Is there independent
comparison of dates on shipping documents to dates recorded? accounts receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executives are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years the global economy experienced receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executives are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years the global economy experienced receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executives are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years the global economy experienced receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executive are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years the global economy experienced receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executive are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years the global economy experienced receivable master file is reconciled to the general ledger on a monthly basis (C11). 8-3) Which types of loans to executive are permitted by the Sarbanes- 8-10 (Objective 8-3) In recent years (C11). 8-3) Which types of loans to executive are permitted by the sarbanes (C11). 8-3) Which types of loans (C11). 8-3) Which types of loans (C11). 8-3) Which types of loans (C11). 8-3) Which types (C11). 8-3)
Depression, and the instability of the Euro continues to cause volatility in stock and bond markets. These values help create a culture of honesty and ethics that provides the foundation for employees' job responsibilities. Because ABC' growth strategy was based mostly on acquisitions, the company had experience in performing annual impairment
tests of goodwill. When gathering facts and information, the auditor should be alert for other information that either confirms or contradicts facts and information, in addition to evaluating the sources of that information services.
Because John was busy, he told Sarah to conduct a new-client acceptance review and let him know if there were any problems. (When the Securities Exchange Act of 1934 only. What is the objective of an audit of the financial statements?
Prepare proof of cash receipts (18). We've already discussed credit approval by an appropriate person. For example, the auditor must evaluate the potential for fraud and also consider inherent risk, which may vary by objective, as well as the results of controls and the related control risk assessment, which may vary by objective. The
increasing complexity in transactions has also resulted in increasingly complex accounting standards. STATEMENT FROM MOBIL OIL Pinnacle Manufacturing Detroit, MI Amounts due as of December 31, 2016: Invoice No. DX14777 DX16908 Date 12-23-16 Amount $93,210.48 37,812.00 (2) Balance Due $ 93,210.48 (1) 131,022.48 Auditor's
notes: (1) Agrees with accounts payable listing. His CPA firm requires a standard internal control questionnaire on every audit as well as a flowchart of every transaction area. 15-6 (Objective 15-3) If an auditor wants to select samples that emphasize population items with larger recorded amounts, what are the two commonly used methods? The
confusion results because most auditing is usually concerned with accounting information, and many auditors have considerable expertise in accounting matters. Statutory law Laws that have been passed by the U.S. Congress and other governmental units. The customer copy of the sales invoice is held in a pending file awaiting notification that the
order was shipped. For example, an auditor might confirm a sample of accounts receivable and determine the difference (misstatement) between the client's recorded amount and the auditor considers correct for each selected account. For example, a $20,000 overstatement of accounts receivable is also a $20,000 overstatement of sales.
Due to lack of time, Helen went on with the consolidation of the financial statements. Auditing Standards for private companies and other entities in the United States are established by the Auditing Standards Board (ASB) of the AICPA. Given the transaction-related audit objectives, the auditor follows this process: • Determine key internal controls
for each audit objective • Design tests of control steet for monetary misstatements for each control steet for monetary misstatements for each objective As in all other audit areas, the tests of controls depend on the controls the auditor identifies, the extent they will be relied on to reduce assessed
control risk, and whether the company being audited is publicly traded. Tables 15-4 and 15-5 on the following page present illustrative guidelines for establishing TER and ARO. Indicate the Presence of Possible Misstatements in the Financial Statements i
data used in comparisons are commonly called unusual fluctuations. Notice that the guidelines are formulas using one or more benchmarks and a range of percentages. Many cases were left unrecorded. For example, if the auditor identifies a risk of material misstatement for inventory valuation because of complex valuation issues, additional
evidence will be accumulated in the audit of inventory valuation and more experienced staff will be assigned to perform testing in this area. We have introduced the role of auditor's independence so essential? 7-9 (Objective 7-4) Identify the
main terms used in audit procedures. The overall accounts receivable balance is immaterial. Instead, auditors use sampling methods that provide results in dollar terms. Foot and cross-foot the sales journal and trace the balance to the general ledger. Austin and Houston perform no other services for McAlister Global. Inquire of management whether
there are notes from related parties included with trade receivables. What is the process the AICPA Auditing Standards Part 2. Organizations and standards bard (ASB) uses to develop AICPA auditing standards? Part 2. Organizations and standards other than the AICPA code that influence auditor independence are also described. These agreements are in effect until the end of fiscal
year 2017. Part II of the case includes 11 situations that you encountered in audit planning. It includes the same type of information as the sales transaction file. Table 10-2 (p. Ennis developed a program for the design of confirmation as the sales transaction file.
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on this statement: "Physical examination, confirmation and reperformance are important types of evidence that must be performed in tests of controls, substantive tests of transactions, substantive tests of transactions, substantive tests of teats from most costly to least costly: substantive analytical procedures, tests of details of balances, risk assessment procedures, tests of controls, and substantive tests of transactions. (3) Assess control risk as high, medium, or low for each objective using your best judgment. For a given audit procedure, the evidence obtained from a sample of 100 is ordinarily more sufficient than from a sample of

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50. required For each audit procedure: a. The CPA firm cannot continue to audit that client if the auditor accepts the position and has participated in any capacity in the audit for one year preceding the start of the audit for one year preceding the start of the audit. We use this framework as a basis for discussing the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the start of the audit for one year preceding the y
that most procedures satisfy more than one objective, and that more than one audit procedure is used for each objective. Subsequent to itsinitial public offering, there were a number of significant events to China Metal recycling. Internal documents created and processed under conditions of deficient internal control may not constitute reliable
evidence. Similarly, the employees might decide to overstate the counts to intentionally cover up a theft of inventory by one or both of them. Explain why this practice is improper. Overstatement or understatement or understatem
approved price list. Different customer accounts are each credited for the same cash receivable and inventory obsolescence are likely to be assessed as having higher risk of material misstatement and will therefore likely warrant additional attention in the
current year's audit. Using her firm's audit software, she entered the population size (number of invoices), desired confidence level, TER, and EPER, and determined a sample size of 60 invoices. Explain the difference between known and likely misstatements. This part of the report is so important that often the entire audit report is referred to simply
as the auditor's opinion. When the auditor cannot perform procedures he or she considers desirable but can be satisfied with alternative procedures that the information being verified is fairly stated, a standard unmodified opinion report is appropriate. For example, when a company files for bankruptcy protection or cannot pay its debts, statement
users commonly claim that an audit failure has occurred, especially when the most recently issued auditor's report indicates that the financial statement of Operations (in thousands) Year Ended December 31 2016 Net sales $ 143,086
2015 \pm 131,226 \pm 2014 \pm 122,685 \pm 103,241 \pm 94,876 \pm 88,724 \pm 39,845 \pm 36,350 \pm 33,961 \pm 32,475 \pm 29,656 \pm 28,437 \pm 7,370 \pm 6,694 \pm 5,524 \pm 2,409 \pm 20,351 \pm 20,475 \pm 20,685 \pm 103,241 \pm 10,475 \pm 10,47
administrative expenses Operating income Other income $ 3,934 $ 3,194 $ 2,279 Earnings per share $ 0.79 $ 0.64 $ 0.46 stockholders' equity See Notes to Financial Statements. Review sales returns after the balance sheet date to determine whether any are applicable to the current
year. Crowe's nondependent parents also own shares in Polex, and Polex is not an attest client of Crowe's firm. (69.46) 3. The disclaimer can arise only from a lack of knowledge by the auditor, whereas to express an adverse opinion, the auditor must have knowledge that the financial
statements are not fairly stated. Fateen recently took on a new role as head bookkeeper, when the former one retired. Know the types of analytical procedures and their purposes. Source: aICPa Professional Standards, U.S. auditing Standards aICPa (Clarified), "Overall Objectives of the Independent auditor (aU-C 200)," 2015. At this writing, SAS 129
and AS18 were the last ones issued by the AICPA and PCAOB, respectively, and incorporated into the text materials, but readers should be alert to subsequent standards that influence auditing requirements. To assist the auditor should
perform to obtain information from management about their consideration of fraud. The increased number of factory hourly employees was accomplished by recalling employees that had been laid off. Chapter 7 / Audit EvidEnCE 227 An external document has been handled by someone outside the client's organization who is a party to the transaction
being documented, but that is either currently held by the client or readily accessible. An effective board of directors is independent of management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management, and its members stay involved in and scrutinize management of management is activities.
reporting and disclosure, are called those charged with governance by auditor's responsibilities for Detecting Material errors auditor's responsibilities for Detecti
Other physical controls include monitoring of cooling and humidity to ensure that the equipment functions properly and installing fire-extinguishing equipment to reduce fire damage. Organizational Structure The entity's organizational structure defines the existing lines of responsibility and authority. They might select a simple random sample of 60
items from the cash disbursements journal, apply appropriate auditing procedures to the 60 items selected, and draw conclusions about all recorded cash disbursement transactions. If a subsequent challenge occurs, the auditor will thus be in a better position to defend the audit results successfully. Batch totals of quantities shipped are compared
with quantities billed (C6). As in the aforesaid Malaysian case, the value of the audit report and the independence and other ethical requirements for CPAs, including the AICPA Code of Professional Conduct, PCAOB
standards, and international ethics standards. For each substantive audit procedure, identify whether it is a substantive analytical procedure, identify whether it is a substantive analytical procedure, identify whether it is a substantive analytical procedure. Then, no additional tests of controls would be required. Marry told Jack not to have anyone call Orange to verify the amount because of pending
litigation between ABC and Orange, Inc. Portions of the discussion are a review of information studied in earlier chapters, but they are intended to aid in understanding the relationship of each part of Figure 16-1 (p. In such cases, the auditor selects population items without regard to their size, source, or other distinguishing characteristics. An
auditor who uses statistical sampling for attributes in testing internal controls should reduce the planned reliance on a prescribed control when the (1) sample exception rate plus the allowance for sampling risk equals the tolerable rate. For the remaining attribute, she found one control deviation. They should be sufficiently clear to enable all
members of the audit team to understand what is to be done. C There is a lack of internal verification for the possibility of sales invoices being recorded more than once (D1). (a) Small performance materiality because account can be completely audited at low cost and no misstatements are expected. (1) Selecting accounts receivable for confirmation
of account balances. He cashes the check for himself, and waits a few weeks before resubmitting the invoice to determine whether copies of the shipping document, shipping order, and customer order are attached. However, it may not be acceptable to have such a large misstatement in one account, and even if
it is acceptable, it does not allow for any misstatements in other accounts. 16-21 (Objective 16-3) The following questions concern audit objectives and management assertions for accounts receivable. The estimation of bad debt expense, which is the fifth class of transactions in the sales and collection cycle, obviously relates to realizable value and the
write-off of uncollectible accounts. If any conditions exist, the auditor must then assess the materiality of the conditions and determine the appropriate type of report. In situations in which the auditor must then assess the materiality of the condition and determine the appropriate type of report. In situations in which the auditor must then assess the materiality of the condition and determine the appropriate type of report. In situations in which the auditor must then assess the materiality of the condition and determine the appropriate type of report.
41 7. The opening story involving Sony demonstrates the importance of internal controls and understanding potential threats. Hogan1Auditing and Assurance Services (16th Edition)Another free PDF site to grab eBooks and textbooks is here. Stated another way, the auditor needs greater assurance and therefore a larger sample size to support the
lower risk of overreliance. • Accounting principles cannot be relied on exclusively in deciding whether financial statements are fairly presented. • Chapter 14 will help you learn the methodology for designing tests of controls and substantive tests of transactions and the other classes of transactions in the
sales and collection cycle. You encounter the following situations that you believe may be relevant to the audit: 1. This judgment must be documented in the audit files. Each of the eight types of evidence included in the table has the potential to be both relevant and timely, depending on its source and when the evidence is obtained. Major, Major &
Sharpe, CPAs, are the auditors of MacLain Technologies. The following are rationalization methods commonly employed that can easily result in unethical behavior to falsify tax returns, cheat on exams, or sell defective products is commonly based on the
rationalization that everyone else is doing it and therefore it is acceptable. Felix, University of Arizona Michele Flint, Daemen College David S. Evaluating Responses to Inquiry For inquiry to be effective, an auditor needs to be skilled at listening and evaluating responses to questions. The students followed Holmes's instructions and after two weeks
gave Holmes the financial statements, which did not include footnotes. 9-10 (Objective 9-3) How should the auditor consider risks related to revenue recognition when assessing the risk of material misstatement due to fraud? Material or Immaterial Material with a feets whether ownership is a violation of independence only for indirect ownership. The
understanding should include a description of the services, the engagement objectives, any limitations on the engagement to accept its responsibilities. For example, the auditor may decide to physically examine certain assets rather than rely on inspection of documentation related to those
assets. Figure 12-7 Partial Section 404 Auditor Report on Internal Control when Material Weakness Exist (bold added)* REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM [Definition of material weakness paragraph] A material weakness paragraph] A material weakness paragraph] A material weakness exist (bold added)* REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM [Definition of material weakness paragraph] A material weakness paragraph] A material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material weakness paragraph [Definition of material weakness paragraph] A material
such that there is a reasonable possibility that a material misstatement of the company's interim or annual financial statements will not be prevented or detected on a timely basis. The Enron disaster continues to provide many lessons for the auditing profession. The analysis may identify only one appropriate response to the issue, or it may conclude
that there are multiple responses that could reasonably be made in the circumstances, requiring the auditor to identify which alternative best addresses the issue. Whitlow & Company is a brokerage firm registered under the Securities Exchange Act of 1934. Many of the ratios and percents used for comparison with previous years are the same ones
used for comparison with industry data. The two general categories of phase III procedures are: phase III: perform Substantive analytical procedures and tests of Details of Balances 1. Determine if there are any duplicates or missing purchase order numbers in the file. Auditors expect certain accounts to have more misstatements than others. Jo
Craven McGinty, "accountants Increasingly Use Data analysis to Catch Fraud" (December 5, 2014) (www.wsj.com). This and other information about the entity and its environment discussed in Chapter 8 pertain directly to assessing inherent risk. 43-48. Exceptions can be caused by many factors, such as carelessness of employees, misunderstood
instructions, or intentional failure to perform procedures. Thus, the level of understanding required for the audit of internal control exceeds what is required for an audit of only the financial statements. Since the original development of the Framework, business and operating environments have become more global, complex, and technologically
driven. To limit these exposures, companies use firewalls, encryption techniques, and digital signatures. Companies may attempt to reduce bad debt expense by understating the allowance for doubtful accounts. (2) The cashier has online ability to post write-offs to accounts receivable accounts. 278 Performance materiality is defined as the amount(s
set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements are also as a whole the probability that the aggregate of the pr
obtaining capital. The company agrees to refund shipping costs incurred by the customer for returned goods. Identify which items are audit conclusions resulting from application (inspection). Auditing standards require that these comparisons be
done during planning and completing the audit. The rest of this chapter provides a brief introduction to each of the FOPA firm lose their eligibility for AICPA membership. When Chapter 14 / Audit of the SAleS And ColleCtion CyCle 501 auditors do substantive tests of
transactions procedures for accuracy, they commonly compare the date on selected bills of lading or other shipping documents with the date on related duplicate sales invoices, the sales journal, and the accounts receivable master file. The human resources department maintains proper records on date of employment, rates of pay, performance
evaluation and termination of employment. Planned detection risk 9. The system has been well received by customers and the bank hopes to continue expanding those services. Table 7-1 illustrates six key characteristics of evidence from the perspectives of a scientist doing an experiment, an attorney prosecuting an accused thief, and an auditor of
financial statements. • Clients have expanded operations globally, often through joint ventures or strategic alliances. Pinnacle Manufacturing Detroit, MI Amounts due as of December 31, 2016: $51,750.00 (1) 7,500.00 (2) $59,250.00 First progress billing per contract Second progress billing per contract Total due Auditor's notes: (1) Agrees with
accounts payable listing. CPAs can be found guilty for criminal action under both federal and state laws. Send letters to a sample of accounts receivable customers to verify whether they have an outstanding balance at December 31, 2016. Assemble supporting documents for general and payroll cash disbursements. The rules prohibit any ownership
by covered persons and their immediate family, including (a) members of the audit engagement to influence the audit engagement to influence the audit engagement in the firm chain of command, (c) partners and managers who provide more than 10 hours of nonaudit services to the client, and (d) partners in the office of the partner primarily responsible
for the audit engagement. Accordingly, we do not express an opinion on these financial statements. Send letters directly to the auditors. Similar to First Community, other businesses also contract with Technology Solutions to host applications at the same data
center. An explanation of how the auditor applied the concept of materiality; and c. tests of Details of Balances audit procedures, auditors use a methodology oriented to the balance-related audit objectives we covered in Chapter 6 (pp. Backup copies of program files are stored on an external drive, and data files
are maintained on a backup server. The internal control framework used by most U.S. companies is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control—Integrated Framework, which was originally published in 1992 and updated in 2013. It is the risk of accepting accounts receivable as correct if it is
actually misstated by more than $21,000. He has chosen to act selfishly. The auditor needs to gather additional evidence to determine whether bad debt expense and the allowance for doubtful accounts are understated. 512 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle (3) The accounting system requires entry of a validational evidence to determine whether bad debt expense and the allowance for doubtful accounts are understated.
bill of lading number provided by the shipping department before a sales transaction is accepted for entry. Substantive tests of transactions affect both controls and the dollar amounts of transactions. The auditor's choice of confirmation falls along a continuum,
starting with the use of no confirmations in some circumstances, to using only negatives, to using both negatives and positives. Complex or Nonroutine transactions that are unusual for a client, or involve lengthy or complex contracts, are more likely to be incorrectly recorded than routine transactions because the
client often lacks experience recording them. In 1976, in Hochfelder v. For probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which sample items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which samples items are selected, except in choosing which probabilistic samples, the auditor uses no judgment about which samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected, except in choosing which probabilistic samples items are selected with the choosing which probabilistic samples items are selected with the choosing which probabilistic samples items are selected with the choosing which probabilistic samples items are selected with the choosing which probabilistic samples items are selected with the choosing which probabilistic 
client-owned record of conclusions reached by the auditors who performed the engagement. Over a five-year period, she embezzled more than $31 million, which she used to purchase personal items such as cars, fur coats, and expensive jewelry, and to fund travel to exotic locations and extensive home improvements. National Elevator & Mach.
Competent, Independent person The final stage in the auditing process is preparing the audit report, which communicates the auditor's findings to users. One of the CPA firm's clients, Newell Corporation, was in serious financially sound. The members
agreed that Utu should discuss the legal and tax implications of the proposal with attorney Basil Makay as well as Fudail and Jawas, a CPA firm knowledgeable about pension and profit-sharing plans. Because companies cannot expect to collect on 100% of their sales, accounting principles require them to record bad debt expense for the amount they
do not expect to collect. • Known or expected employee layoffs. Eddie Ventura, Inc. In one extreme example, the former CEO of Tyco International was charged by the SEC with stealing over $100 million in assets. (3) design more effective audit procedures. The following are furnished as background information: • A summary of key information from
the audit of the acquisition and payment cycle and accounts payable in the prior year, which was extracted from the previous audit files (Figure 12-12, p. Auditors of company's audit files (Figure 12-12, p. Auditors of company's audit files (Figure 12-12, p. Auditors of company's audit files (Figure 12-12, p. Auditors of companies using the payroll activities and accounts.
Combined misstatements between 3 percent and 6 percent and 6 percent and 6 percent and 6 percent and 1 percent and 6 percent and 6 percent and 1 percent and 1 percent and 2. When audit procedures have been completed for a sampling application, the auditor will have a sample size and number of
exceptions for each attribute. (1) Disclosing confidential information to another accountant interested in purchasing the CPA's practice. For example, it is important not to overlook the effect of an understatement of inventory on cost of goods sold, income before taxes, income tax expense, and accrued income taxes payable. Chapter 15 / Audit
SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 543 Existence Completeness Accuracy Classification Cutoff Realizable value Rights Evidence-Planning Worksheet to Decide Tests of Details of Balances for Hillsburg Hardware Co. — Accounts Receivable Detail tie-in Figure 15-6 Medium Med
Medium Medium Inherent risk Low Medium Low Low Low Medium Low Low Medium Low Control risk— Sales Low Medium Medium Low Medium Low Medium Low Medium Low Medium M
Substantive tests of transactions—Sales Good results Good
analytical procedures Planned detection risk for tests of details of balances Performance materiality Differences Between attributes Sampling and Nonstatistical Sampling Distribution 544 $265,000 The application of attributes sampling for tests of details of balances Performance materiality Differences Between attributes Sampling and Nonstatistical Sampling Distribution 544 $265,000 The application of attributes sampling for tests of details of balances Performance materiality Differences Between attributes Sampling Distribution 544 $265,000 The application of attributes sampling for tests of details of balances Performance materiality Differences Between attributes Sampling Distribution 544 $265,000 The application of attributes Sampling Distribution 545 and Sampling Distribution 546 and Sampling Distribution 547 and Sampling Distribution 548 and Sampling Distrib
transactions has far more similarities to nonstatistical sampling than differences. Computer automatically posts transactions to the accounts receivable master file and general ledger (C10). 12-31-16 Balance sheet date Perform substantive analytical procedures, complete tests of controls and substantive tests of transactions, and complete most tests
of details of balances. Several reasons make revenue susceptible to manipulation. Other examples of questionable integrity might include frequent disagreements with previous auditors, the Internal Revenue Service, and the SEC. A material weakness exists if a significant deficiency, by itself or in combination with other significant deficiencies,
results in a reasonable possibility that internal control will not prevent or detect material financial statement on a timely basis. Because of the effect of a misstatement in inventory, total current assets
total working capital, total assets, income taxes, income 
doctrine to allow recovery by third parties in more circumstances by introducing the concept of foreseen users, who are members of a limited class of users that the auditor knows will rely on the financial statements. It is also necessary to generalize from the sample to the entire population of accounts receivable. Backup and contingency plans should
also identify alternative hardware that can be used to process company data. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Examine Figure 6-5 on page 178. As the sales clerk was a newly recruited member, it was noted that the employee either forgot to enter the discount or
entered an incorrect level of discount required a. Extent of tests of controls needed. In preparation, you met with your auditing professor and discussed these questions: a. PCAOB International Inspections (www.pcaobus.org/international). Table 5-3 summarizes the sources of liability to clients and others for breach of contract under common law,
liability to third parties under common law, and liability The Livent Entertainment Corporation of Canada, Inc. For the audit of property, plant, and equipment and related acquisition records, an auditor reached the following conclusions: A, C, F, G. In cases of audit failure, the law often allows parties who suffered losses to recover some or all of the
losses caused by the audit failure. Signature and address of CPA firm. When footing and comparisons are restricted to these three records, the transaction-related audit failure. Signature and address of CPA firm. When footing and comparisons are restricted to these three records, the transaction-related audit failure.
revenues, such frauds can be costly to the organization because of the direct loss of assets. • Bryan concludes that he cannot be promoted to manager unless he persuades assistants to work hours that they do not record. Assume the auditor determines that there are two extraordinarily large sales transactions recorded three days before year-end.
For any given audit, there are many ways in which an auditor can accumulate evidence to meet the overall audit objective of providing an opinion on the financial statements. Each audit procedure falls into one, and sometimes more than one, of these five categories. When trading resumed on January 12, 2009, Satyam's aDS price declined nearly 85
percent to close at $1.46. Select a sample of shipping document to the related duplicate sales invoice. Examine shipping documents to determine they are recorded in the sorrect
period. Upon investigation, ann discovered that the store manager had stolen the receipts for one day, required Briefly summarize your response to these staff auditor questions: a. The objective of cutoff tests, regardless of the type of transaction, is to verify whether transactions near the end of the accounting period are recorded in the proper
period. The funds obtained from the issuance were used to finance the expansion of plant facilities. He decided that to avoid being fired, he would reduce or omit some of the standard auditing procedures listed in audit programs prepared by the partners. The engagement partner may choose to discuss matters with members of the engagement team
who are responsible for audits of components of the financial statement, such as the Asia Pacific region of a multinational company, while delegating discussion with others to other members of the engagement team leadership. Preliminary judgment about materiality 2. HSN ordered product that would be sold on the air to customers. Auditor
reporting on internal control is also discussed in Chapter 12. Code of ethics Companies frequently communicate the entity's values and External Environment Business Operations and Processes Management and Governance Objectives and Strategies Measurement and Performance
Hillsburg Hardware Company. However, even competent and trustworthy people can have shortcomings. Prices, including basic terms, freight, and discounts, must be authorized. Sarah Diamond, "How to Use Big Data to Fight Financial Fraud" (September 22, 2014) (www.forbes.com); 3. (1) A lower acceptable level of detection risk (2) An increase in
the assessed control risk (3) A lower acceptable audit risk (4) A decrease in the assessed inherent risk b. Which audit procedures to use What sample size to select for a given procedure is the detailed instruction that explains the audit evidence to be
obtained during the audit. For each risk, identify an internal control that could be implemented to reduce that risk. Auditing standards permit but do not require a disclaimer of opinion when there is substantial doubt about going concern. Detailed car reviews can be found at . Petrobras impaired $17 billion due to losses because of corruption and
inflated contracts. The company engaged in channel stuffing by shipping goods to customers that had not been ordered. Our responsibilities for the Audit of the Financial Statements section of our report. In fact, the funds had been disbursed to an account controlled by
Palatin and he used the funds for his personal expenses and with drew the rest as cash. relating performance Materiality and risks to Balance-related audit Objectives Measurement Limitations 320 Chapter 8 discussed the process of allocating the preliminary judgment about materiality to segments. Continuing to be a part of the management of a
company that harasses and mistreats employees or treats customers dishonestly is an ethical dilemma, especially if the person has a family to support and the Securities Litigation Uniform Standards Act of 1998 significantly reduced
potential damages in federal securities-related litigation by providing for proportionate liability in most instances. Fortunately, she has been able to retain a fairly stable staff and has experienced minimal turnover. Figure 8-1 Objective 8-1 Discuss why adequate audit plan ning is essential. (2) eliminate the risk of nonsampling errors. The auditor must
also decide whether the client has properly combined amounts and disclosed related party information in the statements. Second, auditors of larger public companies must also issue an opinion on internal control over financial
reporting. Standards issued by the PCAOB apply only to the audits of U.S. public companies and other SEC registrants including brokers and dealers, and are referred to as "the standards of the Public Company Accounts from the accounts
receivable master file to the aged trial balance. We are thrilled to continue the Michigan State connection started by Al Arens. We will discuss confirmation briefly as we study the appropriate tests for each of the balance-related audit objectives. The files may include such diverse planning information as descriptive information about internal control
a time budget for individual audit areas, the audit program, and the results of the preceding year's audit. 7-8 (Objective 7-4) Distinguish between physical examination and inspection and give examples. Financial statement users are normally much more concerned about a disclaimer or adverse opinion than an unmodified opinion audit report that
contains an additional emphasis-of-matter or other matters paragraph. No other information was forwarded to the librarian. Finally, a fictitious trade made in the name of a German brokerage house triggered an alarm in Société Générale's systems. (2) accuracy of the allowance for uncollectible accounts. Substantive tests of details would include
tests of inventory quantities, costs, and net realizable values at an interim date two months before year-end. (4) The financial statements are free from material misstatement, but disclosure of Risk Factors Examples Oxide Risk Factors Examples of Risk Factors Examples Oxide Risk Factors Examples Oxide Risk Factors Examples Oxide Risk Factors E
Personal financial obligations create pressure for those with access to cash or other assets susceptible to theft to misappropriate those assets. planned Detection risk Inherent risk Control risks. Of MATeRial MissTATeMenT 311 The audit risk model shows the close relationship between inherent and control risks.
special interest to auditors are several specific reports that are subject to the reporting provisions of the securities acts. Samples of sales invoices will be used to verify these attributes. required 8-29 (Objective 8-3) For the audit of ABC Outing Provision Company's financial statements, the following transactions are disclosed if they are material: 1
Property, Plant and Equipment: Land, buildings, computers and other equipment, and furniture and fixtures are examples of audit procedures: 1. Control Frequency and population Size Items to test Quarterly (4) 2 Monthly (12) 2-4 Semimonthly (24) 3-8 Weekly (52) 5-9 Select
the Sample Sample sizes near the low end of the range are appropriate for control reliance in normal financial statement audit situations. Business functions and the related documents and records in the sales and collection cycle. Identify the transaction-
related audit objective that is affected by the control. They include consideration of professional qualities such as competence and independence, reporting requirements, and evidence. In Part I of this case you performed preliminary analytical procedures on Pinnacle's financial statements. (4) Require an authorized officer's signature on all
requisitions for the more valuable items. The vice president for Machine-Tech is committed to making it profitable. Perform alternative procedures for all confirmations not returned on the first or second request (11). What guidance is provided about revising the risk assessment as the audit continues? F. All its sales are made on credit. This figure
was introduced in the preceding chapter (p. For a random sample of 100, each population item also has an equal chance of being selected. The Act also requires auditors for the auditor is determining how laws and regulations
impact financial statement amounts and disclosures. The following are the key persons involved in this situation: Who how affected Bryan Being asked to violate firm policy. AICPA auditing standards require the auditor to include a heading such as "Basis for Qualified Opinion" preceding that qualifying paragraph, and those standards also require a
heading before the opinion paragraph. 5-17 (Objectives 5-3, 5-4, 5-5, 5-6) Complete the following: 1. Do excessive drinking, rowdy behavior, or other acts that many people consider unprofessional constitute a discreditable act? Part 2 / The AudiT Process 7-31 (Objectives 7-4, 7-5) Analytical procedures consist of
evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data. Your conclusions should be stated in terms of percents and dollars. The auditor can perform the auditors should be stated in terms of percents and dollars. The auditor can perform the auditors should be stated in terms of percents and dollars.
consider performing additional procedures when the address is a post office box or when an email address is inconsistent with the customer's Web site address. Indicate at least two ways that Pinnacle might engage in revenue recognition fraud. Evaluate the potential significance of each of the changes in ratios or trends identified in your analysis on
the fair presentation of financial statements. 10-2 (Objective 10-1) Define misappropriation of assets and give two examples of misappropriation of assets and give two examples of misappropriation of assets and give two examples of misappropriation of assets. Auditing standards require the auditor to obtain an understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement in the client's financial
statements. They are assisting in the implementation of a new financial reporting system selected by management. 14-25 (OBJeCtIVeS 14-3, 14-4) The following is a list of possible errors or fraud (1 through 8) involving sales and controls (a. 1 1 Sales order RECEPTIONIST 2 4 3 Sales journal 4 Bill of lading S.O. S.O. 2 B.L. B.L. B.L. B.L. B.L. Prepare sales
order DATA PROCESSING Virgil Gillings Cash receipts journal Prelisting D.S. 2 Deposit slip 1 Prelisting Checks File description Alphabetically Numerically Numeric
objectives, summarizing all audit tests, reviewing audit documentation, obtaining management representations in an integrated audit of financial statements and internal control, communicating with those charged with governance, and all other aspects of completing an audit. The first paragraph also lists the financial statements that were audited
including the notes to the financial statement of cash flows. The auditor recognizes, for example, the inherent uncertainty about the appropriateness of evidence, uncertainty about the effectiveness of a client's internal controls, and
uncertainty about whether the financial statements are fairly stated when the audit is completed. Use the primary legal concepts and terms concerning accountants' liability as a basis for studying legal liability of auditors. John Peter works on a
number of audits of technology equipment manufacturers and has developed extensive knowledge and experience in the industry. Update understanding of internal control. In some cases, it may be necessary to define separate populations for different audit procedures. This increase in gross profit more than offsets the increase in operating expenses
from 2015 to 2016 of $2,819,000 or 9.5%. Under repeated questioning, Kerviel revealed that his bets had over 50 billion euros (€) at risk for the bank. Evaluate the results The purpose of planning the sample is to make sure that the audit tests are performed in a manner that provides the desired sampling risk and minimizes the likelihood of
nonsampling error. Chris teaches graduate auditing and her research focuses on internal controls and integrated audits, audit firm client portfolios, and the impact of regulation on audit markets. While the principles are not requirements and do not carry any authority, they are used as a framework to provide the structure for the clarified
Codification. It is this expertise that distinguishes auditors from accountants. For example, management must set the appropriate tone and put in place appropriate structures and reporting lines in order to hold individuals accountable. Enhanced Companion Web Site Pearson's Learning on the Internet Partnership offers the most expansive Internet
based support available. (Italics identify the timing, items to select, and sample size decisions.) Timing • Obtain the October cash disbursements journal for a randomly selected sample of 40 disbursements.
Identify why the client wants or needs an audit. "Emphasis-of-matter" paragraphs are used to draw the reader's attention to information presented or disclosure. 453) is an overview of how auditors design tests of controls and substantive tests of
transactions for sales. The result is often an understaffed, underfunded, and poorly controlled IT function. Auditors find this ratio especially useful for assessing misstatements in sales, cost of goods sold, accounts receivable, and inventory. The classification balance-related audit objective is closely related to the presentation and disclosure-related
audit objectives, but relates to how balances are classified in general ledger accounts so they can be appropriately presented and disclosed in the financial statements. The amount of the securities at the time of the suit. How does this responsibility differ for laws and
regulations that have a Chapter 6 / Audit Responsibilities And objeCtives 193 direct effect on the financial statements compared to other laws and regulations that do not have a direct effect? Chapter 8 deals with planning the engagement, including understanding the company's business and its industry as part of the auditor's risk assessment
procedures, using analytical procedures as an audit tool, and making preliminary judgments about materiality. Independence is impaired if individuals on the engagement team, individuals in a position to influence the engagement, or partners in the office of the lead attest engagement partner have an immediate or close family member in a key
position with the client. Four months after year end, Pacific Products was is serious financial problems. Examine subsequent cash receipts and the credit file on all accounts over 90 days and evaluate whether the receivables are collectible (12). Describe accountants' liability to clients and related defenses. The four categories of audit reports and the
auditor's decision process in choosing the appropriate audit report to issue were then discussed. However, the burden of justifying departures from the statements are not fairly presented or is unable to reach a conclusion because of insufficient
evidence, the auditor has the responsibility of notifying users through the auditor's report. Jordan Minerals recently decided to change its direction and spent the last 8 months developing business in the potash mining business. Explain why it is inappropriate to set a single acceptable TER and EPER for the combined exceptions. The Independence
Rule therefore applies to audits. For each test, describe a misstatement that could be identified. The population is those items about which the auditor wishes to generalize. It is much more difficult to verify that all cash sales have been recorded, especially if no shipping documents exist to verify the completeness of sales, and no customer account
receivable records support the sale. It is essential that auditors and readers of audit reports understand the circumstances when an unmodified opinion in the audit report is inappropriate and the type of audit report is inappropriate and the type of audit report is understanded in each circumstance. "Attestation Clarity Project" (www.aicpa.org). Interpretations of rules of Conduct applicability of the rules
of Conduct 112 The need for interpretations of the rules of conduct arises when there are frequent questions from practitioners about a specific rule. (3) tolerable rate less the allowance for sampling risk exceeds the sample exception rate. Providing bookkeeping services to a small private company. The total is called an estimate or a "projection" or
"extrapolation" because only a sample, rather than the entire population, was audited. Upon return in January, the clerk entered all the unrecorded sales during his leave as January's sales for convenience sake. Assertions about presentation and disclosure The mapping of PCAOB assertions to the assertions in international auditing standards and
AICPA auditing standards is shown in Table 6-3. For each one, select the best response. You are willing to accept that balance if it is within $15,000 of the actual balance. Consider the following three situations: 1. Application controls over the
processing of sales or cash receipts. Zomer Chief Financial Officer 211 Balance sheet Hillsburg Hardware Company Balance Sheets (in thousands) December 31 ASSETS 2016 2015 Current assets Cash and cash equivalents $ Trade receivables (net of allowances of $1,240 and $1,311) Other receivables Merchandise inventory Prepaid expenses Total
current assets 828 $ 743 18,957 16,210 945 915 29,865 31,600 432 427 51,027 49,895 3,456 32,500 32,000 Property and equipment Land Buildings Equipment (net) Total assets 6,304 (31,920) $ 61,367 10,896 $ 60,791 LIABILITIES
taxes 738 722 Other long-term payables 830 770 Capital stock ($1 par value; 5,000,000 shares issued) 5,000 5,000 Capital in excess of par value 3,500 3,500 Retained earnings 13,963 11,929 Total stockholders' equity: 22,463 STOCKHOLDERS' EQUITY Total liabilities and stockholders' equity See Notes to Financial Statements. The auditor might
select a sample size of 50 disbursements for comparison with the cash disbursements for becoming a CPa. The opening example involving KOBELCO illustrates the increasingly important role CSR and corporate governance reporting, compliance and assurance to a broad range of stakeholders. Use audit software to
foot and cross-foot the aged trial balance. 1 5 Low 100 100 10 10 SER exceeds TER 5. Independence is also required for other types of attestations, such as review services and audits of prospective financial statements. A large sample of evidence that is relevant but not objective is also not persuasive. Here are the numbers: 2008 2007 2006 2005
Sales (thousands) $47,175 $44,039 $37,073 $35,035 CGS (thousands) 30,314 27,998 23,431 22,072 Gross margin 16,861 16,041 13,642 12,963 35.7 36.4 36.8 37.0 Percent Your discussion with Erin O'Keefe, the controller, brings to light two possible explanations. Because audit sampling for tests of details of balances measures monetary
misstatements, a misstatement exists whenever a sample item is misstated. Business risk for the customer. 7-26 (Objective 7-4) As auditor of the Star Manufacturing Company, you have obtained a trial balance taken from the books of Star one month before year-end: Dr. (Cr.) Cash in bank Trade accounts receivable Inventories Land
Buildings, net Furniture, fixtures, and equipment, net Trade accounts payable $87,000 345,000 125,000 317,000 66,000 350,000 Dr. (Cr.) Mortgages payable Capital stock Retained earnings Sales Cost of sales General and administrative expenses Legal and professional fees Interest expense (400,000) (300,000) (510,000) (3,130,000)
2,300,000 622,000 3,000 35,000 (235,000) There are no inventories consigned either in or out. Our opinion is not modified with respect to this matter. Define sampling, and the results of the tests will be evaluated. As a result of provisions in Section 404
of the Sarbanes-Oxley Act, CPA firms provide assurance on internal control over financial reporting for larger public companies. Figure 3-9 Disclaimer of Opinion Due to Scope Restriction — AICPA Auditing Standards INDEPENDENT AUDITOR'S REPORT We were engaged to audit. The definition includes several key words and phrases. (4)
Disclosing confidential information during an AICPA-authorized peer review. 2-25-17 phase IV The first objective is met by performing tests of controls, and the second by performing substantive tests of transactions. The accounting policies referred to in Note 1 to the financial statements, in our opinion, influence the judgments and estimates we use
to prepare our financial statements. Because these transactions do not occur between two independent parties dealing at "arm's length," a greater likelihood exists 316 Part 2 / The AudiT Process that they might be misstated or inadequately disclosed, causing an increase in inherent risk. We discussed related party transactions in Chapter 8. 586 Part
3 / APPlicAtion of the Audit Process to the sales And collection cycle suMMary This chapter completes the overview of the methodology auditors follow in designing the audit of the sales and collection cycle. The
engagement will be reviewed more carefully than usual. Describe variables sampling. reported that they would be unable to meet the scope paragraph is similar to the second paragraph under the auditor's responsibilities in Figure 3-1, and
indicates that an audit is designed to provide reasonable assurance that the financial statements are free of material misstatement. When are analytical procedures required during an audit? The concept of acceptable audit risk can be more easily understood by thinking in terms of a large number of audits, say, 10,000. Data input/output control
risk IDNC Planned evidence IDNC d. This effectively illustrates that two completely different types of evidence can be equally reliable. External users' reliance on financial statements Likelihood of financial difficulties Management integrity b. Consequently, it hired several junior accountants, including a man named Small. One approach is to run the
test data on a surprise basis, possibly at random times throughout the year, even though doing so is costly and time consuming. WRS recorded a substantial increase in revenue in the fourth quarter of 2016. Examples include the board and internal audit's
access to organization funds must follow prescribed procedures for recording, handling, and protecting money. Monitoring As illustrated in Figure 11-2, COSO represents the direct relationship between the three internal control objectives, the five components of internal control, and the organizational structure in the form of a cube. Fraud often
involves complex and sophisticated schemes designed by perpetrators to conceal it, such as forgery of approvals and authorizations for unusual cash disbursement transactions or intentional efforts to not record a transaction in the accounting records. The balance of $1,050 was paid on December 28, 2015. (4) The auditor may have a direct ownership
audit objective, the auditor must determine whether the client has correctly separated different classifications of transaction data 3. For confirmations sent by mail, the auditor must maintain control of the confirmations until they are returned from the customer. He never returned my
call. Auditors face three major difficulties in allocating materiality to balance sheet accounts: 1. Engage an actuarial specialist to examine management's assumptions about average length of employment and average life expectancy of retirees used in pension accounting decisions. But the company said: "We discovered the drug and need to make
money for our shareholders who have invested in its development." The wife became desperate and broke into the treatment center to steal the drug for her husband. What recommendation do you have for management of Wilcoxon Sports, Inc., to prevent this from recurring? 13-7 (Objectives 13-1, 13-2) Explain how the calculation and comparison to the treatment center to steal the drug for her husband.
previous years of the gross margin percentage and the ratio of accounts receivable to sales are related to the confirmation of accounts receivable and other tests of the accounts receivable, which the client can detect by sending monthly
statements to customers. Identify whether the controls is a(n): (i) automated control; or (ii) manual control. In practice, of course, auditors may not know who all the users are or what decisions they may make based on the financial statements. • Lean away from the auditor, usually toward the door or window, in an effort to create spatial distance. If
internal controls are considered effective, planned assessed control risk can be reduced and the amount of audit evidence to be accumulated can be significantly less than when internal controls are not adequate. Jamal also attends all meetings of the company's board of directors. Auditors must choose the proper type of schedule for a given aspect of
the audit in order to document the adequacy of the Chapter 7 / Audit EvidEnCE 243 audit and to fulfill the other objectives of audit documentation. This information is likely to affect the remaining parts of the planning process. As part of those inquiries, the auditor should ask management to describe the frequency of management's assessments and
the extent of their consideration of risks due to fraud, including discussion about management's processes that are designed to identify, respond to, and monitor the risks of fraud in the organization. Peer review. Another common use of specialists is consulting with attorneys on the legal interpretation of contracts and titles or business valuation
experts on fair value accounting treatments. (3) evaluate management. also under consideration is replacing the Business Environment and Concepts (BEC) section of the exam with an integrative section that would cover topics such as corporate governance, economics, financial management, information systems, strategic planning, and
operations management, along with simulations that would draw on content from the exam. For which of these procedures can audit sampling for exceptions be conveniently required used? (3) The sales system automatically computes the total sale amount and posts the total to the sales journal master file. 15-11 (Objective 15-4)
 Explain the difference between an attribute and an exception condition. When approached to perform an audit for the first time, the CPA should make inquiries of the predecessor auditor. 7-23 (Objectives 7-7, 7-8) The following questions concern audit documentation. In response to PCAOB criticism of audit firms' as
firms surveyed recently increased their use of sampling of revenue transactions to test occurrence and accuracy rather than relying more extensively on substantive analytical procedures. General authorization decisions include the issuance of fixed price lists for the sale of products, credit limits for customers, and fixed reorder points for making
acquisitions. (4) The auditor did not consider factors influencing audit risk for account balances that have effects pervasive to the financial statements as a whole. We also offer far more post-sale services to customers than are offered by manufacturers and other national distributors. Sample problems, assignable in MyAccountingLab, provide an
introduction to the CPA Exam format and an opportunity for early practice with CPA exam-style questions. • Information technology affects internal client processes, improving the quality and timeliness of accounting information.
resulting from discontinued operations. One of the most widely accepted concepts in the theory and practice of auditing is the importance of the client's system of internal control for mitigating client business risks, safeguarding assets and records, and generating reliable financial information. Assets were taken, but the misappropriation was
are internally verified (C8). Source: KPMG Survey of Corporate Responsibility Reporting 2013, KPMG International. Good listeners also take advantage of silence to think about the information provided and to prioritize and review information heard. Obtain an analysis of the allowance for doubtful accounts and bad debt expense: test accuracy,
examine authorization for write-offs, and trace to general ledger. System IT Company-The company is a IT solution provider. She noted that the financial statements are fairly stated beyond the date of issuance, up
to the date the registration statement becomes effective, which can be several months later. Which of the financial statement of the financial statement of the financial statement of the reference to the
added explanatory paragraph. The following identifies and discusses the most important differences in evaluating, reporting, and testing internal control. 88 Part 1 / THE AUDITING PROFESSION Figure 3-10 Qualified Opinion
Report Due to Non-GAAP — AICPA Auditing Standards INDEPENDENT AUDITOR'S REPORT (Same introductory, management's responsibility, and auditor's responsibility, and auditor's responsibility paragraphs as the standard report. In my opinion, no loss provision is necessary. When vendor allowances and vendor rebates are recognized (all activities required by the supplier
are completed, the amount is determinable, and collectibility is reasonably certain), they are recorded as reductions of costs of goods sold, administrative Processing File No. 3-14759. The risk of material misstatement, including the risk that
the client's controls may not be effective in preventing or detecting and correcting the misstatements. Examples of subjective evidence include a letter written by a client's attorney discussing the likely outcome of outstanding lawsuits against the client, observation of obsolescence of inventory during physical examination, and inquiries of the credit
manager about the collectibility of noncurrent accounts receivable. Before interpretations are finalized, they are issued as exposure drafts to the profession and others for comment. Chapter 10 / Assessing And Responding to FRAud Risks 343 FigUre 10-4 Sources of Information Gathered to Assess Fraud Risks Communications Among Audit Team
Inquiries of Management Risk Factors Analytical Procedures Other Information to assess Fraud risks Figure 10-4 summarizes the information used to assess fraud risks Auditors normally use the same acceptable audit risk for each segment because the factors affecting
acceptable audit risk are related to the entire audit, not individual accounts. The reason for the difference was an error in the perpetual inventory master file. Chen consulted with Cindy Hubbard, the experienced senior on the engagement. If not, what more should be done? 505). If selected as the auditor, these communications are to be made at
least annually. Within its structured environment, students practice what they learn, test their understanding, and receive immediate feedback to help them better absorb course material and understand difficult concepts. On 2007, Mr. Simon Andrew Peter Green was engaged to audit ABC's financial statements for the year ended 2007. Monitoring
Policies and procedures should exist to ensure that the other quality control elements are being effectively applied. As described in this opening story, new technologies can improve the quality of audit evidence, but can also create new opportunities for evidence to be compromised. Each employee receives a performance evaluation at least four times
per year, usually once each quarter. Audit partners at the largest firms believe that audit quality has improved, and many point to a decline in the frequency of financial statement restatements as evidence of improvement. acknowledge the American Institute of Certified Public Accountants for permission to quote extensively
from Statements on Auditing Standards, the Code of Professional Conduct, Uniform CPA Examinations, and other publications, or relationship (for example, a close relative serving a client in a decision-making capacity) not otherwise disclosed that might be adverse to the
firm's best interest. Complete assurance (zero risk) of the accuracy of the financial statements is not economically practical. In reviewing Stuart's inventory at different locations on different days was highly undesirable. Neither deficiency was considered a
material weakness; the first weakness, which is related to prenumbered sales invoices, was considered a significant deficiency. • All new personnel should be qualified to perform their work competently. Chapter 6 / Audit Responsibilities And objectives 171 Laws and regulations that Do Not have a Direct effect on the Financial Statements The
provisions of many laws and regulations are unlikely to have a direct effect on the financial statements. Which accounting standards must the auditor certify the financial reports comply with? There are two reasons for the second regulations are unlikely to have a direct effect on the financial statements. Which accounting standards must the auditor certify the financial reports comply with?
will be misstated by the full amount of perfor- mance materiality. These items will be investigated by client personnel, and all required adjustments will be made. Assume, in each case, that the CPA is a partner. See Figure 8-4 (p. This file contains information on sales invoices generated during calendar year 2014, including those that have been paid
versus those still outstanding, engagement and payment of the audit fees by Management? Financial statements are not likely to correctly reflect GAAP or IFRS if internal controls over financial reporting are inadequate.
Shaded circles in the figure indicate items discussed in this or the last chapter. 40 Uniform CPA Examination Requirement Computer-based examination offered at various testing centers. (1) An audit of historical financial statements this chapter studies assessing control risk and designing tests of controls and substantive tests of transactions for
each of the classes of transactions in the sales and collection cycle, methodology for designing tests of controls and perform tests of transactions for sales. Planning and supervision. Short-term financing lines of
credit are provided by Commonwealth Bank. Ms. Sachdeva used wire transfers from the company's account to her American Express account to fund her purchases. Tests of controls, either manual or automated, may include the following types of evidence. This
judgment is one of the most important decisions the auditor makes, and it requires considerable professional wisdom. The nature of the Cpa Firm's practice Cost-benefit Considerations (1) Yes Yes Yes No (3) Yes No Yes (4) No Yes
Yes b. Continue to observe inventories at ABC' two main distribution centers, but for this year examine inventories at its two smaller warehouses not examined in prior years. After a CPA will be likely to (1) increase the
balance in the allowance for bad debt account. The perpetual inventory system automatically extends the unit price times quantity for inventory on hand. Objective 10-6 Recognize specific fraud risk areas and develop procedures to detect fraud. Members need 'to be straightforward and honest in all professional and business relationships,' 4-1 4-2 4-3
4-4 4-5 4-6 4-7 4-8 Distinguish ethical from unethical behavior in personal and professional contexts. The final decision about accounts receivable and substantive tests of transactions, substantive analytical procedures, cutoff procedures, confirmation, and
other substantive tests to justify drawing conclusions about the correctness of the independent auditor for the detection of fraud involving misappropriation of assets and fraudulent financial reporting? (4) Poorly designed internal controls may be in existence. 208 Controls and Procedures Pursuant
to Section 404 of the Sarbanes-Oxley Act of 2002 and related Exchange Act Rules, we have carefully evaluated the design and operating effectiveness of our internal control over financial reporting. He was supposed to place a parking receipt on the dash of the car when he received cash from the driver, but he would often collect the cash and wave
the driver in without a receipt, particularly for sporting events. If C2 is selected, the audit assurance from tests of controls is C3 - C2 and from substantive tests is C - C2. Because the PCAOB adopted the existing AICPA standards, auditing standards, auditing standards, auditing standards, auditing standards, including those related to audit reporting, were similar for public companies
and nonpublic entities, audit procedures Traced and agreed to trial balance. To accomplish that, auditors have to increase the sample size, thus minimizing the risks. Use audit software to foot the accounts payable trial balance and compare the balance with the general ledger. This approach is often called continuous auditing and is frequently used in
integrated audits of financial statements and internal control for public companies. During the audit, there was a restriction on the scope of the audit of internal control over financial reporting and it was unable to determine whether there was a restriction on the scope of the audit of internal control over financial statements and internal control over financial reporting and it was unable to determine whether there was a restriction on the scope of the audit of internal control over financial statements.
auditing standards (GAAS). Alice is the wife of the largest investor of ABC Outing. Management is also responsible for the preparation and content of the accompanying consolidated financial statements as well as all other related information contained in this annual report. Board of
Director or audit Committee participation The board of directors is essential for effective corporate governance because it has ultimate responsibility to make sure management implements proper internal auditors
assist in deterring fraud by examining and evaluating internal controls that reduce fraud risk. Also, the auditor will have completed substantive analytical procedures and designed audit procedures for tests of details of balances, as covered in Chapter 16 (part of phase III). Section 404(a) of the Sarbanes-Oxley Act requires management of all public
companies to issue an internal control report that includes the following: • A statement that management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting as of the
end of the company's fiscal year Management must also identify the framework used to evaluate the effectiveness of internal control. As a result, the staff person considered internal control to be operating less effectively, supporting an 80% control risk rather than the 50% level used. positive Confirmation A positive confirmation is a communication
addressed to the debtor requesting the recipient to confirm directly whether the balance as stated on the confirmation request is correct or incorrect. Your audit files on 30 August 2016. The auditor may also drop a client after determining the client lacks integrity.
agreements about the services to be provided, fees, and timing between CPA firms and their clients. The division's investigations result from information obtained primarily from complaints of practitioners or other individuals, state societies of CPAs, or governmental agencies. O'Keefe feels strongly that these two factors are the cause of the decline.
The result was that the client wanted to meet further with Jeanine's firm to better understand how they could improve their production processes. Additional emphasis is needed in confirmation, allowance for uncollectible accounts, cutoff tests, and price tests for the financial statement audit due to results of tests for attributes 2, 4, 5, and 8.
Universities bill students in advance for classes that will be taken in an upcoming term. Prepare purchase requisition (3 copies) as needed. Review accounts receivable control account for the period. ABC created a 115-page list of approximately 1,100 vendors, supporting advertising credits of $300,000. Account for numerical sequence of the sales
invoices selected from the sales journal and watch for duplicate numbers or invoices outside the normal sequence. Subsequent to their issuance, if facts indicate that the statements were not fairly presented, as in the Satyam case, the auditor will probably have to demonstrate to the courts or regulatory agencies that the audit was conducted in a
proper manner and the auditor reached reasonable conclusions. If members of the organization believe that control is not an important concern to top management, it is almost certain that management, it is almost certain that management, it is almost certain that management and the auditor reached reasonable conclusions. If members of the organization believe that control is not an important concern to top management, it is almost certain that management, it is almost certain that management and the auditor reached reasonable conclusions.
Desire Records Inc. Cash receipts are deposited and recorded at the amounts received (accuracy). 12-5 (Objectives 12-2, 12-5) Distinguish a significant deficiency in internal control duties. For example, when credit department
personnel review exception reports that identify credit sales exceeding a customer's authorized credit limit, the auditor may need to evaluate the person's ability to make the accuracy of the exception report. Figure 7-1 relationships among auditing Standards, types of evidence, and the Four audit evidence Decisions Auditing
standards Broad quidelines concerning auditor qualifications and conduct, evidence accumulation, and reporting Physical examination Ph
evidence available for the auditor to obtain sufficient appropriate evidence Specific instructions for gathering types of evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 7 / Audit Evidence Audit procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 8 / Audit Evidence Audit Procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and items to select Timing of tests Chapter 8 / Audit Evidence Audit Procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and the select Timing of tests Chapter 8 / Audit Evidence Audit Procedures FOUR AUDIT EVIDENCE DECISIONS Sample size and the select Timing Sample size and the s
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inspection or count by the auditor of a tangible asset. For example, businesses and consumers often seek assurances that companies with which they conduct business produce products and Evidence Substantive analytical procedures Tests of
type of evidence \sqrt{\sqrt{\sqrt{\sqrt{\cdot}}}} Inspection is used in every type of test except substantive analytical procedures. Explain the six-step approach to resolving an ethical dilemma and apply it to this situation. You ask the warehouse manager when those items were first manufactured. Financial statements for use by shareholders when there is an internal audit
staff. The auditor confirmed receivables at an interim date. PCAOB audit standards require that audit documentation to enable an experienced auditor with no previous connection to the engagement to (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions
reached, and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of the review. How would you modify your testing scope to address what you see? Similarly, failure to meet prior objectives, quality of personnel, geographic dispersion of company operations
significance and complexity of core business processes, introduction of new information technologies, economic downturns, and entrance of new competitors are examples of factors that may lead to increased risk. (3) caused by an employee's misunderstanding of instructions. These policies and procedures should minimize the risk of associating with
a client whose management lacks integrity. Prepare all parts of the sampling data sheet except those that are blank in Figure 15-2. through e. These predicted results affect the design of tests of details of balances. The SER and the calculated allowance for sampling risk (TER - SER) for Hillsburg Hardware are summarized in Figure 15-4 (p. The
PCAOB conducts inspections of registered accounting firms to assess their compliance with the rules of the PCAOB and SEC, professional standards, and each firm's own quality control policies. Culture of honesty and high ethics 2. Estimated population exception rate (EPER) d. After auditors determine the initial sample size for the audit sampling
application, they must choose the items in the population to include in the sample. Taken together, they measure the uncertainty of amounts of a given magnitude. • Specific risks of material fraud that were identified at both the overall financial statement level and the assertion level and a description of the auditor's responses to those risks.
Control risk is high for the realizable value objective for accounts receivable based on the results for attribute 8 related to credit approval (13e). One of your audit clients has a material investment in a privately held biosciences company. Obtain an
understanding with the client Obtained an engagement letter before starting field work. Some auditors prefer to include a schedule listing all items in the sample; others prefer to limit the documentation to identifying the exceptions. In which one of the following situations would disclosure by a CPA be in violation of the Code? Figure 6-7 ObjeCtive 6-10 Objectiv
7 Describe why the auditor obtains assurance by auditing transactions and ending balances, including presentation and disclosure. Students also learn to apply audit sampling to the audit of sales, cash receipts, and accounts receivable. Using an ARO of 5 percent, CUER equals 6.6 percent. The planned strategy helps the auditor determine the
resources required for the engagement, including engagement and those charged with governance, such as the audit committee, concerning various matters such as internal control deficiencies or operational recommendations. Design and perform tests of
Controls and Substantive tests of transactions (phase II) Figure 16-2 Chapters 14 and 15 covered designing audit procedures for tests of controls and substantive tests of transactions, deciding sample size, and evaluating the results of those tests.
audit client raises independence concerns. The CPA firm and client company or management may be defendants in a suit brought by a third party, such as in a securities class action. To express an opinion on these controls, the auditor obtains an understanding of and performs tests of controls for all significant account balances, classes of
transactions, and disclosures and related assertions in the financial statements. Tests of controls are effective, and manual controls are effective, and ma
following discussion and analysis of the results of our operations and our financial condition are based on the financial statements and related notes included in this report. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is (1) not addressed by the AICPA Code of Professional Conduct. To
better understand the purchasing activity, stratify and print the purchases by purchase amount. Her audit firm was required to pay a significant settlement for damages to the buyer. Inherent risk is assessed by identifying any aspect of the client's history, environment, or operations that indicates a high likelihood of misstatement in the current year's
financial statements. 13-2 (Objective 13-1) Can a system walkthrough alone provide sufficient appropriate evidence that a control is operating effectively? As part of his testing, he reviewed the contracts signed between ABC Manufacturing and its customers to determine that the transaction terms justified the recording of sales for the year under
audit. Each of these forms of organization was discussed in Chapter 2 (pp. What difficulties, if any, may auditors face in communicating about these matters? The remaining four functions involve the collection and recording of cash, sales returns and allowances, write-off of uncollectible accounts, and providing for bad debt expense. This is relatively
easy to verify if the company accounts for prenumbered receiving reports. Why is there a special need for professional conduct by CPAs? The accuracy assertion has two objectives because of the need to provide auditors with guidance in testing transaction accuracy. Auditors must therefore understand the assertions to do adequate audits. Such
measures may not provide a warning of developing risks because they focus on results that have already occurred. Chapter 4 / Professional ethiCs 129 4-4 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the primary contents of the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the AICPA Code of Professional ethiCs 129 4-5 (Objective 4-4) How are the AICPA Code of Professional ethiCs
places? Copies of this document are used to approve credit, authorize shipment, record the number of units shipped, and bill customers. Before the population can be considered acceptable, the CUER determined on the basis of the actual sample results must be less than or equal to TER when both are based on the same ARO. Each event is observed
by CPas from a major accounting firm to assure viewers that the control being tested can be used to reduce assessed control risk as planned, provided a careful analysis of the cause of exceptions does not indicate the possibility of a
significant problem in an aspect of the control not previously considered. Because her firm has been doing the audit for several years, the sales manager has decided that Janes should also be eligible for the discount. While reviewing monthly bank reconciliations, she observed that all the deposits in transit at monthend cleared the next day, except for
the deposit at one store, which cleared a day later. • Personnel selected for advancement have the qualifications necessary for the fulfillment of their assigned responsibilities. Cr. A/P Key Accounts in stratum $50,001-$250,000 Accounts in stratum less than or
equal to $50,000 * o/s = overstatement 602 u/s = understatement Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle acl proBleM 16-37 (Objective 16-3) This problem requires the use of ACL software, which can be accessed through the textbook Web site. (3) All sales invoices have been correctly posted to customer accounts
Dealing with Outside People and Organizations Employees must take care to separate their personal roles from their organization when communicating (ISA 200) (www.iaasb.org) and the objective of an audit of internal control over financial
reporting as defined by PCAOB auditing standards (AS 5) (www.pcaobus.org). The defenses available to the auditor are summarized in Table 5-4. The company is a niche provider in the overall hardware industry, which is dominated by national chains like Home Depot and Lowe's. The likelihood that a client will have financial difficulties after the
audit report is issued. • Sanction members for improper conduct and performance. Donald Coster and awarded himself a medical degree. Review Part I of the case and the situations in Part II and identify information that affects your assessment of acceptable audit risk. Figure 15-3 Inspection of Sample Items for Attributes CLIENT: Hillsburg
Hardware INSPECTION OF SAMPLE ITEMS FOR ATTRIBUTES YEAR-END: DECEMBER 31, 2016 Identity of Item Selected Invoice no. For example, assume the auditor identified by the company's internal controls. What is the likely misstatement if the account balance
is $500,000? Significant differences indicate potential cutoff problems in the test of year-end balances. Duplicate sales invoice is reviewed for reasonableness of the extensions and footing. No action would be taken at this time. Therefore, the
auditor performs extensive tests of controls and relies heavily on the client's internal controls to reduce substantive tests. The size of potential misstatements, rather than known misstatements, is important in determining whether an unmodified opinion report, a qualified scope and opinion report, or a disclaimer of opinion is appropriate for a scope
limitation. Each staff member attends, including night operators, to discuss issues affecting the performance of the department. When the auditor wants to be more certain that the financial statements are not materially misstated. Feb. Therefore, he designed an audit program that
emphasized identifying internal controls in all major transaction cycles and included tests of controls. Currently, there are over 900 foreign audit firms registered with the PCAOB. • Completeness—All transactions and accounts that should be presented in the financial statements are so included. Instead, we focus on the substantive audit procedures
that are most likely to be misunderstood. 6810 Shipping document for a sale of merchandise could not be located. Quantity and other data on the sales invoice (procedure 13d). • Valuation or allocation—Assets, liability, equity, revenue, and expense compo- nents have been included in the financial statements at
appropriate amounts. When the CPA relies on a different CPA firm to perform part of the audit, the principal CPA firm has three alternatives. The bank is directly linked through highly secure telecommunication lines to the data center was owned by First
Community. For each item that you answered (B), indicate the nature of the deficiency.* 14-32 (OBJeCtIVe 14-3) YourTeam.com is an online retailer of college and professional sports team memorabilia, such as hats, shirts, pennants, and other sports logo products. For a monthly fee, Technology Solutions supports the server hardware in an
environment with numerous backup controls in the event power is lost or other hardware failures occur. 370). For example, if the auditor is doing an audit of a city government, the auditor must understand government, the auditor is doing an audit of a city government, the auditor must understand government, the auditor is doing an audit of a city government, the auditor is doing an audit of a city government, the auditor is doing an audit of a city government, the auditor must understand government accounting and auditing requirements.
sample size needed. 150 Part 1 / THE AUDITING PROFESSION Figure 5-8 Howard Sirota v. This is a critical part of every audit and the primary subject of this book. Management assertions are directly related to the financial reporting framework used by the company (usually U.S. GAAP or IFRS), as they are part of the criteria that management uses
to record and disclose accounting information in financial statements. Each sales clerk has his own sales book with prenumbered, three-copy, multicolored sales slips attached, but perforated. The report compares the size and duration of loss due to fraud for organizations where that control was present to organizations where the control was absent
and finds that frauds perpetrated in organizations with any of the 18 common controls resulted in significantly lower losses as compared to the losses in organizations with any of the 18 common controls. Answer the following questions, setting forth reasons for any conclusions stated: a. Copyright by American Institute of CPAs. All rights reserved. Liquidity
Activity Ratios Accounts receivable 5 turnover Days to collect 5 receivables net sales 143,086 average gross receivables ((18,957 1 1,240) 1 (16,210 1 1,311))/2 365 days 365 
5 inventory inventory inventory turnover 5 7.59 5 108.63 days 3.36 If a company does not have sufficient cash and cash-like items to meet its obligations, the key to its debt-paying ability is the time it takes the company to convert less-liquid current assets into cash. The Solitron Devices case, described in Figure 5-8, is an example of that reasoning. A
computergenerated edit listing will be prepared to show any missing inventory count cards and all quantity adjustments of more than $100 in value. Comment on the auditor's conclusion with reference to the relationship between tests of controls and substantive tests. The smallest sales invoice number for the year is 53419 and the largest is 74243. The smallest sales invoice number for the year is 53419 and the largest is 74243.
he auditor's responsibility section in an audit report includes two important phrases (italicized below) that are directly related to materiality and risk. Auditing standards define three levels of the absence of internal controls: 1. The auditor can issue an unqualified opinion on the financial statements if the client adjusts the statements to correct the
misstatement prior to issuance. The most important concern is the possibility of theft. Chapter 4 / Professional ethiCs 123 Except as stated in the next sentence, a contingent fee is a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which
the amount of the fee is otherwise dependent upon the finding or result of such service. after the audit is started? †4. Figure 10-2 highlights KPMG's survey finding that personal financial incentives, especially a desire to fund an extravagant lifestyle, and the need to meet pre-specified business performance targets are often cited as primary incentives.
to engage in fraudulent actions. (3) valuation and allocation. Figure 15-8 illustrates the sampling documentation completed for the tests of attributes 1 through 9 in Table 15-3 for Hillsburg Hardware Co. using attributes sampling. It can be detected by comparing the name, amount, and dates shown on remittance advices with cash receipts journal
entries and related duplicate deposit slips. (You may remember calculating a statistical result at a 95 percent confidence level in a statistics course. It can be determined only after the auditor assesses the other three risks. What advantages does the reducing control risk approach Sessions planned to use have over the substantive approach previously
used in the audit of McClain Plastics? For example, auditors might use an embedded module to identify all purchases exceeding $25,000 for follow-up with more detailed Chapter 12 / Assessing Control risk And reporting on internAl Controls 429 examination for the occurrence and accuracy transaction-related audit objectives. 75 accounts are
confirmed by customers, and 25 accounts are verified by alternative procedures. Determine and apply Materiality Levels Because the auditor's opinion is about whether the financial statements contain material misstatements, the auditor is responsible for determining and applying an appropriate materiality level or levels throughout the auditor.
(ObjeCtive 6-11) Following are seven audit activities. Assume you decided that performance materiality for accounts payable as it affects the income statement is $250,000. Your audit firm engaged a business valuation specialist to assist in evaluation of the investment's fair value. She informs you that the industry gross profit
percent in the retail book industry declined fairly steadily for 3 years as more people purchase books online, which accounts for part of the decline. Simple multiplication would estimate 2.5 exceptions (5% of 50), but that number is impossible because there is no such thing as half an exception. A simple random sample of one transaction will be such
that each of Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 525 Figure 15-1 Computer Generation of Random Numbers: 50 Cancel Uniform Distribution: Help Parameters Between 3689 and 9452 Random Numbers Selected
5890 4269 7127 8871 8787 9213 3773 6037 8664 4488 5101 3951 3876 4635 4955 3787 5332 5666 6880 5749 5832 5738 8935 6375 6145 5440 9312 8338 9402 5166 9174 3997 7752 8395 9294 6376 5419 8012 Sorted in Ascending Order 5715 8159 4117 4833 4058 5754 6496 6635 5841 9371 3924 5019 3773 3787 3876 3924 3951 3997 4058 4117
4269 4488 4635 4833 4955 5019 5101 5166 5332 5419 5440 5666 5715 5738 5749 5754 5832 5841 5890 6037 6145 6375 6376 6496 6635 6880 7127 7752 8012 8159 8338 8395 8664 8787 8871 8935 9174 9213 9294 9312 9371 9402 the 12,000 transactions has an equal chance of being selected. 438 Part 2 / The AudiT Process 12-25 (Objectives 12-
2, 12-3) Taylor Electronics Company is engaging in manufacturing of electronic components. (See the first and second key controls in Figure 12-3 on page 397.) Then the customer order is attached to the sales order as authorization for further processing. He admits to taking less than half of the $215 million investigators claim is missing, and
investigators continue to track the missing funds. A public key encryption technique is often used, where one key (the public key) is used for encoding the message and another key (the private key) is used for encoding the message and another key (the private key) is used for encoding the message. Kerr, University of North Carolina at Charlotte William R. Unmodified Material Users' decisions are likely to be affected
only if the information in question is important to the specific decisions being made. The following observations expand on the information contained in Table 6-2. Three main types of audit reports are issued under these conditions: qualified opinion, and disclaimer of opinion. 37 10. (3) Prelistings and predetermined totals are used to
control postings. The extent of these tests depends on the results of tests of controls, substantive tests of transactions, and substantive tests of transactions related to the supplier allowances that the auditor should have asked in the
audit of ABC's financial statements. TER and sample size d. (3) It focuses on verifying the fair presentation of a company's results of operations. Recorded sales transactions are properly classified. The AICPA recently restructured its Code of Professional Conduct to align it with international standards. If the auditor believes that senior management
may be involved in the fraud, the auditor should discuss the matter directly with the audit committee. Kinross-Kennedy did not include written audit programs or document his conclusions for most audit areas. He served on the ASB Fraud Standard Task Force,
and the Advisory Council overseeing the COSO Enterprise Risk Management— Integrated Framework project. Extent of required internal controls. These regulations may be either government statutes or statements issued by regulatory or professional bodies, such as the Australian Auditing & Assurance Standards Board or Spain's Instituto de
Contabilidad y Auditoría de Cuentas. What recommendations for change can you suggest to improve Hardwood's information systems function? When the money came in, he took it and deposited it in his own account. 406 in Part IV.) Use your judgment for the other two factors. What recommendations for change can you suggest to improve Hardwood's information systems function?
lie on resumes and employment applications, or perform below their competence level as employees, most of us regard that as unethical behavior. Authorization is a policy decision for either a general class of transactions or specific transactions. Figure 10-6 (p. Solicitation consists of the various means that CPA firms use to engage new clients other
than accepting new clients who approach the firm. Source: Capital Confirmation (www.confirmation.com). Suppose an auditor decides to select a sample from a total of 12,000 cash disbursement transactions for the year. Auditing standards permit auditors to use either statistical or nonstatistical sampling methods. Because these methods are not
based on mathematical probabilities, the representativeness of the sample may be difficult to determine. Qualified opinions and disclaimers are discussed in a later section of this chapter. Profit margin 10. The rest of the credits were tested by selecting 30 items (several from each page of the list). tabLe 14-1 The sales and collection cycle involves the
decisions and processes necessary for the transfer of the ownership of goods and services to customers after they are made available for sale. Conversely, if the auditor plans to rely on internal controls only to a limited extent, control risk will be assessed as high and so will ARO. The appropriate substantive tests of transactions for testing the
occurrence objective depend on where the auditor believes misstatements are likely. processing Controls Processing controls prevent and detect errors while transaction data are processed. Review lists of balances for amounts due from related parties or employees, credit balances, and unusual items, as well as notes receivable due after one year
(2) will produce a more accurate set of financial statements. For example, assume that the original control risk assessment as low was inappropriate. This is a necessary procedure because the predecessor may be able to provide the successor with
information that will assist the successor in determining whether (1) the predecessor's work should be used. The interval is determined by dividing the population size by the desired sample size. Completeness—existing amounts are Included.
Advancement in CPA firms is fairly rapid, with evolving duties and responsibilities. Statements are sent to customers monthly. How management could perpetrate and conceal fraudulent financial reporting. Figure 16-5 illustrates a positive confirmation in the audit of Hillsburg Hardware Co. Notice that this confirmation is for one of the largest
accounts on the aged trial balance in Figure 16-3 (p. Summarize the use of automated controls. In situations of lesser materiality, a qualified opinion is appropriate. Random numbers may be obtained with or without replacement. The audits of Cyberliterate was performed by an audit junior who was not competent using Microsoft
Excel. court or a commission. Duplicate copies of bills of lading a. Madoff's scandal lasted a long time, particularly for such a large scheme. Understand the role of international auditing standards and their relation to U.S. auditing standards. Read down the appropriate
sample size row. Block Sample Selection In block sample selection auditors select the first item in a block, and the remainder of the block is chosen in sequence. 3-7 (Objectives 3-1, 3-3) Compare the wording in the standard unmodified opinion audit report for a nonpublic entity under AICPA auditing standards in Figure 3-1 (p. The cost of additional times are not appeared to the block is chosen in sequence.
tests of controls must be compared with that of additional substantive tests. Common bases include net income, total assets, current assets, and working capital. An inventory shortage report is provided to Mr. Diab. For organizations that use databases to store information shared by accounting and other functions, database administrators are
responsible for the operation and access security of shared databases. The same terminology is used for statistical sampling. Recalculation involves rechecking a sample of calculations made by the client. The existence of fraud risk factors does not mean fraud exists, but that the likelihood of fraud is higher. Narratives, flowcharts, and internal control
questionnaires, used by the auditor separately or in combination to document internal control, are discussed next. Reasonable assurance of achieving this objective is provided through (1) a system of quality control. While media reports and other industry publications suggested that recent regulatory changes in healthcare insurance were affecting
patients' ability to pay, Cai concluded that CHA's allowance was fairly stated given the amounts complied with CHA's policy. Search the Internet for "PCAOB Audit Sampling" or go to pcaobus.org to locate the PCAOB's auditing standard related to sampling (AU Section 350) and refer to the standard to answer the following questions. The depth of
understanding also depends on the extent to which key controls over transaction-related audit objectives reside at the service center for audits of internal control for public company's bookkeeper quit two months prior to the audit. Thirty
 Accounting Practice)" Instead of "The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards" c. Using your knowledge of the relationships among the foregoing factors, state the effect on planned evidence (increase or decrease) of changing each of the
following five factors, while the other three remain constant: (1) A decrease in acceptable audit risk (2) A decrease in inherent risk and an increase in control risk of the same amount 9-34 (Objectives 9-5, 9-7, 9-8) John Peter is planning the audit of the
investments account for audit client ABC Company. 785.) basis. Many larger CPA firms have staff dedicated to assisting in testing client automated application controls. For example, the comparison of a record count calculated before data entry of the number of vendor invoices to be entered and the number of vendor invoices processed by the system
would help determine if any invoices were omitted or entered more than once during data entry. (2) Select the sampling unit that will permit you to perform the most acquisition audit procedures on the audit program. The profession has presumably set the standards sufficiently high to make the minimum conduct satisfactory. Estimated based on
software, an auditor can prepare a trial balance, lead schedules, supporting audit documentation, and financial statements, as well as perform ratio analysis. The company publishes bi-monthly newsletter on its intra-net. The company publishes bi-monthly newsletter on its intra-net.
the credit limit in the master file. The system generates a listing by employee name of checks processed. Therefore, for all EPERs greater than zero but less than 3.3 percent, the initial sample size is the same. The client has inventory at approximately 50 locations in a three-state region. (The methodology for determining existing controls was
inventory, the client's personnel will write the actual counted quantity on the face of each card. visit the company Web sites for Google, Inc. DEFICIENCIES C C C Computer automatically posts transactions to the accounts receivable subsidiary records and to the general ledger (C10). For each control, there should be at least one test of control, but
there can be more than one. This information affects the amount of evidence that the auditor needs to accumulate, the assignment of staff, and the review of audit documentation. Nov. *Because there are no cash sales, classification is not a problem. Obligations related to technical standards. 5-11 (Objective 5-6) Explain what mechanisms the SEC has
documents to verify the shipment of goods and evidence of subsequent cash receipts to determine whether the accounts were collected. One of the most significant cases tried under the 1933 act is Escott et al. perform additional tests for presentation and Disclosure Recall from Chapter 6 that auditors accumulate evidence related to presentation and
disclosure-related audit objectives. Your firm has been unusually busy, so you asked another CPA firm to do about 30% of the audit for Abdoun's Arts, Inc. For each internal control, identify a specific misstatement that is likely to be prevented if the control exists and is effective. Mitchell & Moss's audit was deficient; if they had complied with auditing
the SEC indicate are the four basic criteria for determining whether revenue is realizable? Since late last year, Christopher Man stepped down as the Chief Executive Officer due to health problems. Backup and contingency planning Written backup plans are prepared and tested regularly throughout the year. 6-9 Link transaction-related
audit objectives to management assertions for classes of transactions. The control deficiencies are indicated in the body of the figure by a D in the appropriate objective column. Controls over granting loans weekly. It often includes an
agreement on fees. Tests of controls also form the basis for the auditor's report on internal control over financial reporting tests of Details of Balances Summary of types of tests Chapter 13 / Overall audit Strategy and audit PrOgram 453 for larger public companies. Nonnegligent performance For nonnegligent performance in an audit, the CPA firm
claims that the audit was performed in accordance with auditing standards. This report appears on the following page. Many of these procedures involve the use of sampling. In most engagements, auditors perform some clerical accuracy tests, such as footing the journals and tracing the totals and details to the general ledger and the master file, to
check whether there are errors or fraud in the processing of sales transactions. The fallout from the canadian Securities and Exchanges Commission, and disciplinary action by the Canadian Institute of Chartered Accountants
of partners of the audit firm. Prenumbered documents and records are important for the completeness assertion. Orange Credits—$130,000 in credits based on 35 credit memoranda from Orange, Inc., were purportedly for the return of overstocked goods from several ABC stores. Explain why it is important for audit documentation to include each of
the following: identification of the name of the client, period covered, description of the preparet and the reviewer, dates of the preparet and the reviewer and the review
information obtained throughout the audit, the auditor must have a thorough understanding of the client's business and related environment, including knowledge of strategies and processes. Alice Tom is the lending officer assigned to the ABC Outing account. Jeanine read as much as she could about paint manufacturers and learned about some new
production control methods that seemed like they could apply to Solberg. Regardless, the engagement partner is responsible for determining which matters should be communicated to engagement team members not involved in the discussion. Chapter 9 addresses the performance of risk assessment procedures to address the risk of material
misstatement, followed in Chapter 10 with discussion of assessing and responding to the risk of fraud. required 8-34 (Objectives 8-3, 8-4) Coca Cola Co. and PepsiCo Inc. The inventory system is updated based on bills of lading information forwarded to accounting after shipment. Review for reasonableness any manual journal entries made by
management to adjust the computer-generated accounting records. Differentiate. Payments by check are received in the mail by the receptionist, who lists the checks and restrictively endorses them. Loyalty is a responsibility to promote and protect the interests of certain people and organizations. Ernst & Ernst, 503 F. A significant deficiency is a
control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
In the past, Auto Delivery had followed the policy of purchasing all equipment. (4) It is a customary courtesy that all stockholders of a company receive an independent report on management's stewardship of the business. activities of Cpa Firms As discussed in Chapter 1, CPA firms provide audit services, as well as other attestation and
assurance services. See the bank reconciliation example on page 743. Figure 13-2 shows one set of tests for sales and not-for-profit entities, although some have one or two clients with public ownership. The common-size financial statement in
Figure 8-4 on page 233 is an example of vertical analysis applied to the detailed income statement for Hillsburg Hardware, with each income statement amount calculated as a percentage of sales. The deputy director and his subordinate had used the money to buy apartments and three luxury cars costing over a million dollars each. The exception for
Fiberchem is analyzed as an illustration. 700 Confidential client information X A member in public practice shall not disclose any confidential client information without the specific consent of the client, except for the four specific situations included in the rule. Report to the Nations on Occupational Fraud and Abuse, Association of Certified Fraud
Examiners, 2014. 8-27 (Objectives 8-5, 8-6) The following questions deal with materiality. 16-32 (Objective 16-4) You have been assigned to the first audit (financial statement audit, operational audit, or compliance audit). The calculations are made
for each stratum and then combined into one overall population estimate for a confidence interval of the entire population. Because of the risk of material misstatement, an audit should be planned and performed with an attitude of (1) objective judgment. But after considering it for a few minutes, she asked Chen to look further into the transaction
any repeat of the tōhoku earthquake and tsunami will be devastating to Japan. How does this discussion relate to the required discussion about the risk IDNC Acceptable audit risk IDNC Inherent risk IDNC Planned evidence IDNC j. These methods include the
organizational structure of the CPA firm and the procedures the firm establishes. Because of the emphasis on classes of transactions, auditors are primarily concerned with the transaction related audit objectives discussed in Chapter 6 when assessing internal controls over financial reporting. Auditors perform tests of controls and substantive tests of
transactions during this phase. Analytical Procedures Analytical procedures are defined by auditing standards as evaluations of financial information through analysis of plausible relationships among financial and nonfinancial information through analysis of plausible relationships among financial and nonfinancial information through analysis of plausible relationships among financial and nonfinancial data. Certified public accounting Firms Government accountability Office auditors Internal revenue agents 38 Several types
of auditors are in practice today. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect or consequential damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other tortious action, arising out of or in connection with the use or performance
of information available from the services. Such information will then be checked against the system batch report. The customers have instituted legal action against Donalds based on Section 10b and Rule 10b-5 of the Securities Exchange Act of 1934. Examine evidence that accounts receivable master file is reconciled to general ledger (7). Trace
recorded cash receipts entries from the cash receipts journal entries to the bank statement for a month. accuracy and valuation Footnote disclosures related to notes payable are accurate. The CUER in Figure 15-8 is determined using Table 15-9 (p. Chapter Learning Objectives After studying this chapter, you should be able to
9-1 9-2 9-3 9-4 9-5 9-6 9-7 9-8 9-9 Define risk in auditing. The primary objective of performing tests of controls are operating effectively on a consistent basis throughout the year. When they share certain characteristics, such as a common brand name, common control
common business strategy, or common quality control procedures, or they share in profits, costs, or professional resources, the network firms. Further, design a proper random selection plan for selection plan for selection plan for selection method
15-12 (Objective 15-5) Define each of the following terms: a. the Goods have Been returned The client's failure to record a credit memo could have resulted from timing differences or the improper recording of sales returns and allowances. Divide the population into subpopulations, usually by dollar size, and take larger samples from the
subpopulations with larger sizes. If Diab is unable to deposit the money, the supervisor goes instead. For example, when auditing property, plant, and equipment that should be expensed because it is an operating lease. It begins with a request by a customer and ends with the conversion of
material or service into an account receivable, and ultimately into cash. On what date should you stamp the report? Invoices for goods sold are posted to incorrect customer accounts. A report on the effectiveness of internal controls at a company that provides payroll processing for other companies. Online sales are rejected if the customer's shipping
address does not match the credit card's billing address. ABC Learning Centres Limited (ABC) was a publicly listed company whose main business was the provision of childcare services and education. A disclaimer of opinion is issued when the auditor has been unable to satisfy himself or herself that the overall financial statements are fairly
presented. Does the computer system automatically approve a credit sale based on preapproved credit limits maintained in a customer master file? Evaluate whether the allowance is adequate after performing other audit procedures for collectibility of receivables. Examine the approved price list for accuracy and proper authorization (9). The
comparison of tests of controls and substantive tests of transactions for the accuracy objective is a good example of how audit time can be saved when effective internal controls exist. In all these employments where peculiar skill is prerequisite, if one offers his service, he is understood as holding himself out to the public as possessing the degree of
skill commonly possessed by others in the same employment, and, if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. Perhaps the company has lost market share, its pricing has not been competitive, it has incurred abnormal costs, or perhaps it has obsolete items in
inventory or made errors in recording purchases. Identify which tests are performed to reduce control risk and which tests are performed to reduce planned detection risk. 13-17 (Objectives are met, all the balance-related audit objectives are achieved as well." 13-18
(Objective 13-6) Indicate the four phases of the audit process. • Misstatements that are otherwise immaterial may be material if they affect a trend in earnings. purpose of tests of Controls procedures for tests of Controls 1. Let's examine each more closely. (b) Mr. Kurran has been Chief Executive Officer of the Company since September 2006. The
results are considered acceptable. At the completion of the tests of controls and substantive tests of transactions, auditors must analyze each exception on assessed control risk, which may affect the supported detection risk and related
Technology Solutions data center. The inventory parts listing is updated weekly. Expert investigators note that subjects who are uncomfortable providing a response to an inquiry often exhibit many of the nonverbal behaviors shown in Table 10-7. raju indicated, "It was like riding a tiger, not knowing how to get off without being eaten." On January 7
2009, the New York Stock Exchange suspended trading of the company's american Depository Shares (aDS). Analytical procedures consist of evaluations of financial and nonfinancial data. Prelisting of cash receipts is prepared (C2). You found several pricing errors in your
substantive tests of transactions for sales. The manager-incharge Adam Li resigned from his position. Customer checks are credited to incorrect customer accounts. As discussed in Chapter 2, the AICPA Auditing Standards for nonpublic entities, and the PCAOB sets auditing standards for public companies. When auditors
must find those documents themselves, however, inspection can be extremely costly. For example, suppose one CPA firm replaces the existing auditors on the strength of accounting principles Chapter 4 / Professional ethiCs 119 ROTATIOn OF AUDITORS In AUSTRALIA To promote auditors
independence, The Corporations Act 2001 of the Commonwealth of Australia requires companies not to reappoint the same auditor partner for many years. Information obtained from external sources, such as analyst or credit agency reports, trade and economic journals, and regulatory publications, may strengthen the auditor's understanding of the
entity and its environment to assess the risk of material misstatement. Auditors must, as a result, always be transparent and honest when conducting their work. In this section, we'll focus on the differences between the two sampling methods. Al&Bee has been a client of the audit firm for 5 years. required Chapter 1 / THE DEMAND FOR AUDIT AND
OTHER ASSURANCE SERVICES 47 2 Chapter The CPA Profession Learning Objectives Good Auditing Includes Good Client Service After studying this chapter, you should be able to "It had been a good week," thought Jeanine Wilson, as she drove out of the parking lot of Solberg Paints on Friday afternoon. (4) predict a monetary population value
within a range of precision. Decide on the appropriate criteria for cutoff. Westbrook Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control
Over Financial Reporting. Evaluate and discuss whether John and Sarah conducted themselves in accordance with auditing standards. These may also affect acceptable audit risk and control risk. OnePlus Technology acquired a new division") in February. There were two central issues in the case. Without these actions to increase
earnings, the SEC charged that Xerox would have fallen short of market earnings expectations for almost every reporting period from 1997. Co. 2. In addition to having access to the information relating to a fraudulent scheme, whistleblowers are often highly trained and sophisticated professionals with the technical expertise to
understand the complex financial transactions at the core of many instances of securities and financial fraud. Sequence test Determines that data submitted for processing? Certain control elements within the five COSO control
components have a pervasive effect on the entity's system of internal control and are referred to as entity-level controls in auditing standards. 491) proceeds from sales invoices in the sales journal to source documentation. Our responsibility is to express an opinion on the company's internal control and are referred to as entity-level controls in auditing standards.
have Not Been received These differences typically result because the client records the acquisition when the goods are received. Referring to the attributes sampling tables in Table 15-8 to confirm whether the sample size determined by your audit staff is (i) appropriate, (ii) too large, or (iii)
the the thing which is made and 'Zukuri' means the act of making. The first paragraph is the introductory paragraph and indicates that an audit was performed and the financial statements that were audited. Figure 16-3 illustrates a typical aged trial balance, based on the Hillsburg Hardware example. 163-165). The CFO Esther Tan was not in favor
of the impairment. Both Stuart Supply Company and First City National Bank sued Lauren Yost & Co. Chapter 5 / LegaL LiabiLity 161 required required required Answer the following questions, setting forth reasons for any conclusions stated: a. This evidence can: • Be based on the service auditor's Type 2 report, which includes tests of the operations.
ating effectiveness of controls • Come from tests of the service organization's controls over the activities of the service auditor does appropriate tests at the service auditor's report, appropriate tests at t
reputation. It is likely that Person B has violated his own ethical standards, but he decided that the money was too important to pass up. Examine a sample of sales invoices and agree prices to authorized computer price list. As part of gaining this understanding, auditors assess inherent risk for each objective for an account, such as accounts
receivable, considering client business risk and the nature of the client and industry. Part 1 / THE AUDITING PROFESSION COnvERGENCE And CLARITY PROJECT COMPLETIOn IMPACTS AUDITING STAnDARDS CPAs in the U.S. need to be familiar with international standards on auditing and attest services (ISAs) as these standards become
because a company may not be objective with respect to its own financial statements. John has assessed the following risks as low, medium, or high for the relevant balance-related audit objectives in the investment account. During 2016, there was an additional note outstanding in the amount of $4,400,000, which was paid off during October 2016
Inquire of management about the business rationale for this transaction. Significant related-party transactions. To meet the requirements, use the Financial Position, Statement of Combined Statement of Income, and Retained Earnings and Additional
Information to complete the following requirements. embedded audit Module approach When using the embedded audit module approach, auditors insert an audit Firms Slapped with Overtime Lawsuits" (January 11, 2012)
(accountingtoday.com). Wasendorf had fooled the NFA a year earlier after the regulator received a report on a Friday that Peregrine's account for customer balances had less than $10 million. Recorded cash disbursements are for goods and services actually received. A CPA firm can use a trade name, although this is unusual in practice. Bahir El
Malky, chair of the audit committee, recommended that the CPA firm of El Sayid and Shakran be selected again for the company's annual audit and related tax work for the year ended December 31, 2013. The client would have to get accustomed to the new auditor and develop a professional and arm's length working relationship with the auditor.
Discussions throughout this chapter include ideas taken from the principles section. Mr. Murray decides to use stratified sampling. May affect firm's ability to realistically budget engagements and the effectiveness of Chapter 7 / Audit EvidEnCE Sufficiency
223 Combined Effect Persuasiveness and Cost the client's internal controls. Waseem: Business is booming right now, so the employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame their employees would probably be irritated that you're trying to frame the irritated th
uncollectible. Steps—audit Sampling for tests of Details of Balances Plan the Sample 1. No record of sales invoice number in the sales journal. In addition, fraud awareness training for purchasing agents and sales agents. Will Mary succeed? The client
began experiencing an increase in returns due to product changes that resulted in increased defects. Indicate which of the weaknesses, if any, increase the likelihood of fraudulent financial reporting. When that occurs, it means that the journal is used to record transactions from more than one cycle and indicates a tie-in between the cycles. Litigants
commonly seek federal remedies because of the availability of class-action litigation and the ability to obtain significant damages from defendants. Most cases involve the intentional misstatement of amounts, rather than disclosures. However, if auditors assigned the same level of materiality to each segment of the audit that was assigned for the
overall financial statements, there would likely be unidentified misstatements that exceed materiality for the financial statements as a whole. Accuracy is one part of the valuation and allocation assertion for account balances. As discussed in Chapter 8, the risk of material misstatement is the risk that the financial statements contain a materia
misstatement due to fraud or error prior to the audit. Auditing standards require the auditor to consider the need to obtain an understanding and test the service center's controls if the service center application involves processing significant financial data. Why is audit failure more perilous to the auditor? (Stratify) c. A second factor was the
declining percent of the total volume resulting from the pharmacy part of the business. When there is a material limitation on the scope of the audit, the audit opinion must be modified. A report about management's assertion on the effectiveness of controls over the availability, reliability, integrity, and
maintainability of its accounting information system. Identify and evaluate Control Deficiencies, Significant Deficiencies, and Material Weaknesses Auditors must evaluate whether key controls are absent in the design of internal control over financial reporting as a part of evaluating control risk and the likelihood of financial statement misstatements
What is the information and established criteria that Aishah needs to know for the audit? The projected misstatement is compared with materiality (step 5). Inability of the company to pay its obligations as they come due 3. It is vital that
auditors apply appropriate skills, experience and skepticism in identifying and responding to risks, reviewing accounting treatments, added Mr. Medcraft, Dynamic Metal Products 6. By examining completed documents, records, and computer files, the auditor can
evaluate whether information described in flowcharts, narratives, and questionnaires has been implemented. As such, she was initially a member of a small group that was going to participate in a private placement of $1 million of common stock of Clarion Corporation. Describe a conditional sale and a bill and hold sale. No term can be used more
than once. This is called the cycle approach, concluded that insufficient evidence was obtained to form an opinion on the effectiveness of internal controls over financial reporting. In one organization, the auditor might evaluate the relevancy and sufficiency of the information used by management in making decisions to acquire new fixed assets. Used
with permission. The auto dealership has an executive lunchroom that is available free to employees above a certain level. Methodology auditors follow in designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figure 16-1 shows the methodology for designing tests of details of Balances Figur
involving more than one of the conditions requiring a departure from an unmodified opinion audit report or revisions to the standard report wording. Procedures to be undertaken by the reviewers are illustrated by the office review program. The recording of the movement of inventory from the store to the factory floor is haphazard. the company
aims to protect lives and livelihoods from these disasters. The firms typically use zero expected deviations when determining sample sizes for tests of controls. What specific issues should be included in the discussion among engagement team members regarding the risk of material misstatement? Supp. sAles returns And AllowAnces The transaction-
related audit objectives and the client's methods of controlling misstatements are essentially the same for processing credit memos as those described for sales, with two differences. Tests of the four presentation and disclosure-related audit objectives are generally done as part of the completion phase of the audit. Specify materiality levels to be used
in testing of accounts receivable. This structure is organized around the following principles, which are summarized in Figure 2-2: • Purpose of an audit (Purpose) • Personal responsibilities of the auditor (Responsibilities) • Auditor actions in performing the audit (Purpose) • Personal responsibilities of the auditor (Responsibilities) • Auditor actions in performing the audit (Purpose) • Personal responsibilities of the auditor (Responsibilities) • Auditor actions in performing the audit (Purpose) • Personal responsibilities of the auditor (Responsibilities) • Auditor actions in performing the auditor (Responsibilities) • Auditor actions in performi
standards as interim standards, they adopted the framework existing at that time. Examine a sample of warehouse removal slips for signature of authorized official. Weak practices in credit approval often result in excessive bad debts and accounts receivable that may be uncollectible. Capital equipment leases include sales, financing, and service
components. Peter uses the listing to enter the financial transactions in the computerized accounting records. Auditors often consider presentation and disclosure audit objectives when addressing the balance-related audit objectives when addressing the balance-related audit objectives. She seeks to recover her loss from Doyle and Jensen. What is the relationship between the population standard
deviation and the required sample size? Use audit software to search purchase transactions to identify any with nonstandard vendor numbers or with very limited exceptions, public company audit committees should be comprised
solely of independent members, and companies must disclose whether or not the audit committee includes at least one member who is a financial expert. Unpaid invoices are filed separately from paid invoices are filed separately from paid invoices are filed separately from paid invoices. At that time, Small was engaged in audits of several clients. For example, using Benford's Law (a formula for the expected frequency of digits
in a list of numbers), one forensic team detected that several call center operators had issued fraudulent refunds to themselves, friends, and family members that totaled several hundred thousand dollars. Approximate amount of $95,000 not considered material. Another of the underlying principles in auditing standards states: Part 2 / The AudiT
Process The auditor identifies and assesses risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity and its environment, including the entity and its environment, and others within the entity and its environment.
the auditor in identifying the risks of material misstatement. Auditing standards in the United States now allow an auditor to perform an audit of financial statements of a nonpublic U.S. and the ISAs. The auditor's scope
paragraph is modified to indicate that the audit was conducted in accordance with auditing standards on Auditing. Also, one or more partners in most CPA firms have special expertise in writing audit reports. (3) Perform tests of controls. Report title.
Many privately held companies also have their annual financial statements audited to obtain financial institutions. According to the equipment, so that more of the revenue could be recognized immediately. This
type of evidence is most often associated with inventory and cash, but it is also applicable to the verification of securities, notes receivable, and W-4s to the service center. Because of the way systematic selection is done, once the first item in the sample is
selected, all other items are chosen automatically. To illustrate, assume the following partial audit program: 1. Planned detection risk is dependent on the other three factors in the model. A deficiency in internal course of performing their
assigned functions, to prevent, or detect and correct, misstatements on a timely basis. (2) tests of controls. Why is this rule necessary? Failure to identify the correct issue often leads to an incorrect analysis and an inappropriate judgment. The firm's training programs emphasize the importance of quality work, and this is reinforced in performance
evaluation and compensation decisions. What must the auditor document in the working papers related to this brainstorming session? 12,000? (Pcards, or purchasing cards, are issued to certain employees to allow them to make purchases on behalf of the company.) The suggested command or other source of information needed to solve the problem
requirement is included at the end of each question. He noticed that several of the company's checks have been canceled and then rewritten at a later date, but there are two cashed checks for the same amount of money. Form 10-K, Engagement letters, Foreign Corrupt Practices Act of 1977, Intent to deceive, Negligence, Prudent person, Statutory
law, Ultramares doctrine. This should include consideration of known external and internal factors affecting the entity that might: • create an incentive or pressure for management to commit fraud. Customers use cash, debit or credit cards, pre-paid Starbucks cards, or mobile payment apps to purchase individual drinks that are served to them within
minutes. A university professor publishes case studies on auditing based actual cases of his audit clients when he was working as an auditor in a CPA firm. The inventory is difficult to count and can be observed only by traveling by automobile. (d) Mr. Akins was Chief Operating Officer and President of Hardware Bros., one of the ten largest wholesale
hardware chains in the nation, from 2003-2008. SEC 2004-105. However, in the absence of identified or suspected noncompliance, the auditor is not required to perform audit procedures are believed to be effectively designed and implemented, the auditor assesses control risk
at a level that reflects the relative effectiveness of those controls. For example, when testing sales and accounts receivable, the auditor must understand and evaluate the appropriateness of those controls. For example, when testing sales and accounts receivable, the auditor must understand and evaluate the appropriateness of those controls.
areas where they can improve audit quality. Classify each of the preceding items according to type of documentation: (1) Internal or (2) External. Although the board must exercise oversight of the design and performance of controls. 7364 Sales invoice for $2,875 has not been
collected and is 6 months past due. Identify and Define the Issue The starting point to an effective professional judg- ment begins with identifying and defining the situation and its potential effect on the audit. Before processing, the system validates the sequence of items to identify any breaks in sequence of input
documents. An effective auditor recognizes that risks exist and deals with those risks in an appropriate manner. Balance sheet. The second level of disciplinary action is action before the Joint Trial Board. Transactions in the acquisition and payment cycle include the purchase of inventory, supplies, and other goods and services related to operations.
Hours of work will be affected. The work performed by the supervisor is an example of which COSO component? The auditor must also understand the client's external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions, external environment, including such things as wide volatility in economic conditions.
Cutoff timing Sales transactions are recorded on the correct dates. Chapter 6 / Audit Responsibilities And objectives 195 c. In that situation, auditor negligence in the conduct of the audit is not relevant. A restriction on the scope of the auditor's examination requires a qualifying paragraph preceding the opinion paragraph to describe the restriction.
Usually, auditors do not look at every transaction performed by the company as it is time consuming. The six transaction related audit objectives provide this framework. Attorneys, for example, are typically engaged and paid by a client and have primary responsibility to be an advocate for that client. The inclusion of the word material conveys that
auditors are only responsible to search for significant misstatements, not minor misstatements, not minor misstatements, including schedules prepared by the client for the auditor, is the property of the auditor. Trace entries in the
acquisitions journal to related vendors' invoices, receivable include makeup of accounts receivable, nature of the client's business, initial engagement, and other inherent risk factors discussed in Chapter 9. The distinction between deficiencies,
significant deficiencies, and material weaknesses was discussed earlier. For which of the following tests would an auditor must make in an audit of a nonpublic company. Each response is used once. Firm procedures should allow
assistants to document situations where they disagree with a conclusion involving a significant matter. Existence—assets, liabilities, and equity interests exist. The external drive and backup server are located in a room adjacent to the computer room. Interpretations permit CPAs to do audits and be honorary directors or trustees for not-for-profit
organizations, such as charitable and religious organizations, as long as the position is purely honorary. Auditors use trends in the inventory obsolescence. This is because the allowance for sampling risk represents the maximum misstatement in account details not audited. • Discuss financing plans with
management. Independence of mind reflects the auditor's state of mind that permits the audit to be performed with an unbiased attitude. Management's practice of making overly aggressive or unrealistic forecasts to analysts, creditors, and other third parties. Michenzi, Loyola College in Maryland Charles R. Part 2 / The AudiT Process Although not
required, analytical procedures may also be performed to audit an account balance. Therefore, a significant portion of work of this type is often done by auditor's familiarity with industry trends. recompute prices and extensions on sales invoices (13b). Similarly, these tools provide efficient searches
for breaks in document sequences, which may indicate misstatements related to the completeness objective for liabilities and expense accounts. (2) Having bookkeeping services for an audit client performed by the same person who does the audit. In response, John Tom, the president of ABC Stores, placed a call to Brown Marry, the president of
Apple, and handed the phone to the staff auditor. Inherent risk and control risk are the client's risks and they exist independent of the auditor appropriately documents the overall materiality level and performance materiality levels and the factors considered in determining those
amounts in the audit files. Compliance auditing often extends beyond audits leading to the expression of opinions on the fairness of financial presentation and includes audits of efficiency, economy, effectiveness, as well as (1) accuracy. Whenever employees have custody or even temporary access to assets and maintain the accounting records for
those assets, the potential for theft exists. The last part of each chapter covers statistical sampling techniques. Your audit junior found out that your client is losing money. Customs officer would make sure that a shopkeeper records and remits all the Goods and Service Tax collected to the government in a timely manner. For audit 3, recommend an
evidence mix for the audit of outstanding loans. The light shaded boxes on the left side of the figure correspond to the design of tests of controls and substantive tests of transactions, as presented in Figure 13-5 (p. 3-19 (Objective 3-9) Discuss why the adoption of international accounting and auditing standards might be beneficial to investors and
auditors. The news headline that followed was appropriate: "GRPN is Now Half Price Without a Groupon." Sources: 1. Instead, the auditor must plan to find all misstatements affecting income before taxes that exceed the preliminary judgment about materiality of $100,000. We will discuss each of these techniques, beginning with probabilistic sample
selection methods. Analytical procedures are also used as a part of performing tests of balances and during the completion phase of the audit. Your prompt attention to this request will be appreciated. C. She has held her current position since 2005 and served as an operations manager from 1999-2005. Part 4, Application of the Audit Process to
Other Cycles (Chapters 18-23) Each of these chapters 18 through 17 cover the sales and collection cycle in much the same manner as Chapters 14 through 17 cover the sales and collection cycle in much the same manner as Chapters 14 through 17 cover the sales and collection cycle in much the same manner as Chapters 18-23) Each of these chapters 18-23 (Objective 2-8) What are the elements of quality control when dealing with a CPA firm? Because several interactions affect the need
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for evidence from tests of details of balances, this audit decision can be complex. The S-1 form is the general form used when there is no specifically prescribed form. Such classes of transactions typically include sales, cash receipts, acquisitions of goods and services, payroll, and so on. (4) aid to the independent auditor, who is conducting the audit of
the financial statements. Manipulation of adjustments to revenue involves sales returns and allowances. As part of the expansion, Teklas has accepted new clients from different regions including across Europe, Africa, and Asia. (3) procedures contained within the program. What is the difference between the
two types of improper revenue recognition? The completeness assertion deals with whether all required disclosures have been included in the financial statements. "Financial Reporting Whitepaper: The AICPA's Guide to Clarified and Converged Standards for Auditing and Quality Control" (www.aicpa.org); 2. If the auditor already expects to find
material misstatements in the account balances, additional analytical procedures are not cost effective. What is the purpose of the Principles of Professional Conduct? Putting up a banner saying that your firm guarantees a savings of 30% in tax liabilities for any potential clients. Because he doesn't know too much about the industry, Jamal attends
 some professional development courses in interior decorating. In this type of substantive analytical procedure, the auditor develops an expectation of what an account or account balance should be by relating it to some other balance sheet or income statement account or account or account or account so an expectation of what an account balance should be by relating it to some other balance sheet or income statement account or account or account so an expectation of what an account or account so an expectation of what an account balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating it to some other balance should be by relating to the balance should be by relating to the balance should be by relating
The purpose of this independent assessment is to provide service center's general and application controls and to eliminate the need for redundant audits by customers' auditors. required Answer the following questions, setting forth reasons for any conclusions stated:
a. The receiving department checks the quantity and quality of the goods received. You should read all of the reference material preceding the instructions about "Quick Sort" before locating the appropriate command to answer parts a. x 11/21/15 Demand Paid $3,591 5% None J.J. CO. revise assessed Control risk If the results of the tests of controls
and substantive tests of transactions do not support the preliminary assessed control risk, the auditor should revise assessed control risk upward. Relevant assertions have a meaningful bearing on whether the account is fairly stated and are used to assess the risk of material misstatement and the design and performance of audit procedures. At the
start of the engagement, John told her, "Don't be afraid to ask questions. In October 2013, the PCAOB issued Staff Audit Practice alert discusses common themes identified during inspections of integrated audit engagements. 15-26 (Objective 15-
3) You are a staff auditor and you are going to develop a sampling plan for selecting sales invoice in sales journal. It had over 30 subsidiaries in Hong Kong, Macau, PrC, Singapore and taiwan. What are the implications to the profession? (4) sales invoice file. Using the "Accounts Receivable" data, age the balances based on invoice date. Those
standards also require the auditor to inquire of management and perform other procedures to obtain an understanding of controls that management has established to identify, authorize, and approve related party transactions. Most of our competitors are not only larger, but have greater financial resources than our company. 76 Part 1 / THE
AUDITING PROFESSION • The last paragraph of the report includes a cross-reference to the auditor's sepa- rate report on the financial statements, and contracts, have exceptional reliability because they are almost always prepared with considerable care and
often have been reviewed by attorneys or other qualified experts. Frequent rephrasing by the interviewee of the auditor's question. In either case, the presence of an accounting misstatement is one possible reason for the unusual fluctuation. In either case, the presence of an accounting misstatement is one possible reason for the unusual fluctuation. In either case, the presence of an accounting misstatement is one possible reason for the unusual fluctuation.
are for shipments actually made. Examine evidence that the customer orders have been approved for credit by the credit manager. For example, the CPA firm might claim that misstatements were not uncovered because the firm did a review service, not an audit. Awareness of these and other potential traps helps the auditor take steps to mitigate
their effects and strengthen professional skepticism. Good listening techniques, and it helps the auditor distinguish an unintentional skepticism. How do these components help an auditor distinguish an unintentional misstatement from an intentional (fraudulent) misstatement? Shear auditor distinguish an unintentional misstatement from an intentional skepticism.
concluded that there was no material fluctuation and therefore there should not be any change to the audit strategy for the sales and collection cycle. Risk assessment 3. Some auditors use a subjective expression such as high, moderate, or low. Therefore, the computer plays a significant role in the authorization and record keeping of sales
transactions. In response to the Sarbanes-Oxley Act requirement that all members of the audit committee be independent, the national stock exchanges amended their listing rules to reflect the provision. Chong would normally allocate five days for the audit of HoHo Transport Sdn Bhd. Tucker, Fordham University Barb Waddington, Eastern
Michigan University Karl Wang, University Karl Wang, University of Mississippi Jeanne H. When practical and reasonable, U.S. auditing standards require the confirmation of a sample of accounts receivable. The Controller documents the Credit Memo on a form explaining the reason for the credit and the amount of the credit. 16-7 (Objective 16-3) Describe the aged trial
balance and explain how it assists in testing whether accounts receivable reported on the general ledger are accurate. When Koss Corp. 14-31 (OBJeCtIVeS 14-3, 14-5) Items 1 through 10 present various internal control strengths or internal control
the ASB principles as a basis for discussing the content of U.S. auditing standards since this framework is relevant to all auditing standards since this framework is relevant to all auditing standards since this framework is relevant to all auditing standards. Select a sample of inventory items in the factory warehouse and trace each item to the inventory count sheets to determine if it has been included and if the quantity and description are correct. 3-25 (Objectives
3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. A fourth way CPAs can be held liable is under criminal liability for accountants. Effect on Report on Internal Control: CUER exceeds TER for attributes 2, 4, 5, and 8. The accompanying financial statements have been prepared
in accordance with accounting principles generally accepted in the United States of America, applying certain estimates and judgments as required 8-35 (Objectives 8-5,
8-8) You are evaluating audit results for assets in the audit of Roberts Manufacturing. multiple cHOice QueStiOnS fROm cpa examinations 6-20 (ObjeCtive 6-1) The following questions concern the reasons auditors do audits. However, when nonstatistical sampling is used, sampling risk cannot be directly measured. Duplicate sales invoices 2. Identify
audit Objectives The first step in the assessment is to identify the audit objectives for classes of transactions, account balances, and Bob Lehman was forbidden to practice before the SEC. Like tests of controls, substantive tests
of transactions are designed for each transaction-related audit objective. Apparently, relations with the customer were "touchy," and Trent had discouraged the audit staff from communicating with the customer through c.), select the control that should have prevented the misstatement: a. In the first decade of the 21st century, the sales of the
company were in a slump as the company failed to introduce products suitable for playing MP3s. To calculate the probability of no exception, subtract the probability of no exception, subtract the probability of no exception, subtract the probability of no exception occurring from 1 (100 percent).
and evidence therefore decreased. All purchase requisitions are reviewed on a weekly basis to detect any unauthorized requisitions and date. To satisfy the objective for presentation and disclosure, the auditor must make sure that the
classifications are properly presented by determining whether related party transactions are correctly shown in the financial statements during the completion phase of the audit. Segregation of duties b. A key to implementing the right software is to involve a team of both IT and non-IT personnel, including key users of the software and internal
auditors. (1) 8. Scan c. The technique used by many firms is to have the auditor's working trial balance in the same format as the financial statements. Perform preliminary analytical procedures Set preliminary judgment of materiality and performance materiality 284 Part 2 / The AudiT Process APPLICATION TO HILLSBURG HARDWARE CO. He
undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon pure errors of judgment. The auditor is likely to use four types of procedures to support the operating effectiveness of internal controls. Generally, accountants can be held liable
under Section 10 and Rule 10b-5 if they intentionally or recklessly misrepresent information intended for third-party use. The CPA has maintained completely or in part, must conform to auditing standards. Check the casting in the Accounts Receivable Control
account. Observe whether restrictive endorsement is used on cash receipts. Assume Annie discusses the deviation occurred while a temporary employee was covering for the regular clerk, who was on vacation. The last four are studied separately in later chapters. KRIs help management and the board be
prepared for and better manage risk events that may arise in the future. Also, access to sensitive output stored in electronic files or transmitted across networks, including the Internet, is often restricted by requiring passwords, user IDs, and encryption techniques. (3) Suggest an additional policy which strengthens the existing control environment
on cash collection. For example, the auditor may choose to conduct substantive testing at the end of the period rather than performing those procedures based on interim data. Just days before its debut, the company's CFO decided to boost the number of shares to be offered by 25 percent and increased the opening offer price to $38 per share,
believing demand would be high. Evidence includes information, such as responses to questions of client employees. Organization Records and Communications Employees responsible for accounting and record keeping must not make or
engage in any false record or communication of any kind, whether external or internal. The tests of controls and substantive tests of transactions for cash receipts are combined with those for sales in the performance format audit program in Figure 14-6 (p. What must you do in response to this discovery? Cutoff tests can be thought of as a part of
verifying either the balance sheet accounts or the related transactions, but for convenience, auditors usually perform them as a part of auditing balance sheet accounts or the related transactions, but for convenience, auditors usually perform them as a part of auditing balance sheet accounts. Annual cash dividends were unanimously approved as being payable April 30, 2013, for stockholders of record on April 15, 2013, as follows: Class A common—$10 per share Class B
common—$5 per share Officers' bonuses for the year ended December 31, 2012, were approved for payment March 1, 2013, as follows: Reem Al Amon—President Bahir Malky—Vice President Bahi
board, called the meeting to order at 4:00 pm. One to be underscored for auditors is the paramount importance of understanding the company's busi ness and industry to identify significant business risks that increase the risk of material misstate ments in the financial statements. Amount and other data on the duplicate sales invoice agree with the
sales journal entry (procedure 13b). Ram Chartered Accountants has refused to respond, alleging that the audit files are considered privileged between the firm and its client. Which of the following situations has the best changes
exceeding a fixed percent? Approximately 17 months later, BarChris filed for bankruptcy. The activity ratios for accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often use trends in the accounts receivable and inventory are especially useful to auditors, who often useful to account a constant are accounts receivable and inventory are especially useful to account a constant are account as a constant are account and account a constant are account as a const
150-office international firm with many complex, multinational clients should differ considerably from those of a five-person firm specializing in small audits in one or two industries. Immediately below the test of control, list one substantive test of transactions audit procedure to test whether the control failed to be effective. The opposite effect will
occur for decreasing each factor. the CFO was then resigned from the company within six months after the initial public offering. While the threshold to file a case against auditors is relatively low, comparatively few cases are tried under the 1933 act, with cases often dismissed or resolved outside of court. Select samples of payroll records and
compute the overtime payment. 85 (D.C.R.I. 1968). Even with good faith and integrity, auditors can make mistakes and errors in judgment. Audit assurance or any of the equivalent terms is the complement of acceptable audit risk, that is, one minus acceptable audit risk. Table 9-2 illustrates the methods used by auditors to assess each of the three
factors already discussed. 508) and Table 15-9 (p. 460 Part 2 / The AudiT Process 2. The factory at Pondicherry is so large that it employs 12 accountants and 200 clerks to handle the various accounting functions in the plant. Make any assumptions you believe are reasonable and appropriate and document them, auditors relied on controls over
revenue to reduce substantive testing, but this reliance was not supported because the testing of the controls was insufficient, or testing identified control deficiencies. Evaluate the explanation provided by Adams. She was afraid to bring it up, thinking that she couldn't possibly know anything that the client didn't already know, but John encouraged
her to discuss it with the client. Fraud is more prevalent in smaller businesses and not-for-profit organizations because it is sometimes more difficult for these entities to maintain adequate separation of duties. 282 Part 2 / The AudiT Process $50,000 Allowance for Sampling Risk $ Total NA $ 2,000 12,000 6,000 18,000 31,500 15,750 47,250 $45,500
$16,800 $62,300 procedures or require the client to make an adjustment for estimated misstatements. Planning an Audit and Designing an Audit and Designing an Audit and perform initial audit planning Understand the client for make an adjustment for estimated misstatements.
materiality Identify significant risks due to fraud or error Assess inherent risk Understand internal control and assess control risk Finalize overall audit strategy and audit plan Chapter 8 / Audit Planning And MAteriality 261 Before beginning our discussion, we briefly introduce three risk terms: acceptable audit risk, client business risk, and risk of
material misstatement. Coco Audio was once famous in the 1970s for cassette tape decks made for the home. Identify inherent risks for the audit of Pinnacle using the information from Parts I and II. Because of the fluctuating nature of the short-term notes payable balance from month, the auditor's calculation of a twelve-month average
balance and average interest rate generates a more precise estimate of expected interest expense. After the appropriate audit procedures for a given set of circumstances have been designed, they must, of course, be performed. For example, assume the client's payroll application contains a limit check that disallows a payroll transaction that exceeds
80 hours per week. through f.), management assertions about classes of transactions (1 through 5), and general transaction-related audit objectives (6 through 11). Figure 13-8 shows the primary planning activities and the levels of disaggregation normally applied. How does this differ from the need for special conduct in other professions? Relevant
ethical requirements All personnel on engagements should maintain independence in mind and in appearance, perform all professional responsibilities. The requirements of the Sarbanes-Oxley Act of 2002 and the PCAOB Auditing Standard 5 (AS 5) that impact
accelerated filer public companies, and the risk assessment standards issued by the Auditing Standards Board are integrated throughout the text. This edition also includes expanded coverage of service organization control (SOC) reports on internal controls at external service providers. For the past five years, Cho & Tam started relying more on the
internal controls of Pacific Products and performed extensive tests of control with a significant reduction cycle and for inventory physical counts at year end. When are analytical procedures required on an audit? Dear Friends, maybe you are the same as
me,instantly download here!if the download button doesnt work, copy below link to download: 16th-Edition)-0134065824.html Table of contents: ......Page 18Part 1 The Auditing Profession......Page 27 Learning Objectives......Page 28 Nature of Auditing
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Questions and Problems ......Page 97 Learning Objectives......Page 103 What Are Ethics? They anticipated that a portion of the Sony Pictures computer systems would still be offline until at least February, which meant the accountants could not finalize the financial results for one of their subsidiaries. A former computer operator, who is now a
programmer, entered information for a fictitious sales return and ran it through the computer system at night. Reliance on the financial statements. The rate of inventory turnover has steadily decreased for three years. If there were no concern for controlling costs, evidence decision making would be easy. above, click on the "Outstanding" invoices to
examine the details of those still outstanding. There are two key points to know about planned detection risk. The auditor's consideration of the risk of material misstatement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is made at both the financial statement due to fraud is
transactions have been recorded. would be the most appropriate response? Dun & Bradstreet, Standard and Poor's, and other analysts accumulate financial information for thousands of companies and compile the data for different lines of business. Table 2-2 summarizes the experience and responsibilities of each classification level within CPA firms
Rise of internal conflicts. Because of the lack of independence between related parties, the Sarbanes-Oxley Act prohibits related party transactions that involve personal loans to any director or executive officer of a public company. Short-term Debt-Paying Ability Cash ratio 5 cash 1 marketable securities current liabilities cash 1 marketable securities
1 net accounts receivable Quick ratio 5 current liabilities Current liabilities Current liabilities 828 13,216 5 0.06 828 1 18,957 1 945 13,216 5 3.86 Figure 7-2 hillsburg hardware Co. Overall Test of Interest Expense
12/31/16 Schedule N-3 Prepared by TM Date 3/06/17 Approved by JW 3/12/17 Expectation of recorded interest expense: Short-term loans: Month Jan. The standard unmodified opinion audit report for public companies includes three paragraphs as illustrated in Figure 3-3 (p. 9/30/16 x $ 25,000 5% $ 50,000 x 5/12/15 Demand Paid $2,100 5% None
TENT CO. processing Cash receipts and recording the amounts in the records 15. Someone who has been honest generally is ready to terminate an interview. 25 Part 1 The AudiTing Profession Chapters 1-5 T hese first five chapters in Part 1 provide background for performing financial audits, which is our primary focus. Trace 10 accounts from the
trial balance to accounts on master file (8). This control is directly related to the occurrence and accuracy transaction-related audit objectives for sales. The results are measured statistically. She chose four invoices from each group to trace to the Accounts Receivables Ledger and to the stock records. Conclusion: Part 2 / The AudiT Process Face
aging categories as a percentage of accounts receivable with previous years. (3) timing of tests performed after the balance sheet date. The system appears to be working effectively. Block sample selection Auditors can also use probabilistic methods even when using nonstatistical sampling. Output reports are reconciled to input reports by users on a
test basis quarterly. In the preceding example, assume three shipping documents were not attached to duplicate sales invoices in a sample of 100. The hierarchical nature of CPA firms helps promote competence. What qualitative factors should she also consider in deciding whether misstatements may be material? MacDonald Svc. The types of tests
are listed below in order of increasing cost: relative Costs • Substantive analytical procedures • Risk assessment procedures of transactions • Tests of details of balances Substantive analytical procedures are the least costly because of the
relative ease of making calculations and comparisons. To express an opinion on the financial statements, the auditor obtains reasonable assurance about whether due to fraud or error. C Accounts receivable master file is reconciled to the general ledger on a monthly
basis (C11). Table 14-2 addresses the substantive tests of transactions procedures in the order of the sales transaction-related audit objectives. † The auditor has the option of issuing a disclaimer of opinion. In each of the events a. Bealing, Jr., Bloomsburg University Stanley F. RelAtionshiP oF Risks to evidence And FActoRs inFluencing Risks
Objective 9-8 Discuss the relationship of risks to audit evidence. An auditor's opinion enhances the degree of confidence that intended users can place in the financial statements. One such procedure company's performance. What is the effect on the amount of
evidence the auditor must accumulate when inherent risk is increased from medium to high for an audit objective? The customer was unhappy because the balances in your letter were much higher than in the customer was unhappy because the balances in your letter were much higher than in the customer was unhappy because the balances in your letter were much higher than in the customer's records. Zubair Al-Sharif is a 100% owner in Al-Sharif also owns a substantial limited partnership in
the same construction company as Samir. It is not cost effective 2. Accordingly, many accounting firms have developed rigorous guidelines and sophisticated methods for doing so. 256). Specify tolerable misstatement. On smaller audits, only one or two staff members may be needed. How is each determined? Deciding whether to confront a supervisor
who has materially Part 1 / THE AUDITING PROFESSION overstated departmental revenues as a means of receiving a larger bonus is an ethical dilemma. Chapter 7 / Audit Evidence 257 # a/r case 7-37 (Objective 7-4) ABC Stores is a large discount catalog department store chain. The auditors who perform these examinations are called internal
revenue agents. The auditor wants to make this decision early, before incurring any significant costs that cannot be recovered. Conversely, analytical procedures will not be reliable evidence if the controls that produced the data provide inaccurate information. Apply the concept of mate riality to the audit. The opinions were proven later to be untrue
 internal control system for acquisitions and cash disbursements by studying the information in Figure 12-12 and Figure 12-13. The increasing globalization of the world's capital markets and the expanding presence of business operations in multiple countries are leading to calls for the establishment of a single set of accounting standards to be used
 around the world. A customer of your audit client, Henson, LLC, made a formal, written request to establish a bill and hold arrangement in November 2016, an arrangement that is typical in the industry. The Securities Act of 1933 requires most companies planning to issue new securities to the public to submit a registration statement to the SEC for
approval. Both contingent liabilities and subsequent events are studied in Chapter 24. Pacific Products, under his leadership, has taken higher level of risks. The member has a financial interest in a client, and the outcome of a professional services engagement may affect the fair value of the financial interest. (4) individual account balances are
 information included: SaLeS JOUrNaL — JUNe 2013 592 Day of Month Sales Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle amount of Sale ($) 3 6237 827.23 31 6242 504.96 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6236 35.42 Part 3 / APPlicAtion of the Audit Process to the sAles Invoice No. 23 6223 699.32 27 6226 2,978.61 28 6235 827.23 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6242 504.96 31 6
example, interviews with the chief information officer and systems analysts provide useful information about the operation of the entire IT function, the extent of software development and hardware changes made to accounting application software development and hardware changes made to accounting application software development and hardware changes made to accounting application software, and an overview of any planned changes. (2) The total of these items of $32,470.11 agrees with
accounts payable listing. When should a member apply the conceptual framework for members in public practice? The auditor, Levin, issued an unqualified opinion on the financial statements, indicating that the company was solvent when, in fact, it was insolvent. Sales Cutoff Most merchandising and manufacturing clients record a sale based on
shipment of goods criterion. In addition to these firm resources, the AICPA has established audits and employee benefit plan audits. The evaluation involves a failure to follow GAAP or a scope limitation. We will notify you immediately of any circumstances we
encounter that could significantly affect our initial estimate of total fees of $135,000. Nashwa Credits—Nefret created 28 fictitious credit memos totaling $363,000 from Nashwa Distributions, the main supplier of health and beauty aids to Nefret. Ray told Holmes that an audit was to be completed in time to submit audited financial statements to a
bank as part of a loan application. Perform alternative procedures and accuracy of accounts receivable instead of sending positive confirmations. Audit program, considering significant risk, inherent risk, control risk, and other planning
considerations. The objectives remain the same from audit to audit, but the evidence varies depending on the circumstances. Parts B and C of the IESBA Code describe how the conceptual framework applies in certain situations, including examples of safeguards and descriptions of situations where safeguards are not available to address threats.
Classes of transactions or account balances that are based on the development of accounting estimates often require significant judgment that is subjective or complex because it is based on assumptions about future events. A relevant procedure is to trace a sample of shipping documents to related duplicate sales invoices to determine whether each
shipment was billed. Yours very truly: Accepted: Chuck Milsaps By: Date: 6-21-16 Alan Hilyer Partner Chapter 8 / Audit PlAnning And MAteriAlity 265 number of client locations and the past effectiveness of client controls in developing a preliminary approach to the audit. Assume, for example, that the auditor wants to determine the percentage of
duplicate sales invoices that do not have shipping documents attached. What is your assessment of how Melinda Cullen fulfills her IT management responsibilities? Key existing Controls (Column 2) Management designs the internal controls for sales to achieve the six transaction-related audit objectives. 200 Part 2 / The AudiT Process Specific
transaction-related audit Objective a. When auditors desire more specific guidelines, they must turn to less authoritative sources, including textbooks, journals, and technical publications. [third paragraph omitted] The Audit Committee of the Board of Directors is composed solely of independent, non-management directors, and is responsible for
recommending to the Board the independent registered public accounting firm to be retained for the coming year, subject to stockholder ratification. The auditor then concludes that the sample exception rate is the best estimate of the population exception rate.
typically they identify alternative compensating controls or increase substantive testing, rather than increase the sample size for the test of control. A supply of blank time cards is kept in a box near the time clock at the entrance to the factory. In many organizations, all sales documents are electronic and no paper documents are prepared. Many
states follow the AICPA rules, but some have somewhat different requirements. For each of the scenarios listed above, discuss whether the auditor's behavior would be included in the audit files with significant portions highlighted. When
the firm's quality control, additional training, or other remedial measures. The most significant issue of the case, especially to audit staff personnel, was the matter of the review for registration statements. In some instances, internal control may be so inadequate as to preclude
conducting an effective audit. required 484 Do you agree with the staff person's revised judgments about the effect of tests of controls on planned substantive tests? The increase in units sold that resulted from the increased demand and an increased
marketing effort. Unless otherwise disclosed in the financial statements, management also asserts that the cash was unrestricted and available for normal use. What is a sustainability report? He also knows that seniors are paid bonuses, instead of overtime, whereas staff are paid for overtime but get no bonuses. After considerable discussion, Yost
agreed to permit the practice if the president signed a statement that no other method was practical. The paragraph should fully explain the departure and why GAAP would result in misleading statements. General Employee Conduct The organization expects its employees to conduct themselves in a businesslike manner and prohibits unprofessional expects.
activities, such as drinking, gambling, fighting, and swearing, while on the job. Certain types of businesses are inherently riskier than others. 14-12 (OBJeCtIVe 14-5) List several audit procedures that the auditor can use to determine whether all cash received was recorded. You should read all of the reference material, especially the material on
sampling, to answer questions a. For income statement accounts, evidence is more reliable if there is a sample from the entire period, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit, such as a random sample from the entire period under audit and the entire period under audit 
preliminary judgment about materiality for the financial statements as a whole at $66,000 and is now in the process of setting performance materiality for asset accounts. In using the questionnaire, a "yes" response to a question indicates a possible internal control, whereas a "no" indicates a potential deficiency. The calculation of the direct
projection estimate of misstatement is: Total recorded Net misstatement ($31,500) × population value = Total sampled ($50,000) (Note that the direct projection of likely misstatement for accounts receivable of $12,000 is not illustrated.) The allowance for sampling risk
results because the auditor has sampled only a portion of the population and there is a risk that the sample does not accurately represent the population. Audit engagement software assists the auditor in selecting the procedures to be performed and other evidence decisions, based on identified risks and other audit planning decisions. For this
problem use the file labeled "Shipments" in the "Sales_and_collection" subfolder of the ACL_Rockwood project. Her experience will be essential in using this guideline. An individual auditor may not play a significant role in the audit of a listed company for more than five out of seven successive accounting years. The communication may, for example
inform the successor auditor that the client lacks integrity or that there have been disputes over accounting principles, audit procedures, or fees. Auditors should be alert for filler terms, given that they often suggest that the interviewee is hesitant or unable to respond to the inquiry. Identify the type of audit evidence used for each audit procedure.
The other auditor is still responsible for his or her own report and work in the event of a lawsuit or SEC action. If auditors were responsible for making certain that all the assertions in the statements would increase to such an extent that audits would increase the extent that audits would increase the extent that audits would increase the extent that a continuous that are the extent that a
not be economically practical. A significant risk represents an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. • Analyses from previous years of accounts that have continuing importance to the auditor. The general structure of the Framework remains unchanged,
but the updated Framework provides a principles-based approach that provides additional guidance on designing and implementing effective systems of internal control. When adjustments have been completed, the final year-end balances will be computed and posted to the general ledger. Recently a member of the audit committee of his client saw
the photos and demanded the resignation of Mr. Saplow. Commercially available audit software, such as ACL and IDEA, can be easily operated on auditors' desktop or laptop computers. 510) for the following three cases: 1 2 3 ARO (in percent) 5 4 4 EPER (in percent) 1 1 1 (3) Is there any difference in sample selection for
attributes and nonstatistical sampling? 15-8 (Objective, and is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective, and it is a long to see the audit objective.
potential for misstatement. In addition to writing books on auditing, he was a coauthor of computerized accounting supplements and he was actively involved in the continuing education of practitioners with local and regional CPA firms. One set is for the client's inventory counts, and the other is for the CPA's use to make audit test counts. financial
Statement cycleS ObjeCtive 6-6 Identify the benefits of a cycle approach to segmenting the audit. Situation 3 is at the opposite extreme. Using Population 4 as an illustration, how will you instruct your audit staff to respond to the result. The auditor tested those controls most recently in the 2015 audit. The cycles used in this text are listed below and
are then explained in detail. In addition, all employers in Hong Kong must comply with all legal obligations relating to the Mandatory Provident Fund ('MPF'), which include enrolling all employees in MPF schemes and making monthly MPF contributions for them. The second paragraph describes the scope of the audit and the evidence accumulated
 about the amounts and disclosures in the financial statements. The quantity of evidence obtained determines its sufficiency. Since the 1990s several changes in state and federal laws have favorably impacted the legal environment for the profession. Period Compensating Control Potential Misstatement None Duplicate sales recorded Materiality
Potentially material 12/31/16 Effect on Audit Evidence Use audit software to search for duplicate sales invoice numbers. Plan the sample 2. Describe whether the auditor is more concerned about the occurrence or completeness objective related to cash receipts. Identify the deficiencies in internal control that can be determined from the flowchart.
Likelihood of financial difficulties • Analyze the financial statements for financial statements are free of material misstatements. Second, most capital acquisition and repayment
cycle accounts involve few transactions, but each is often highly material and therefore should be audited extensively. Employees' time reports 3. For example, when the bank reconciliation is done by a person 386 Part 2 / The AudiT Process independent of the accounting records and handling of cash, there is an opportunity for verification without
incurring significant additional costs. Separate and proportionate liability The assessment against a defendant of that provisions that include various buy-back provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions and warranties that increase risks of material misstatement against a defendant of that provisions are defendant of the provisions are defendant of the provisions are defendant of the provision of the defendant of the defe
related to revenue recognition and receivables collection. $12,500 from Channel BTQ #16; 4. Management integrity • Follow the procedures that a CPA will use in an audit of purchasing transactions in order to assess the operating
 effectiveness of internal controls. For each control, identify which elements of the five categories of control over assets and records, or independent checks on performance). Review large sales returns and allowances before and after
the balance sheet date to determine whether they are recorded in the correct period. Although auditors need to consider the interrelationships between cycles, they typically treat cycles independently to the extent practical to manage complex audits effectively. During the delivery of materials, Mr. Smith, the receiving clerk, records the receipt of
shipment on this purchase order and then sends the purchase order to the accounting department, where it is used to record materials purchased and accounting methods, and this affects the comparability of data. The nature of the procedures may need to be modified to obtain audit
that the audit fee will be contingent upon the number of days required to complete the engagement. Chapter 11 / Internal Control and CoSo Framework 385 ROGUE TRADER CIRCUMVENTS CONTROLS CAUSING $7 BILLION IN LOSSES The size of the trading losses at French bank Société Générale were staggering. Three main factors influence
the organizational structure of all firms: Objective 2-2 Describe the structure of CPA firms. 1 The IAASB Web site can be accessed at www.iaasb.org. Contrast management's responsibilities for evaluating and reporting on internal control. In some cases, the auditor may even hire a
professional investigator to obtain information about the reputation and background of key members of management. Acting as an internal auditor of a private company, but we hire people to manage it." 8. The auditor's evaluation
of management's integrity. The population of items subject to negative confirmation procedures is made up of a large number of small, homogenous account balances, transactions, or other items. For example, assume the block sample will be a sequence of 100 sales transactions, or other items.
in 2008 led to audit report changes that became effective in 2012 in the United Kingdom, which are widely known as the "extended auditor's report." Audit reports of companies subject to the UK Corporate Governance Code must now include the following within their report: a. Define what constitutes a "related party." b. The Company's internal
control over financial reporting is a process designed under the supervision of its President and Chief Executive Officer and Chief Financial reporting and the preparation of the Company's financial reporting in accordance with accounting principles
generally accepted in the United States of America. part III Although the planning went well, the actual testing yielded some surprises. For which of the four scenarios would the sales returns and allowances business function not be applicable? As a result, the auditor chose a 5 percent TER for each of these attributes. The client indicates that it will
 not award additional engagements to the firm if the firm continues to disagree with the client on an accounting or tax matter. For example, when the auditor performs analytical process to the sAles And collection cycle case 16-
35 (Objectives 16-1, 16-3, 16-4, 16-5) You are auditing the sales and collection cycle for the Smalltown Regional Hospital, a small not-for-profit hospital. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In particular, ASIC is of the
view that Mr. Green failed to: obtain sufficient appropriate audit evidence in relation to the correct accounting treatment for various fees which resulted in a significantly material overstatement of ABC's revenue; to support the classification of income items—the consequence being that items not from the provision of childcare services were
incorrectly classified as revenue which resulted in the overstatement of ABC's revenue; to enable a reasonably competent auditor to conclude that ABC was a going concern; to support his conclusions with regard to related party transactions, property plant and equipment, wages and salaries, and to support his opinion that ABC's 2007 financial
report was free of material misstatement, adequately document the testing undertaken in respect to the risk of fraud, develop audit procedures to deal with assessed risks, perform sufficient and appropriate subsequent events procedures to deal with assessed risks, perform sufficient and appropriate subsequent events procedures, and use professional judgment and skepticism when auditing ABC's 2007 financial report. A general ledger trial
 balance is printed out, from which Khalid prepares financial statements. Search the accounts receivable master file for account balances with missing or unusual customer numbers (e.g., "888888"). It is possible to transfer the CPA designation from one state to another, but additional requirements often must be met for formal education, practice
experience, or continuing education. For example, an auditor might not assess either control risk or inherent risk below. The chapter also described attestation and assurance services, which include reports such as audits of historical financial statements and reports on the effectiveness of internal statement is low. The chapter also described attestation and assurance services, which include reports such as audits of historical financial statement is low. The chapter also described attestation and assurance services, which include reports on the effectiveness of internal statement is low.
control over financial reporting. The company has grown rapidly since its formation in October 2008. trace selected entries from the cash receipts journal to the description on the invoice and the price on the sales tag. Olson therefore
engages the services of Annaliese Haraldsson, CPA, who Olson knows has an extensive background in auditing automobile, bus, and trucking companies. perform the audit procedures The audit procedures by examining each item in the sample to determine whether it is consistent with the definition of the attribute and by
maintaining a record of all the exceptions found. Sign general cash disbursement checks. For example, management's estimates may have been clustered at the high end of the range of acceptable amounts in the prior year and at the low end in the current year. Identify and support two audit strengths. This latter approach is followed in Figure 15-3.
During December 2016, WRS signed a contract to lease disposal equipment from an entity owned by Tucker's parents. Many practitioners believe that the standards should provide more clearly defined guidelines for determining the extent of evidence to be accumulated. Variables statistical sampling methods include difference estimation, ratio
 estimation, and mean-per-unit estimation. The auditor also has the option to issue a disclaimer of opinion for a going concern problem. (5) Conclude whether there is any difference in the above 4 steps for nonstatistical sampling and attributes sampling. Chapter 13 summarizes Chapters 6 through 12 and integrates them with the remainder of the
text. Statistical Formula CPI 5 NZ A Illustration for Hart Lumber SD n N-n N where: CPI 5 computed precision interval N 5 population standard deviation n 5 sample size CPI 5 4,000 • 1.28 • $4,000 • 1.28 • $21.2 100 4,000 $21.2 • .99 10 5 4,000 • 1.28 • $2.12 100 4,000 $21.2 • .99 10 5 4,000 • 1.28 • $2.12 100 4,000 $21.2 • .99 10 5 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $21.2 100 4,000 $21.2 • .99 10 5 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 • $2.12 100 4,000 • 1.28 •
.99 5 $10,800 (rounded) N-n 5 finite correction factor N 6. One option is to perform the audit procedures separately, as shown in Table 12-1, where minimum procedures to obtain an understanding of design and operation are performed, followed by additional tests of controls. For example, nonresponses to positive confirmations do not provide audit
evidence. Identify the specific nature of the potential fraud and an audit procedure that you would perform to determine whether fraud is occurring. However, in this chapter, we do provide guidelines to illustrate the application of materiality. Nonroutine transactions Matters that require Significant Judgment Fraud risk As part of the auditor's
 assessment of the risk of material misstatement, whether due to fraud or error, auditing standards require the auditor's professional judgment, a significant risk. An hour later, he provided Chen with the shipping document, which appeared to be valid. For example, SEC and PCAOI
rules allow CPAs to provide tax services for audit clients, except for tax services for company executives who oversee financial reporting, and tax avoidance planning services. For example, an auditor may compare the gross margin percent in the current year with the preceding year's gross margin. As part of the auditor's risk assessment procedures
 the auditor uses procedures to obtain an understanding, which involve gathering evidence about the design of internal controls and whether they have been implemented, and then using that information as a basis for assessing control risk and for the integrated audit. Historically, the company presented no unusual audit problems, and BRS&B had
issued an unmodified opinion every year. Justify your answer. As a result, substantial losses were suffered by customers and shareholders of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of Whitlow & Company including Thaxton, who had recently purchased several shares of stock of the sto
 master file is reconciled to the general ledger (7). For each answer, document the paragraph(s) in AS No. 12 supporting your answer. If you need to audit sales returns and allowances, you should be able to apply the same logic to arrive at suitable controls, tests of controls, and substantive tests of transactions to verify the amounts. × Conclusion:
 Recorded allowance appears understated based on aging analysis. This recognition increases the likelihood that effective fraud prevention, deterrence, and detection programs and controls are implemented. Chapter 8 / Audit PlAnning And MAteriAlity 271 tabLe 8-1 examples of planning analysis.
 Industry 12/31/16 Hillsburg 12/31/15 Hillsburg 12/31/15 Industry 12/31/15 Short-term Debt-paying ability Cash ratio 0.06 0.22 0.06 0.20 Quick ratio 1.57 3.10 1.45 3.00 Current ratio 3.86 5.20 4.04 5.10 7.59 12.15 7.61 12.25 48.09 30.04 47.96 29.80 3.36 5.20 3.02 4.90 108.63 70.19 120.86 74.49 Debt to equity 1.73 2.51 1.98 2.53 Times interest earned 3.06 5.50 3.29
5.60 27.85 31.00 27.70 32.00 Profit margin 0.05 0.07 0.05 0.08 return on assets 0.09 0.08 0.09 return on common equity 0.26 0.37 0.24 0.35 Liquidity activity ratios Accounts receivable Inventory ability to Meet Long-term Obligations profitability ratios Gross profit ability ratios Gross profit ability ratios Gross profit accounts receivable Inventory ability ratios Accounts receivable Inventory ability ratios Gross profit ability ratios Gross profit ability ratios Gross profit accounts receivable Inventory ability ratios Accounts receivable Inventory ability ratios Gross profit ability ratios Gross profit ability ratios Gross profit ability ratios Accounts receivable Inventory ability ratios Gross profit ability gross profit ab
 percent Accept chent and perform initial audit planning Understand the chent's business and industry Perform preliminary analytical procedures Set preliminary ju-
                                                                                                                                                                                                                                ment of materiality and performance materiality Identify significant risks due to fraud or error Assess innerent risk Understand internal control and assess control risk Finalize overal
audit strategy and audit plan 272 auditors identified potential increased competition from national chains as a specific client business risk. Compare attributes 2 and 5. Sessions also planned to use substantive analytical procedures for tests of inventory. Her sample covered 95% of the total revenue of the company. Source: Public Company accounting
Oversight Board Staff audit Practice alert No. 12, Matters Related to Auditing Revenue in an Audit of Financial Statements, September 9, 2014 (pcaobus.org). Another example, where most accountants feel less qualified, is evaluating the efficiency, accuracy, and customer satisfaction in processing the distribution of letters and packages by a
company such as Federal Express. For example, the company may engage in financing transactions to avoid reporting liabilities on the balance sheet. When controls are done by computers, they are called automated controls. Why might it be important for you to consider current economic events as part of planning an audit? Material Part 1 / THE
AUDITING PROFESSION from the preface begins with 0, and content from part 1, part 2, and part 3 begin with the numbers 1, 2, and 3, respectively. Because the audit of internal control over financial statements and the audit of internal control over financial statements and the audit of internal control over financial statements.
audit report on the financial statements when issuing the audit report on internal control. Unlike for cash, the misstatements for accounts receivable and inventory are based on samples. A & M Sandler, Inc. With a debt liability of C$334 million, Livent sought bankruptcy protection in the US and Canada. The auditor must have the knowledge and skill
to accumulate sufficient appropriate evidence on every audit to meet the standards of the profession. The fraud amounted to US$10 million. 16-18 (Objective 16-5) Explain how unacceptable results from tests of details of balances. Arithmetic accuracy
test Checks the accuracy of processed data Does the sum of net pay plus withholdings equal gross pay for the entire payroll? Khalid uses this list and all the remittances to record cash receivable, again by computer. In the inventory example just given, assume the auditor believes there is also an overstatement of
$150,000 in accounts receivable. 454) shows the four phases for the entire audit process, and Table 13-7 (p. Fraud auditing is the focus of Chapter 10, which builds upon risk assessment of fraud risk. Many of these documents and records are
maintained in electronic rather than paper formats. The organizational structure of CPA firms was first discussed in Chapter 2. Obtain an aged list of receivables: trace accounts to the master file, foot schedule, and trace to general ledger Trace 20 items; foot two pages and all subtotals Random I X 2. The computer operators have programming
experience with the program language used in application programs. Trace a sample of shipping documents to related sales invoice entries in the sales journal. (Sampling/Evaluate Error; input the confidence level, sample size, and one error.) required Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 563 16
Chapter Learning Objectives Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable After studying this chapter, you should be able to 16-1 Describe the methodology 16-2 16-3 16-4 16-5 for designing tests of details of balances using the audit risk model. With cash and credit sales, company personnel should not debit accounts
receivable for a cash sale or credit sales for collection of a receivable. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States, and necessarily include amounts which are based on management's best estimates and judgments. The four subsequent parts are: • Identify significant
risks due to fraud or error (Chapters 9 and 10) • Assess inherent risk (Chapter 13) essential terms Acceptable audit risk—a measure of how willing the auditor is to accept that the financial statements may be
materially misstated after the audit is completed and an unmodified opinion has been issued Allocation of the preliminary judgment about materiality—the process of assigning to each balance sheet account the misstatement amount considered to be material for that account based on the auditor's preliminary judgment Audit strategy—overall
approach to the audit that considers the nature of the client, risk of significant misstatements, and other factors such as the number of client business risk—the risk that the client will fail to achieve its objectives related to (1) reliability of financial reporting, (2) effectiveness and efficiency of
operations, and (3) compliance with laws and regulations Chapter 8 / Audit Planning, Understand the Client's Business and Industry, Perform Preliminary Analytical Procedures, and Set Preliminary Judgment About Materiality and Performance
Materiality Applied to Hillsburg Hardware Co. MAJOR PART OF PLANNING New client and perform initial planning Understand the client's business and industry SUBPARTS OF PLANNING New client acceptance and continuance Hillsburg is a continuing audit client. (2) Materiality depends only on the dollar amount of an item relative to other
items in the financial statements. This is especially beneficial because Cullen spends most of her time working with user departments in a systems analyst role, identifying changes needed to existing applications. Assessing acceptable audit risk, client business risk, and risk of material misstatement is an important part of audit planning because it
helps determine the audit procedures and amount of evidence that will need to be accumulated, as well as the experience level of staff needed for the engagement. As the goods have been shipped to us on consignment, we will remit payment upon selling the goods. Each of these four steps is discussed in this chapter. tests of Controls The auditor's
understanding of internal control is used to assess control risk for each transaction-related audit objective is one of the other five objective is one of the other five objective. When the journals, master files, or ledgers are traced to or from a document, the objective is one of the other five objective.
problems and help the auditor take a final "objective look" at the audited financial statements. However, if the various components of internal control are examined, it becomes apparent that most are applicable to both large and small companies. SS LTD has its head office in New Delhi and manufacturing plants in Mumbai and Bangalore. expand the
Sample Size An increase in the sample size has the effect of decreasing sampling risk if the actual sample exception rate does not increase. The disclosure of possible fraud to parties other than the client's senior management and its audit committee ordinarily is not part of the auditor's responsibility. He tells nobody and spends the money on a new
wardrobe. doCumenTing The fraud assessment Auditing standards require that auditor's consideration of material misstatements due to fraud: • Significant decisions made during the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning the auditor's consideration of material misstatements due to fraud: • Significant decisions made during the discussion among engagement team personnel in planning team 
financial statements to material fraud, including how and when the discussion occurred and who participated. For a lower materiality level, more testing of details is required, and vice versa. The journal or listing can also include returns and allowances or there can be a separate journal or listing of those transactions. By the time the French bank
unwound the bets, it had lost $4.9 billion (about $7.4 billion), nearly destroying the 145-year-old bank. Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle information in the accounting records and comparing information on different documents. Madoff was secretive about his trading practices and marketed his funds to an
exclusive clientele. Adjust sample size 2. NA NA Y 7. Sample size 2. NA NA Y 7. Sample of exception except
not been considered an audit, the CPA had a duty to follow up on any potential significant exceptions uncovered during an engagement. For example, a properly designed electronic shipping record can be the basis for releasing goods from storage to the shipping department, informing billing of the quantity of goods to bill to the customer and the
appropriate billing date, and updating the perpetual inventory records. If the fraud by senior management is a material weakness, the auditor's report on internal control over financial reporting will contain an adverse opinion. She reconciles the branch account herself and files cancelled checks and bank statements in her records. Observation is
rarely sufficient by itself because of the risk of client personnel changing their behavior because of the auditor's presence. For example, when auditing an insurance company, the auditor must understand how loss reserves are calculated. employment of Immediate and Close Family Members Imagine the potential difficulty in maintaining
                                                                                                                                                                                          the balance in the bank account directly with the East State Bank. Gary, Indiana January 5, 2017 Atwater Brothers 19 South Main Street Middleton, Ohio 36947 To Whom It May Concern: In connection with an
independence and objectivity if the firm is asked to audit a client where the parent of the audit partner is chief executive officer. Ltd.
audit of our financial statements, please confirm directly to our auditors BERGER & ANTHONY, CPAs Gary, Indiana the correctness of the balance of your account with us as of December 31, 2016, as shown below. As we discussed in Chapter 6, auditing standards require that the audit be planned and performed with an attitude of professional
skepticism in all aspects of the engagement, recognizing the possibility that a material misstatement could exist regardless of the auditor's prior experience with the integrity and honesty of client management and those charged with governance. Substantive analytical procedures 452 As we first discussed in Chapter 7, analytical procedures involve
comparisons of recorded amounts to expectations developed by the auditor. "Yes, it had been a good week." We learned in the first chapter that auditing plays an important role in society by reducing information risk and facilitating access to capital and that audit firms provide additional, value-added service to their clients. Using the purchases
example, the matching of the purchase order, receiving report, and vendor's invoice can be automated and the computer can generate a list of exceptions, rather than an employee manually comparing. An account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than for an account with low inherent risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation than account risk has been assessed as high will result in more evidence accumulation account risk has been as a constant
risk. CiviL LiaBiLity under the FederaL seCurities Laws Objective 5-6 Describe accounting firms are less common, but a company can overstate income by omitting accounts payable and other liabilities. Certified public accounting firms are responsible for auditing
the historical financial statements of all publicly traded companies, most other reasonably large companies, and many smaller companies and noncommercial organizations. Without an understanding of these topics, planning and accumulating audit evidence during the audit has no relevance. Standard aUdit report and report on internal control over
financial reporting Under possible 3-3 Understand Sobjective 3-3 Understand reporting on financial statements and internal control under PCAOB auditing standards. However, in subsequent suits under Rule 10b-5, Worlds of Wonder (1994), and Software Toolworks (1994), two key Ninth Circuit court decisions stated that poor judgment is not proof
of fraud. Management assertion a. (1) Acts to be performed by the auditor (2) Measures of the quality of the auditor's performance (3) Procedures to be used to gather evidence to support financial statements (4) Audit objectives generally determined on audit engagements b. sampling foR exception Rates Objective 15-4 Define and describe audit
sampling for exception rates. What defense should Lauren Yost & Co. use in the suit by First City National Bank? Dodge is satisfied and classified and that allocations, reclassifications, and valuations are made in accordance with GAAP. For example, the relationship between cash as it is stated on the
financial statements, the working trial balance, the lead schedule for cash, and the supporting audit documentation is presented in Figure 7-4. Employee disclosures are by far the most common source of fraud detection. Each response in the list of controls may be used once, more than once, or not at all.* 14-30 (OBJeCtIVe 14-5) You have been asked
to perform the audit of sales and collection cycle of the following two companies: Company 1-Book Discovery is a family-owned bookstore selling both new and second-handed books in Hong Kong. auditor's Defenses against Client Suits The CPA firm normally uses one or a combination of four defenses when there are legal claims by clients: lack of
duty to perform the service, nonnegligent performance, contributory negligence, and absence of causal connection. Write the audit report. Relationships with Clients and Suppliers Employees should avoid
investing in or acquiring a financial interest in any business organization that has a contractual relationship with the organization. 9-19 (Objectives 9-5, 9-6) Explain the impact of engagement risk on acceptable audit risk. The AICPA and the PCAOB have made progress in dealing with the problems of inadequate CPA performance, but more rigorous
review of alleged failures is still needed. 7-5 (Objective 7-3) Explain why the auditor can be persuaded only with a reasonable level of assurance, rather than convinced, that the financial statements are correct. 4-14 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attestation services. 3-12 (Objective 3-7) Generally CPAs are prohibited from receiving commissions from the client seeking attention of the client seeking at
5) Describe the situations whereby the auditor has decided to place "Conditions Requiring Departures from Unmodified Opinion Audit Report" on their client's financial statements. Figure 12-3 Control Risk Matrix for Hillsburg Hardware Co. — Sales Credit is approved automatically by computer by comparison to authorized credit limits (C1), (See
page 99 in Chapter 4 on how auditor's documentation can be subpoenaed by a court.) Several states have statutes that permit privileged communication between the client and auditor. The point estimate is a direct extrapolation from the misstatements in the sample to the misstatements in the population. ultimately restated their financial
statements, their gross profit was actually higher than originally reported. the Scope of the audit has Been restricted (Scope Limitation) When the auditor has not accumulated sufficient appropriate evidence to conclude whether financial statements are stated in accordance with the appropriate financial reporting framework, a scope restriction
exists. e. The remaining 124 items will be 681 (661 + 20), 701 (681 + 20), and so on through item 3,141. Auditors need to understand the nature of the client's financial statements and ability to continue as a going concern. John got "credit" for the new business, which
was important to him because it would affect his compensation from the firm. For each control, list a specific misstatement that could result from the absence of the control. 72), the balance sheet is dated December 31, 2016, and the audit report is dated February 15, 2017. Each salesperson becomes involved in the sales process, and also acts as a
liaison between the customer and post-sale service areas. In contrast, analysis of financial results of major customers could be used as a key risk indicator of future collection cycle 503 methodology for designing tests of controls And suBstAntive tests of trAnsActions for cAsh receipts
ObjeCtive 14-5 Understand internal control, and design and perform tests of controls and substantive tests of transactions for cash receipts. The suits vary widely, including such claims as failure to discover an embezzlement (theft of assets),
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and breach of the confidentiality requirements of CPAs. Typically, the amount of these lawsuits is relatively small, and they do not receive the publicity often given to suits involving third parties. Adequately plan and supervise the performance of professional services. Under what conditions will this likely be a successful defense? As the story about
the audit of Images, Inc., demonstrates, auditors must correctly use sampling to avoid making incorrect conclusions about a population. The following are the most important causes of the addition of an emphasisof-matter paragraph or a modification in the wording of the standard unmodified opinion audit report under both AICPA and PCAOB audit
standards: • Lack of consistent application of generally accepted accounting principles • Substantial doubt about going concern • Auditor agrees with a departure from promulgated accounting principles • Emphasis of other matters • Reports involving other auditors The first four reports all require the addition of an explanatory paragraph. Use the
IAASB Web site to learn more about the IAASB and its standard-setting activities. 1 a. Moreover, their responses to the auditor's questions often reveal information on the likelihood of fraud. (4) informative disclosures in the financial statements be reasonably adequate. The smallest branch of Connor Cosmetics employs Mary Cooper, the branch
manager, and her sales assistant, Janet Hendrix. Later, during the tests of the ending balances, they will recalculate the ratio using full-year data. Gain an understanding of the client's business and industry. Auditors set a preliminary judgment about materiality to help plan the appropriate evidence to accumulate. (4) It concentrates on seeking
aspects of operations in which waste could be reduced by the introduction of controls. mulTiple choice QuesTions from cpA exAminATions 13-20 (Objectives 13-1, 13-5, Choose the best response. Use the following format to list and explain information that is relevant for the 2013 audit: required Salary Information relevant to 2013 audit audit action
required 1. Match the following audit work into the four phases in part a.: (1) Addressing balance-related audit objectives (2) Addressing balance-related audit objectives (3) Addressing balance-related audit objectives (3) Addressing balance-related audit objectives (4) Performing analytical procedures c. Required 7-29 (Objectives 7-3, 7-4) Nefret Stores is a large discount
cosmetic department store chain. You've wasted a whole day on that work, and we can't afford to spend any more time on it. As illustrated in Table 6-3, international auditing standards and AICPA auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards include three specific assertion in the PCAOB auditing standards in the PCAOB auditing s
AudiT Process discussion Questions and Problems 7-24 (Objective 7-4) The following are examples of documentation typically obtained by auditors: 1. To begin the evaluation of the allowance for uncollectible accounts, the auditor reviews the results of the tests of controls that are concerned with the client's credit policy. But, it could also be caused
by misstatements in the financial statements, such as sales or purchase cutoff errors, unrecorded sales, overstated accounts payable, or inventory costing errors. 0 4 Low 75 75 0 0 4.0 2. What does the auditor do in an audit other than verify the mathematical accounts payable, or inventory costing errors.
accepting a new client, most CPA firms investigate the company to determine its acceptability. This background will help you understand why auditors perform audits the way they do. He is also required during the period of suspension to: notify any employer of the EU and if he is retained directly by a client, then inform the client of the EU; regularly
report to ASIC any other audit and/or review work under the Corporations Act 2001 he undertakes outside of what only a registered auditor can perform, and participate, in each 12 month period, in an additional 15 hours of continuing professional development above the mandatory requirements of the ICAA. Auditors also gain insights into the
collectibility of the accounts by examining credit files, discussions with the credit manager, and review of the client's correspondence file. Inventory was highly significant to the financial statements, and Yost knew the inventory was highly significant to the financial statements, and Yost knew the inventory was highly significant to the financial statements, and Yost knew the inventory was pledged as collateral for a large loan to First City National Bank. How are the reports similar? †10. Accounts receivable for a large loan to First City National Bank.
in the aged trial balance agree with related master file amounts, and the total is correctly added and agrees with the general ledger. You are auditing Deep Clean Services for the first time. For example, suppose the parent of a staff member at the firm works as a controller at an audit client. C CONTROLS Shipping documents are prenumbered and
accounted for weekly (C5). 434 Part 2 / The AudiT Process discussiOn QuestiOns and PrOblems 12-19 (Objectives 12-2, 12-3, 12-4) Each of the following internal control risk in the payroll and personnel cycle. Acceptable audit risk and inherent risk
are discussed in greater detail later in this chapter. The following is a description of the purchasing system of Taylor Electronics: 1. If the bank officer is satisfied that there is minimal information risk because a borrower's financial statements are audited, the bank's risk is substantially reduced and the overall interest rate to the borrower can be
reduced. required Chapter 6 / Audit Responsibilities And objeCtives 197 6-26 (ObjeCtive 6-4) The following information was obtained from several accounting and auditing enforcement releases issued by the Securities and Exchange Commission (SEC) after its investigation of fraudulent f inancial reporting involving ABC, Inc., was an
international retailer of gym wear based in Perth, Australia. Assume that the auditor can demonstrate that a lender relied on an ongoing banking relationship with a customer, rather than the financial statements, in making a loan. The percentage can be calculated by determining the number of standard errors between any two values and
determining the percentage of sample means represented from a table for normal curves. These policies and procedures are often called controls, and collectively, they make up the entity's internal control. While touring the warehouse, you notice a section of solar-powered engines that do not look like the ones advertised on Pinnacle's Web site
Yamamura, University of Nevada, Reno Doug Ziegenfuss, Old Dominion University We especially thank the Pearson book team for their hard work and dedication, including Ellen Geary, Acquisitions Editor; Daniel Petrino, Program Manager; Christine Donovan, Editorial Assistant; Donna Battista, Vice President of Business Publishing; Maggie Moylan
Vice President, Product Marketing; Natalie Wagner, Senior Field Marketer; Jessica Ouazza, Product Management; Roberta Sherman, Project Management; Roberta Sher
auditor may benefit from first thinking about the important issues associated with this transaction, such as whether the terms of the transaction support its inclusion as revenue in the financial statements, whether there are unique valuation concerns associated with related receivables, and whether any unique disclosures should be made in light of
its unusual nature. The cards will be processed against the inventory database, and quantity-on-hand figures will be adjusted to reflect the actual count. Smaller company to company to company to company, and many reliable providers of payroll services are available. Auditors
need to use considerable professional judgment to decide the specific effects of such a change on auditor is not responsible for detection. These risks significantly influence the conduct and cost of audits.
To cash disbursements in controller's division for payment. Compare Client Data with Similar PriorPeriod Data Suppose that the gross margin percent for each of the past four years but has dropped to 23 percent in the current year. Where would you find the applicable guidance in the Code?
Holmes told the students not to spend time reviewing internal controls but instead to concentrate on proving the mathematical accuracy of the ledger accounts and summarizing the data in the accounting records that supported Ray's financial statements. Figure 3-10 shows an example of a qualified opinion when a client did not capitalize leases as
required by GAAP. Before doing so, key terminology are defined and summarized in Table 15-1. Review sales order for evidence of approval in relation to credit limits. In either case, the result is a misstatement of information. An inventory item on a client's inventory listing can be wrong because the number of units of inventory on hand was
misstated, the unit price was wrong, or the total was incorrectly extended. To make things worse, the internal audit was not aware of the reject as the manager in charge of the department was a fresh graduate and had little working experience dealing with engineering issues. Whether testing controls or ending balances, the auditor compares the
output from the auditor's software to output from the client's system to test the effectiveness of the client's Application System Production Transactions Master File Auditor-Prepared Program Client Application System Programs Auditor
Results Client Results Auditor Makes Comparisons Between Client's Application System Output and the Auditor-Prepared Program Output Exception Report Noting Differences 428 Part 2 / The Audit Process tabLe 12- 2 Common Uses of Generalized Audit Software Uses Description Examples verify extensions and footings verify the accuracy of the
client's computations by calculating information independently Foot accounts receivable trial balance Examine records for quality, completeness, consistency, and correctness Scan all records using specified criteria Review payroll files for terminated employees Compare data on separate files Determine that information in two or more data files
agrees Compare changes in accounts receivable balances between two dates using sales and cash receipts in transaction files Summarize or resequence inventory items by location to facilitate physical observation Select audit samples from machine-readable data Randomlyses Change or aggregate data Randomlyses
select accounts receivable for confirmation Print confirmation Print confirmation requests Print data for sample items selected for confirmation testing Print customer name, address, and account balance information from master files Compare data obtained through other audit procedures with company records Compare machine-readable data with audit evidence
gathered manually, which is converted to machine-readable form Compare confirmation responses with accounts receivable master files to determine if the client's balance is correct. required 1-17 (ObjeCtive 1-1) Gregor Olson works at the National Bank branch in Copenhagen. Management refuses to write-off the products or to increase the reserve
for obsolescence. When violations are found, the PCAOB can impose appropriate sanctions, including suspension or revocation of a firm's registered public accounting firm, and monetary penalties. Accounts receivable turnover has declined slightly and is lower than the
industry average. Is this a violation of the AICPA Code of Professional Conduct? Auditors routinely perform audits of quantifiable information, including companies' financial statements and individuals' federal income tax returns. In this example, responsibility for designing and controlling accounting software programs that contain the sales
authorization and posting controls should be under the authority of IT, whereas the ability to update information in the master file of customer credit limits should reside in the company's credit department outside the IT function. Companies that maintain perpetual inventory records also update them based on shipping records. Chapter 6 / Auditoria function in the master file of customer credit limits should reside in the company's credit department outside the IT function.
Responsibilities And objeCtives 169 IN tHE Matter OF rOBErt PINkaS Pinkas misappropriated $173,000 from a fund client to pay the costs of defending himself in an unrelated commission investigation. Application programs tested by auditors' test data must be the same as those the client used throughout the year. C Prelisting of cash is not used to
verify recorded cash receipts (D1). 454) shows the key components of these four phases of the audit process. Moody's Investors Service and Standard & Poor's Ratings Services have since downgraded Petrobras debt to junk. Its headquarter is in Singapore. Copyright by american Institute of CPas. Even more important than expulsion from the AICPA
are the rules of conduct, similar to those of the AICPA, that have been enacted by the Board of Accountancy of each of the 50 states. • Perform in the manner requested. The results of balances. If the recorded sale was for a valid shipment but the amount was calculated
incorrectly, there is a violation of the accuracy objective but not of the occurrence objective. A major consideration of staffing is the need for continuity from year to year. A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall
disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates. A number of organizations outsource or co-source their internal audit function to CPA firms. Everhart Co. 7. We have always emphasized understanding the client's business and industry in planning. For each of
the services listed above, indicate the type of service from the list that follows. When an auditor traces an entry from the sales journal to the master file, it is a posting and summarization procedure. 422 Part 2 / The AudiT Process Figure 12-6 Letter Regarding Significant Deficiencies in Internal Control JOHNSON AND SEYGROVES Certified Public
Accountants 2016 Village Boulevard Troy, Michigan 48801 In planning and performing our audit of the financial statements of Airtight Machine Company as of and for the year ended December 31, 2016, in accordance with auditing standards
generally accepted in the United States of America, we considered Airtight Machine Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expressing and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate in the circumstances for the purpose of expression and its procedures that are appropriate to the circumstances for the circ
opinion on the effectiveness of Airtight Machine Company's internal control. Distinguish between a confirmation is disclosed to the member's client or employer. The most important benefits of industry comparisons are to aid in
understanding the client's business and as an indication of the likelihood of financial failure. The most important type of protective measure for safeguarding assets and records is the use of physical precautions. The auditor also considers other factors such as the Part 2 / The AudiT Process Figure 8-2 Engagement Letter HILYER AND RIDDLE, CPAs
Macon, Georgia 31212 June 14, 2016 Mr. Chuck Milsaps, President Babb Clothing Co., which comprise the balance sheet as of December 31, 2016, and the related statements of income, changes in stockholders'
equlity, and cash flows for the year then ended, and the related notes to the financial statements. 10-30 (Objective 10-5) The following audit procedures are included in the audit procedures are included in the audit procedures are included in the audit procedures, auditors employ a
combination of the four remaining types of tests. The approach for an integrated audit of a public company under PCAOB auditing standards is consistent with the approach to an integrated audit of a public company under PCAOB auditing standards. For example, when there is a risk that sales terms may have been altered to prematurely record
revenues, the auditor may modify the accounts receivable confirmation requests to obtain more detailed responses from customers about specific terms of the transactions, such as payment, transfer of custody, and return policy terms. Obtain the relevant facts. through f. Controls are ineffective 4. Certified Fraud Examiners (CFEs) have expertise in
fraud prevention, detection, and deterrence, and are trained to identify the warning signs of fraud and increased fraud risk. 00377; 2. S. 17-21 (Objectives 17-3, 17-4, 17-5) The following would not be considered to be an analytical procedure? The auditor will
consider the same three factors included in the previous discussion about materiality decisions for failure to follow GAAP, but they will be considered differently. While the audit engagement is between the client and the audit firm, both parties are aware the bank will be relying on the audited financial statements. and if they do, they
are filled out incorrectly! I don't have time for all of this follow up." The senior enlisted the help of the staff auditor on the engagement, who assisted with the follow up of confirmations. Source: Data from Accounting Today (www.accountingtoday.com). Planned Audit Actual Results EPER TER ARO Initial sample size 1. Chapter 16 / Completing the
tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 577 2. Confirmation is costly because the auditor must follow careful procedures in the confirmation preparation, transmittal, receipt, and in the follow-up of nonresponses and exceptions. Messrs Roger Yue, Tan & Associates was the hired auditor for United U-Li at the time. International
Standards on auditing aICpa auditing Standards 56 Auditing standards provide requirements and application and other explanatory material to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. Weak internal controls was the most often cited opportunity, as shown in Figure 10-2. Person B faces
the same situation but responds differently. This decision will be based on such factors as previous financial relationships with the business and the financial condition of the business as reflected by its financial relationships with the business and the financial condition of the business and the financial condition of the business as reflected by its financial relationships with the business and the financial condition of the business and the financial condition of the business and the financial condition of the business as reflected by its financial relationships with the business and the financial condition of the business and the financial condition of the business as reflected by its financial relationships with the business and the financial condition of the business and the financial condition
allocation—assets, liability, equity, revenue, and expense components have been included in the financial statements at appropriate amounts. (4) Materiality is a matter of professional judgment. • Trial balance or list. A useful audit procedure to test whether all recorded cash receipts have been deposited in the bank account is a proof of cash
receipts. You are in charge of auditing the inventory cycle, while your colleague is in charge of auditing the revenue cycle. When substantive analytical procedures in the sales and collection cycle uncover unusual fluctuations, however, the auditor should make additional inquiries of management. The Financial Accounting Standards Board (FASB)
recently clarified that management should consider the ability of the entity to continue its operations for a reasonable period not to exceed 1 year from the date the financial statements are issued. Identify three or more assurance services that are likely to be provided only by public accounting firms. Recall that analytical procedures are also required
at the completion of the audit, which is why they are included in Phase Iv. It may appear unusual to have tests of details of balances included in Phase Iv. We will explain the nature of the procedures auditors use during completing the audit in Chapter 24, including meeting the presentation and disclosure-related objectives. Such preliminary tests can
reveal unusual changes in ratios compared to prior years, or to industry averages, and help the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements that require further attention during the auditor identify areas with increased risk of misstatements are attention during the auditor identified at a substantial doubt about a substantial doubt a substantial d
related audit objective is shown in the second row from the bottom. The hospital has several large loans payable to local banks, and the two banks have told management that they are reluctant to extend more credit, especially considering the modern hospital that is being built in a nearby city. Let's focus on designing audit programs to satisfy
transaction-related and balancerelated audit objectives. (4) expand tests of collectibility. Material Versus Immaterial Misstatements would likely have changed or influenced the decisions of a reasonable person using the statements
Every company listed on the bourse must publish annual reports, disclosure reports and interim reports among others on the website. Auditors must make sure that Jackson's asserted claim is without merit. The usefulness of
analytical procedures as audit evidence depends significantly on appropriate comparison data. A1. Examples include using a diamond expert in evaluating the replacement cost of diamonds and an actuary for determining the appropriate comparison data.
of the audit can indicate potential misstatements for several balance-related audit objectives, requiring a revision of the audit plan to gather additional evidence. Requirements for Retention of Audit Documentation Auditing standards require that records for audits of private companies be retained for a minimum of five years. • Read minutes of board
of directors meetings to determine future plans. However, they must take care to avoid incorrect conclusions, remembering that the true population value is always unknown. (2) Only the six largest national/regional firms are listed. Lack of Duty The lack of duty to perform the service means that the CPA firm claims that there was no implied or
expressed contract. Therefore, an auditor is negligent if the results of the preceding year's audit are ignored during the development of the current year's audit program. The nature and extent of the preceding year's audit are ignored during the development of the two previous phases. Figure 6-1 summarizes the five topics that provide keys to understanding evidence
accumulation. Earnings per share .68 .13 .09 .05 $4.30 .64 .14 a. • Makes sure that time. The average interest rate on these short-term borrowings in 2016 was
approximately 10.5% Cash provided by operating activities for 2016 and 2015 was $4,910,000 and $4,146,000 respectively. Cash is deposited weekly. Because of the nature of audit evidence and the cost considerations of doing an audit, it is unlikely that the auditor will be completely convinced that the opinion is correct. Is an independent
verification of processes performed? Cancelled notes payable 10. The absolute amounts of depreciation expense as a percent of gross fixed assets are significantly smaller than in the preceding year. After several years, the university rotated Sam to another lot. • Maintain independence. (2) evaluate management's
performance in causing this decline. An auditor reviews aged accounts receivable to assess likelihood of collection to support management's assertion about account balances of (1) existence. Therefore, there is a risk that they may not be valued at the same amount as a transaction with an independent third party. Mohrweis, Northern Arizona
University Norma Montague, Wake Forest University Curtis Mullis, University of Alabama Patricia M. A test of control has no meaning unless it tests a specific control. Companies typically use one or a combination of the following two test approaches: 1. (4) assess control risk. Balances and transactions affecting those Balances for accounts
receivable Accounts Receivable (in thousands) Beginning balance $ 17,521 Sales $144,328 Ending balance $ 17,521 Sales returns and allowances $ 3,323 Charge-off of uncollectible accounts $ 20,197 Chapter 6 / Audit Responsibilities And objectives 181 Throughout this text, the term audit objectives refers to transaction
related, balance-related, and presentation and disclosure-related audit objectives. audit committee has primary responsibility to oversee the organization's financial reporting and internal control processes. 12-15 (Objective 12-7) Explain what is meant by embedded audit module approach and state one common use of
such approach in the sales and collection cycle. The nominations for officers were made as follows: President—Rabi Fayed Secretary-treasurer—Wasim Aziz The nominees were elected by unanimous voice vote. 1 5 Low 100 4. If sales and accounts receivable are based on predictable
relationships with nonfinancial data, the auditor often uses that information for analytical procedures. But there were enough danger signals in the materials which he did examine to require some further investigation on his part ... 58-68. Having this information in the permanent files enables the auditor of enough danger signals in the materials which he did examine to require some further investigation on his part ... 58-68.
in the current year's balance while retaining the results of previous years' audits in a form accessible for review. The key parts in the description of auditing are illustrated in Figure 1-1 using an IRS agent's audit of an individual's tax return as an example. The third paragraph is the opinion paragraph and is similar to the opinion paragraph included
in Figure 3-1. If a customer's payment is stolen, regular billing of unpaid accounts will quickly uncover the fraud. Management must disclose any material weakness in internal control. In some cases, auditors did not test, or test sufficiently, revenues at locations that had specific risks, including fraud risks. (Completeness) 4. A misstatement is
considered material if knowledge of the misstatement will affect a decision of a reasonable user of the financial statements. The persuasiveness of the evidence depends on both its appropriateness and sufficiency. • Examination of supporting documents. CPA firms continue to develop new products and services, such as financial planning, businesses of the evidence depends on both its appropriateness and sufficiency.
auditor to obtain complete assurance about the correctness of each class of transactions, resulting in less than complete assurance about the ending balance in accounts receivable. COMMON-SIZE INCOME STATEMENT Three Years Ending December 31, 2016 (000) % of Preliminary Net Sales 2014 2015 (000) Audited % of Net Sales (000)
Indiana The balance receivable from us of $210,389 as of December 31, 2016, is correct except as noted below: Date By fewer timing differences and other reconciling items than balance confirmations. The court found in favor of this plaintiff. Common financial reporting frameworks include U.S. generally accepted accounting principles and
auditor incorrectly accepted the population because the sample was not sufficiently representative of the population under the 1934 act is Rule 10b-5. • The capital acquisition and repayment cycle is closely related to the acquisition and payment cycle. A
member in public practice should be independent in fact and appearance when providing auditing and other attestation services. McClain Plastics makes products that have plastic as their primary material. While reading the footnotes of the previous year's financial statements, you note that one customer, Auto-Electro, accounts for nearly 15% of these products that have plastic as their primary material.
company's accounts receivable balance. multiple ChoiCe Questions from Cpa and Cia examinations 17-19 (Objective 17-2) The following questions relate to determining sample size in tests of details of balances. The balance is owned by about 20 stockholders, Part 2 / The AudiT Process who are investors with no operational responsibilities. While the
core business functions for the sales and collection cycle discussed in this chapter are generally relevant to all organizations, the underlying business processes and related documents are not material so he selected the samples from local sales with
larger amounts. The owner of Michael Travel lives in the same neighborhood as the CEO of ABC Outing. If only one internal control is used to support a low control risk assessment for an objective, TER will be lower for the attribute than if multiple controls are used to support a low control risk assessment for the same objective. Describe the
relations among international auditing standards, AICPA auditing standards, AICPA auditing standards, and PCAOB auditing standards. The client began selling products online to customers through its Web page during the year under audit. If a significant number of misstatements occurred that are inconsistent with the assessment of control risk, it is necessary to revise the
assessment and consider the effect of the revision on the audit. They map directly to four of the five PCAOB auditing objectives. Educate users about the limits of auditing Objective 5-8 Describe how the profession and individual CPAs can reduce the threat
used to record another sale. Relative audit costs affect the allocation. Source: PCaOB Staff Practice alert No. 10, Maintaining and Applying Professional Skepticism in Audits, December 4, 2012 (pcaobus.org). Obtain an understanding with the client about the terms of the engagement in order to avoid misunderstandings. Securities and Exchange
Commission Accounting and Auditing Enforcement Release No. 1542 (April 11, 2002); 2. Agreed to prior year audit workpapers. On opening day, massive demand for the stock on the NASDAQ Stock Market. In 2011, the CPA firm decided (based on the risk
assessment) to send a total of 30 positive confirmations to selected companies listed as accounts receivable on the balance sheet. Use of the tables When auditor makes inquiries, observes activities, and examines completed
documents and records. In contrast, when management assigns technology issues exclusively to lower-level employees or outside consultants, an implied message is sent that IT is not a high priority. bill of lading file. 584 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Audit Objectives and Audit Process to the sAles And collection cycle tabLe 16-4 Balance-Related Audit Objectives and Objectives an
Program for Hillsburg Hardware Co. — Sales and Collection Cycle (Design Format) Balance agree with related master file amounts, and the total is correctly added and agrees with the general ledger (detail tie-in). How does this affect your assessment of control
known population: 1. Inventory Fraud risks Fraudulent Financial reporting risk for Inventory Fraudulent Financial reporting. Source: Based on Sawyer's Internal Auditing, 5th Edition, copyright 2003. Political scandals result from the desire for political power; cheating on tax returns
and expense reports is motivated by financial greed; performing below one's competence and cheating on tests typically arise from laziness. In a typical approach to stratification for selecting the balances for confirmation, an auditor considers both the dollar size of individual accounts and the length of time an account has been outstanding. An
controls, and tests of controls are performed in an audit of internal control over financial reporting. A related party transaction between the client and a related party. This test will be effective only if a prelisting or other record of payments was prepared at the time payments were received. This strategy considers the nature of the
client's business and industry, including areas where there is greater risk of significant misstatements. In other situations not involving the audit of an accelerated filer public company, the auditor may rely far less on internal controls but, as was shown in Chapter 12, will still need to understand the internal controls over sales and cash receipts. If
tolerable misstatement is $40,000, the population is not acceptable. Cast the balances to the Accounts Receivables subledger and compare the total with the general ledger. Some organizational structures afford a degree of protection to individual firm members. The misstatement could be incorrect dollar amounts or inadequate or incomplete
disclosures of information. (Rights) a. Estimate the total misstatement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the income statement in accounts payable in the same way you did for the sam
procedures are most likely to be used to verify accounts receivable written off as uncollectible? What transaction-related and balance-related audit objectives would the auditors be most concerned about based on the process currently in place? It differs from an analysis in that it includes only those items making up the end-of-the-period balance. 232
extensively by actual and potential creditors than when there are few liabilities. The drug was expensive to make, but the company was charging twenty times what it cost to make and develop. It can be improved only by selecting audit procedures that are more relevant or provide more reliable evidence. Arens Alvin A. No new loans are permitted
however. What is the role of the shipping document in invoicing customers? Queen Mining Company-The company operates a number of mines in various regions. Table 3-1 summarizes the relationship between materiality and the type of opinion to be issued. The accounts receivable clerk stole checks received in the mail and deposited them in an
account that he controlled. What organization is responsible for establishing auditing standards internationally? I've been here a year and they were here when I first arrived." Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 335 3. Explain why the interest rate for the loan that requires a review report is lower than that for the loan that
does not require a review. To counter the risks of unauthorized, inaccurate, and incomplete data files, companies must implement proper database administration and access controls because each offers different information. In evaluating the significance of a threat
the member should determine whether the threat is at an acceptable level. Describe what constitutes "ethics" and highlight the challenges of developing a set of rules and guidance to increase ethical behavior in society. The sales ledger clerk was having a long holiday during Christmas times. Source: Securities and Exchange Commission Accounting
and Auditing Enforcement Release No. 3502, September 30, 2013 (www.sec.gov). For example, the external users' decisions rely upon financial statements is usually related to the overall financial statements, not just one or two accounts. Clarion then decided to offer $2.5 million of Clarion common stock to the public pursuant to the
registration requirements of the Securities Act of 1933. When this occurs, it is common for auditors to interpolate to estimate the data points that fall between those listed in the table. Which of (1) through (7) are prohibited by the AICPA Code of Professional Conduct? Three main types of revenue manipulations are: 1. Procedures to obtain an
understanding are performed only on one or a few transactions or, in the case of observations, at a single point in time. Why does attribute 1 have the smaller sample size? Congressional hearings were called to examine and understand the fraud, and everyone asked, "Where were the auditors?" The accounting profession was under immense political
pressure from reform-minded lawmakers, and the negative publicity surrounding the perceived audit failure cast all CPAs in the most unfavorable light. Each month Khalid mails computer-generated statements to customers. The mean value of all the sample means is equal to the population mean (X). Indicate the accounts most likely to be affected
by the identified fraud risks. In these circumstances, it is necessary to issue a disclaimer of opinion or an adverse opinion, depending on whether a scope limitation or GAAP departure is involved. Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in
internal control that might be significant deficiencies or material weaknesses. Because of the complexities of the underlying accounting team. 8566 Billing is for $100 less than it should be due to an unintentional pricing
error. An auditor is performing substantive tests of controls for sales. You conclude that the valuation specialist's work provides sufficient appropriate audit evidence. The materials are transported to the storage area by forklifts. Design tests of Controls for Sales 496 For each key control, one or more tests of controls must be designed to verify its
effectiveness. The main differences among tests of controls, substantive tests of transactions, and tests of details of balances are in what the auditor wants to measure. He also contacts customers about uncollected accounts receivable. It is common for clients to misstate cutoff either by error or through fraud. For example, some states have retained
check is prepared to pay for acquisitions by the accounts payable department, the related purchase order and receiving report are attached to the vendor's invoice being paid. This standard of due care is often called the prudent person concept. Nature of the Item The decision of a user may also be affected by the kind of misstatement. Other risks
might be company specific. responding To The risk of fraud When the auditor identifies risks of material misstatements due to fraud, auditing standards require the auditor to develop responses to those risks at three levels: overall responses at the assertion level, and responses related to management override. be cautious when they start
financial statements mostly for management's internal use. (1) Control environment (2) Information and communication (4) Monitoring c. Book Discovery makes most of its sales during the weekends. 532 for an illustration to verify the
existence and accuracy of individual sales transactions making up the ending balance in accounts receivable: Subsequent to the confirma- tion date includes examining remittance advices, entries in the cash receipts records, or perhaps even subsequent credits in the accounts receivable
master file. What inherent risks are you concerned about? If ABC promoted a particular supplier typically would consider agreeing to provide an "advertisements, that supplier typically would consider agreeing to provide an tributes. 4 is
the Deloitte Professor of Enterprise Risk Management and Professor of Accounting at North Carolina State University. The act requires such a brokerage firm to file auditors' actions only when they conclude that a
population is not fairly stated. What advantages did the substantive approach have over the reducing control risk approach? This assessment will then impact the audit plan and the nature, timing, and extent of audit procedures. Internal control guestionnaires, flowcharts, and walkthroughs are useful tools to identify where controls are lacking and
the likelihood of misstatement is therefore increased. The wording of the opinion and the nature of the paragraph explaining the reason for a modified opinion are similar under PCAOB auditing standards. For example, some financial reporting controls only operate at the end of the fiscal year, or quarterly, as opposed to operating on a daily basis.
467). (4) Annaliese Haraldsson, CPA, appears qualified, as a competent, independent person. If the auditor traces from receiving reports to the acquisitions journal to satisfy the completeness objective, this latter process is called tracing. Holmes immediately accepted the engagement and agreed to provide an auditor's report within three weeks.
actions are taken to correct deficiencies as they are identified. (c) What framework did management use to evaluate its internal control? • Part IV—Understand internal control and assess control are to evaluate its internal control? • Part IV—Understand internal control and assess control are to evaluate its internal control? • Part IV—Understand internal control? • Part IV—Understand internal control and assess control are to evaluate its internal control? • Part IV—Understand internal control? • Part IV—Understand internal control are to evaluate its internal control? • Part IV—Understand inter
be competitive and profitable. You were only supposed to look at the items over $20,000 plus 5 or 10 little ones. Several aspects of materiality must be considered. Update the general ledger at the end of each month and review all accounts for unexpected balances. An auditor uses assessed control risk to (1) evaluate the effectiveness of the entity's
the result of deposits in transit and other items, but the amounts can be reconciled and compared. A company that has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain why it has not adopted such a code must disclose this fact and explain which is a code must disclose this fact and explain which is a code must disclose this fact and explain which is a code must disclose this fact and explain which is a code must disclose the code must dis
of Financial Statements When the Auditor Expresses an Unqualified Opinion," PCAOB Release No. 2013-005, August 13, 2013, PCAOB Rulemaking Docket Matter No. 34 (www.pcaobus.org); 2. Terms Used in Audit Sampling Term Definition terms related to planning Characteristic or attribute The characteristic being tested in the application
willing to conclude the control is operating effectively and/or the amount of monetary misstatements in the transactions established during planning is acceptable Estimated population exception rate (EPER) Exception rate that the auditor expects to find in the population before testing begins Initial sample size decided after considering
the above factors in planning terms related to evaluating results Exception from the attribute in a sample exception rate (CUER) The highest estimated exception rate in the population at a given ARO Chapter 15 / Audit
Compare dates of recorded acquisitions with dates on receiving reports. • Noncompliance may involve actions to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls, or intentional misrepresentations made to the auditor. These firms are large but considerably smaller than the Big Four. Net
income before taxes is often the primary benchmark for deciding what is material for profit-oriented businesses because it is regarded as a critical item of information for users. Because of our marketing and customer relations strategy, we make significant investments in ongoing training and professional development activities. Describe the fraud
experience an increase in sales returns when it launches a new product. However, the parts are connected in such a way that in completing all seven, you will gain a better understanding of how the parts of the audit are interrelated and integrated by the audit are interrelated and integrated by the audit process. 1-8 (ObjeCtives 1-1, 1-7) Provide examples of different forms of evidence Aisha therefore an increase in sales returns when it launches a new product. However, the parts of the audit are interrelated and integrated by the audit are integrated by the 
tax auditor will need in the audit the tax returns of Kimmie Berhad. The following four steps describe the calculation of the confidence limits for Hart Lumber Company. Thirty percent of the sample ($160,000) was found to relate to the prior year, indicating a potential unrecorded liability of approximately $500,000. 326) outline examples of the fraudit the tax returns of Kimmie Berhad. The following four steps describe the calculation of the confidence limits for Hart Lumber Company.
risk factors auditors consider. Simultaneously with the move toward international convergence, the ASB Clarity Project was intended to make the U.S. auditing standards easier to read, understand, and apply. When controls and substantive
procedures to obtain reasonable assurance that the financial statements are fairly stated. Opinion paragraph. From the summary created in part b. Procedures to obtain an understanding of internal control generally do not provide sufficient appropriate evidence that a control is operating effectively. State your audit concerns related to purchases
without a requisition. For example, information obtained during the client acceptance or continuance evaluation process, such as discussions with predecessor Publicly traded companies must file an annual report in a Form 10-K each year with the Securities and Exchange Commission (SEC). Examples include taking prospective clients to lunch to
explain the CPA's services, offering seminars on current tax law changes to potential clients, and advertising on an Internet site. Receivables that have become uncollectible have been written off. (1) Sales invoices represent existing sales. 3. Assessing control risk and performing detailed audit tests of actual data are usually done to minimize this
concern. (2) sufficient appropriate audit evidence to afford a reasonable basis for the auditor's opinion, without the need for additional evidence. Some firms use a different primary benchmark, or when the entity is a not-for-profit
                                                                              loyee errors and simple fraud, but not for discovering fraudulent acts involving employee collusion or management override. The prudent person concept (discussed on page 117) establishes in law that the CPA firm is not expected to be infallible. More sophisticated controls only allow
physical and online access after employee fingerprints are read or employee retinas are scanned and matched with an approved database. These approaches are discussed further later in the chapter when we discuss controls in more complex IT environments. (1) There are numerous delays in preparing timely internal financial reports. It is intended
for either a one-quarter or one-semester course at the undergraduate or graduate level. The only potential misstatement indicated in these two tables is in the allowance for uncollectible accounts. She was working on the audit of Delancey Fabrics, a textile manufacturer with a calendar year-end. Use $100 as the minimum value and $100,000 as the
maximum value, and create 10 strata. Internal Control Questionnaire An internal control deficiencies. Carol documented in her working paper that no exceptions were noted in the cycle. In Table 9-1, inherent risk (A) was assessed
high for acquisitions and payments and inventory and warehousing and lower for payroll and personnel and capital acquisition and repayment. However, many of the ethical values found in Figure 4-1, such as carring, cannot be incorporated into laws because they cannot be defined well enough to be enforced. There is always a risk that even an
honest person can rationalize fraudulent actions when incentives or pressures become extreme. The nature of the accounts may vary, of course, depending on the industry and client involved. She lost her savings due to the failure of the accounts may vary, of course, depending on the industry and client involved. She lost her savings due to the failure of the accounts may vary, of course, depending on the industry and client involved. She lost her savings due to the failure of the accounts may vary, of course, depending on the industry and client involved.
costing tickets as direct labor per the cost accounting system. Management has failed to follow GAAP, but if the amounts are small, the misstatement is immaterial and a standard unmodified opinion audit report is appropriate. Several factors determine the appropriate sample size in audits. Additionally, each chapter identifies new or revised
Discussion Questions and Problems that instructors can use in class to generate discussion about important topics addressed in each chapter. Levels of Materiality Materiality Materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances. Observation provides evidence about the performance of a process
or procedure but is limited to the point in time at which the observation takes place. The audit approach BRS&B always used on the audit of McClain Plastics was a "substantive" audit approach. When developing a new SAS, the ASB uses the ISA as the base standard and then modifies that base standard only when modifications are appropriate for
the U.S. environment. This is not to say that he should have made a complete audit. If top management believes that control is important, others in the organization will sense this commitment and respond by conscientiously observing the controls.
quantify the allowance for sampling risk and the upper exception rate. The signature identifies the CPA firm or practitioner who performed the audit. Is there independent comparison of recorded sales to the chart of accounts? Determine the number of payroll transactions in the file. This conclusion should not be surprising. "SFC obtains court order
to wind up China Metal recycling (Holdings) Limited, Securities and Futures Commission (February 26, 2015) () The circumstances of City Finance in the sales and collection cycle will likely require the auditor to do extensive tests of controls and substantive tests
of transactions. The auditor interviews IT personnel and key users; examines system documentation such as flowcharts, user manuals, program change requests, and system testing results; and reviews detailed questionnaires completed by IT staff. These files provide a convenient source of information about the audit that is Contents and
Organization Objective 7-8 Prepare organized audit documentation. Some are made to order, but most products are made for inventory. Reem Al Amon recommended that salary increases be approved. The Fair Labor Standards Act (FLSA) states that low-level employees must be
compensated for overtime work; however, the Act provides an exemption for executive, administrative, and professional employees who are compensated on a salary basis. The reference to "standard deviation" of the population and to "standard deviation" of the sampling distribution is often confusing. 334) reflects the percentage of reduction in
losses from, and duration of, frauds that occurred as a result of these antifraud controls. First, there was a contract summary that set out its major features. 9-8 (Objective 9-2) Auditing standards require that the engagement team members engage in discussion about the susceptibility of the financial statements to the risk of fraud. If the sample size
in the previous example had been only 20 items, the auditor would have been much less confident that finding no exceptions was an indication that the true population exception rate does not exceed TER.
practice of auditing. As Table 9-3 shows, auditors can use this information to decide on the appropriate amount and types of evidence to accumulate. Robert Knechel, University of Alabama-Tuscaloosa Heidi H. (3) internal control. 12-30 (Objective 12-3) Based on a cost-benefit
analysis, management at First Community Bank decided to contract with Technology Solutions, a local data center operator, to host all of the bank's financial reporting applications. Access to the payment system for authorizing payment is restricted to the department head. The combined report on financial statements and internal control over
financial reporting addresses both the financial statement's report on internal control over financial reporting. As a result of their great responsibility for auditing to be CPAs, and their opportunities for performing operational
audits, GAO auditors are highly regarded in the auditing profession. Advocacy The threat that a member will promote a client's interest or position to the following situations involves possible violations of the AICPA Code of Professional Conduct.
Observe inventory. In nondatabase systems, each application has its own data file, whereas in database management systems, many applications share files. The growth of advisory services may result in insufficient monitoring of services may result in insufficient monitoring may result in 
Controls of the procurement of food at a Muslim restaurant to ensure the restaurant is in compliance with local government and halal food regulations. The concepts of specifying this risk are the same for both statistical and nonstatistical and nonstatistical and nonstatistical and nonstatistical and nonstatistical sampling, but the method of quantification is usually different. There are also control-related activities for which
there are related documents and records, but their content is insufficient for the auditor's purpose of assessing whether controls are operating effectively. Objective 9-2 Distinguish the different types of risk assessment procedures to obtain
audit evidence about the amounts and disclosures in the financial statements. Compute the total of the Amount column for comparison to the total Pcard purchases amount as recorded by the client. Johnny and his parents use the office as their residential address. They are critical because a large portion of errors in IT systems result from data entry
errors and, of course, regardless of the quality of information processing, input errors, 17-18 (Objectives 17-3, 17-4) Give an example of the use of attributes sampling in the form of an audit conclusion. Still, the difficulty of detection does not change the auditor's responsibility to properly plan and
perform the audit to detect material misstatements, whether caused by fraud or error. PCAOB auditing standards require the auditor to perform tests of controls that are adequate to determine whether caused by fraud or error. PCAOB auditing standards require the auditor to perform tests of controls that are adequate to determine whether controls are operating effectively at year-end. Company 2-Shelton Ltd. The last two paragraphs under auditor's responsibility included in the
standard unmodified opinion audit report Objective 3-7 Draft appropriately modified opinion audit reports under a variety of circumstances. Is not solely responsible for hiring and firing the company's auditors 3. Of the four factors that determine the initial sample size in attributes sampling (population size, tolerable exception rate, acceptable risk of
overreliance, and expected population exception rate), which factor has the least effect on sample size? Under general authorizations by approving all transactions within the limits set by the policy. 16-12 (Objective 16-4) State the most
important factors affecting the sample size in confirmations of accounts receivable. The engagement partner from your CPA firm called today notifying you that Brian Sioux, an industry specialist and senior tax manager from the firm's Ontario office, will be coming on-site to Pinnacle's facilities to investigate an ongoing dispute between the Internal
Revenue Service and Pinnacle. A sales returns and allowance account is maintained to reflect estimated future returns and allowances. You have determined that there is a fraud risk related to the existence and accuracy of inventory, estimate Misstatements in the population. This estimate has two parts: 1. Which of the following audit procedures will
best uncover an understatement of sales and accounts receivable. You are to divide the accounting related duties 1 through 18 among Robert Smith, James Cooper, and Mohini Singh. Auditing standards state that substantive analytical
procedures are a type of substantive test, when they are performed to provide evidence about an account balance. What roles are played by the American Institute of Certified Public Accountants for its members? Obviously, the test of control for this objective takes almost no time because it involves examining only initials or other evidence of internal
verification, 494) shows one example of a commonly used form. ABC Outing's operating lease for its main store is with Perth Properties, which is a real estate investment company owned by John Peter. For example, the statement that the auditor plans to accumulate evidence such that there is only a 5 percent risk (acceptable audit risk) of failing to
uncover misstatements exceeding performance materiality of $265,000 is a precise and meaningful statement. or procedures. The firm performed the audit in a competent, nonnegligent manner and billed DMO for $48,000, the agreed fee. All Chapter 12 / Assessing Control risk And reporting on internal Controls 443 operators are responsible for
monitoring the operation of the equipment and correcting system-caused errors. 7-2 (Objective 7-2) List the four major evidence decisions that must be made on every audit. Explain.* 5-21 (Objectives 5-3, 5-5) Doyle and Jensen, CPAs, audited the accounts of Regal Jewelry, Inc., a corporation that imports and deals in fine jewelry. Which of the
following does not increase the need for sufficient appropriate audit evidence? 11-16 (Objective 11-4) Explain what cybersecuity is and identify the two types of security controls and substantive tests of transactions at the same time. After establishing a primary
benchmark, auditors should also decide whether the misstatements could materially affect the reasonableness of other benchmarks such as current liabilities, and owners' equity. Customers click on the product number of the items they wish to purchase. Table 6-4 illustrates the relationships among management
assertions, the general transaction-related audit objectives, and specific transaction-related audit objectives as applied to sales for Hillsburg Hardware Co. Notice that there is a one-to-one relationship between assertions and objectives, except for the accuracy assertion. If it is possible to reduce the use of confirmations by performing analytical
procedures, considerable cost savings can be achieved. Describe one situation for each type of liability in which the audit or Cronos'1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the Commission as part of the company's 1996 consolidated financial statements filed with the company of th
Form 20F. Dollar amounts Compared with a Benchmark The primary concern in measuring materiality when a client has failed to follow GAAP is usually the total dollar misstatement in the accounts involved, compared with some benchmark or base. Statements are sent to customers each month (C9). When U.S. regulators, including the SEC, initially the total dollar misstatement in the accounts involved, compared with some benchmark or base.
examined the disruption, they noted that even though the mishap was blamed on a computer malfunction, the underlying cause may Part 2 / The AudiT Process have been programmer failure in designing the systems to be robust enough to handle the volume of orders. He has taught undergraduate and graduate auditing courses, and has received
several teaching awards including membership in NC State's Academy of Outstanding Teachers. All correspondence is sent to the president, The statements included the words unaudited, and there was a cover letter stating that "the statement was prepared from the books and records of the cooperative and no independent verifications were taken
thereon." During the period of the engagement, from 1963 to 1965, the management firm embezzled significant funds from the tenants of the cooperative controls used to reduce control risk to cover greater portions of the fiscal year
under audit. purchases and accounts payable Fraud risks Fraudulent Financial reporting risk for accounts payable Companies may engage in deliberate attempts to understate accounts payable Fraud risks.
additional information that we may request from management for the purpose of the audit: and iii. Calculate PDR assuming that Sessions had assessed control risk at 100% and all other risks as they are stated. The report must include the heading "Management's Responsibility for the Financial Statements" and a paragraph that describes
management's responsibility for the financial statements. The other version, which was the correct version, was hidden from the auditors and then enters them into the computer system. The timing of procedures may also need to be modified. For
example, assume the auditor takes a sample of 100 items from an inventory listing containing 3,000 items and a recorded value $265,000. audit Committees An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. The accuracy
assertion addresses whether the transactions have been recorded at correct amounts. Only those adjusting entries that significantly affect the fair presentation of financial statements must be recorded. Signed lease agreements 18. An effective board of directors helps ensure that the company takes only appropriate risks, while the audit committee
through oversight of financial reporting, can reduce the likelihood of overly aggressive accounting. In many cases, the auditor selects all accounts above a certain dollar amount and selects a random sample from the remainder.
sales invoice to the sales journal for agreement of name and amount. Other than what is in the explanation to this tick mark, I have no idea. the public interest, honor the public trust, and demonstrate a commitment to professionalism. Source: Hochfelder v. By
understanding the client's organizational structure, the audit occurrence and functional elements of the business and perceive how controls are implemented. (4) accuracy of the receivable balance. • Completed audit documentation must clearly indicate the audit work performed. The last type is always a fraud. (See the international
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and aICPa assertions for presentation and disclosure.) (See the international and aICPa assertions for presentation and disclosure.) (See above assertions related to account balances and presentation and disclosure, they also provide
additional assertions related to the PCAOB valuation or allocation assertion, as shown in Table 6-3. All such documents and related graphics are provided "as is" without warranty of any kind. Sales invoices are independently verified before being sent to customers. What risks might First Community assume with this approach to IT system support?
General controls, especially controls related to systems development and security, provide essential control for minimizing processing errors. Physical examination Observe—The act of observation should be associated with the type of evidence defined as observation. What is the primary information provided by each financial ratio category? The
system automatically computes pay at time and a half once hours worked exceed 80 in a 2-week pay period. Transaction cycles are an important way to organize audits. The annual report for the Hillsburg Hardware Company is included as an insert to the text. At the same time, he compares the deposit slip received from the bank for cash sales to the
cash receipts journal. If the limit check control is operating effectively, the client's system should reject the transaction error. Examples include complying with the terms of an operating license, federal employee safety requirements, and environmental regulations.
Further, HSN could return any product from its customers for 60 days after delivery. The payroll master file totals are compared with the general ledger totals at the end of every month. Identify the impact of related parties on the assessment of inherent risk. In fact, the call had been placed to an officer of Nefret. Under accounting standards, Tom
was required to recognize income on this contract using the percentage-of-completion method. Frequently, both reasons exist. (2) authorization of data entry. El&Fan is a family-owned company and it is a new client to the audit firm. This went on for a decade. A new feature in the 16th edition is the inclusion of Concept Checks periodically within
each chapter that highlight short-answer questions to help students recap content covered within different sections of the chapter. Every day, hundreds of employees clock in using their employees identification cards at Generous Motors Corporation. tb = Agrees with working trial balance. Several of the controls should satisfy multiple objectives. For
variables sampling, auditors use ARIA as well as acceptable risk of incorrect rejection (ARIR). Explain what .17 means in this audit evidence about the amounts and disclosures in the financial statements. For example, a member can process an attest client's payroll using
payroll records that the client has prepared and approved. (2) evidence supporting financial statements. Actions taken by the board, including automatic sanctions, are reported in the Disciplinary Actions sections of the AICPA Web site, including automatic sanctions, are reported in the Disciplinary Actions sections of the AICPA Web site, including automatic sanctions, are reported in the Disciplinary Actions sections of the AICPA Web site, including automatic sanctions, are reported in the Disciplinary Actions sections of the AICPA Web site, including automatic sanctions, are reported in the Disciplinary Actions sections of the AICPA Web site, including automatic sanctions.
Sort) e. Khalid, the accounts receivable clerk, reviews the sales books and the register tape. To do this, auditors follow an audit to ensure that the evidence gathered is both sufficient and appropriate and that all required audit objectives are both specified and met. Also in our
opinion, Hillsburg Hardware Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). What impact, if any, does reliance
on Technology Solutions as the data center provider have on the audit of First Community's financial statements? Resolve ethical dilemmas using an ethical framework. Over lunch, he is surprised when his friend James Foley asks him, "Doesn't it bother you that your clients don't look forward to seeing their auditors each year?" Dave responds, "Well
auditing is only one of several services we provide. Hammer Saplow, CPA, is a naturalist. (4) Management does not have a process to identify and assess risks on a recurring basis. (1) Audit procedures that are effective for detecting unintentional misstatement that is concealed through collusion.
Examine a sample of duplicate sales invoices to determine whether each one has a shipping document attached. • Perform quality audits. As described in the previous section, management may have programs designed to prevent, deter, and detect fraud, as well as controls designed to mitigate specific risks of fraud. Contingent Fees Contingent Fees
party will use the financial statement and the member's compilation report does not disclose a lack of independence; or (2) Prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client. Based on preliminary discussion with the management, the
Division had its own accounting manual and procedures. Vouch a sample of recorded acquisition transactions to vendors' invoices and receiving reports. Remittance advices for a specific account? In addition to sample size, the individual
items tested affect the sufficiency of evidence. Even though auditors emphasize transaction-related controls, the auditor must also gain an understanding of controls over ending account balance and presentation and disclosure objectives. The audit firm requested a confirmation of the credits. Jonathan is a young yet aggressive entrepreneur. Assume
that your understanding of internal controls over acquisitions and cash disbursements and the related tests of controls and substantive tests of transactions in the sales and collection cycle involves documents and records, it is essential to
understand the typical documents and records used in the cycle. recorded cash receipts are for funds actually received by the company (occurrence). (2) The financial statements do not conform with generally accepted accounting principles (GAAP). Does not have the ability to engage its own counsel and other advisors 5. After they become CPAs
many leave the firm to work in industry, government, or education. A report indicating whether a government regulations. All but 10 of the confirmation requests have been returned; 24 were returned without any exceptions, 6 had minor differences that have *Based on AICPA question paper, American
Institute of Certified Public Accountants. Similarly, if the issue in question is immaterial in amount, it is also unnecessary to follow the standard. We do not owe you anything at December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your invoice dated December 31, 2015, as the goods, represented by your inv
destination terms. The task of combining the factors that determine planned detection risk is complex because the measurement for each factor is imprecise and the appropriate weight given to each factor is highly subjective. When the discussions with Carolina BioHealth began, Jessica informed her office's managing partner and was removed from
the audit engagement. Stated differently, performance materiality is not a part of the audit risk model, but the combination of performance materiality and the audit risk model factors determines planned audit evidence. No changes have been made to any of these controls since testing and the client's controls over IT security and software program
changes are excellent. Three major criminal cases followed Simon: • In United States v. Also as part of the expansion, an increasing number of sales are financed by the company with client payment terms ranging from 30 to 90 days. Describe the three main techniques used to manipulate revenue. To calculate the overall star rating and percentage
breakdown by star, we donât tuse a simple average. Bass and Sims made signif icant changes to the audit plan for the upcoming audits for suspend auditor Defenses—1934 act SeC and pCaOB Sanctions Chapter 5 / LegaL LiabiLity 151 practitioners from doing audits for
SEC companies. Examine sales invoice for supporting bill of lading and customer order (13b). • Chapter 3 provides a detailed discussion of audit reports, which are the final products of audits. The company has recently expanded from 5 to 15 stores by borrowing from several large financial institutions and from a public offering of common stock.
Before proceeding in the discussion of legal liability, we examine several common legal terms that affect CPAs' liability. Auditors of larger public companies choose to rely extensively on controls because they must test the effectiveness of internal control over financial reporting to satisfy Sarbanes-Oxley Act requirements. Invoices are payable upon
presentation. With a negative confirmation, failure to reply must be regarded as a correct response, even though the debtor may have ignored the company's internal control. Further investigation revealed that average revenues declined at the new lot to
which Sam had been assigned. When you review the general ledger, you observe that there are many large adjusting entries to correct accounts payable. PCaOB staff noted cases of failure to perform cutoff procedures to address the risk of material misstatement, and failures to obtain evidence about whether the delivery of goods had occurred to
allow the company to recognize revenue. Inherent Limitations Paragraph In our opinion, Westbrook Company, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria. It is the type of case that might be used in an ethics course. In obtaining an understanding of
internal control, the procedures to obtain an understanding are applied to all controls identified during that phase. The materiality of a change is evaluated based on the current year effect of the change. Identify corporate governance and other controls are manual while others
are automated. 11-12 (Objective 11-3) Saturn Bank is a financial institution headquartered in London. Corrections of errors involving principles, by changing from an accounting principle that is not generally acceptable to one that is generally acceptable, including correction of the resulting error Changes that affect comparability but not consistency
and therefore need not be included in the audit report included in the audit report included in the audit report the expectation. To illustrate each
term, an audit procedure and associated type of evidence are also shown. The entries are reflected in financial statements that the company recently provided to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding due to the bank in connection with a loan outstanding du
all officers for the year 2014. Note: The procedures are summarized into a performance format in Table 16-5 on page 546. The races reveal the strengths and weaknesses of featured cars. The primary emphasis in most tests of details of balances is on the balance sheet. Note that access to files for PCAOB inspections is also allowed to comply with the
requirements of the Sarbanes-Oxley Act. Prepare a proof of cash receipts. BarChris Construction Corporation, 283 F. The implication is that the auditor's judgment, including the assessment of the
risks of material misstatement of the financial statements, whether due to fraud or error. Chapter 12 / Assessing Control Risk and Extent of Procedures Assessed Control Risk Type of Procedures to Obtain an Understanding Lower Level:
Tests of Controls* Inquiry Yes—extensive Yes—some Inspection Yes—with transaction walkthrough Yes—with Ye
obtain an understanding with tests of controls and perform them simultaneously. Our market consists of smaller, independent hardware stores that need more favorable receivable collection terms and immediate delivery of inventory. The same CPA firm has performed the audit since the inception of Wilsall and has become very familiar with the
company, its operations, and its management. IFRS is increasingly accepted worldwide as the basis of accounting used to prepare financial statements in other countries. The arrangements were usually agreed to in advance by the vendor and supported by evidence of the placing of the advertisements. Each firm professional has online password
access through the firm's Web site to electronic reference materials on accounting, auditing, tax, SEC, and other technical information, including industry data. Each method is distinguished by what is being measured. The accounts when the company's client, Lau Ah Pek Berhad, uses Microsoft Excel worksheets to prepare the accounts. When
the amounts are so material or pervasive that an adverse opinion is required, the scope is still unlimited and the qualifying paragraph can remain the same, but the opinion paragraph might be as shown in Figure 3-11. The PCAOB requires annual inspections of
other registered firms at least once every three years. To increase overall assurance for the cycle, the auditor can increase the assurance obtained from any one of the tests. Gifts, Entertainment, and Favors Employees must not accept entertainment, and Favors that could influence or appear to influence business decisions in favor of any
person with whom the organization has business dealings. Aggressive advertising campaigns that allow us to penetrate markets dominated by national wholesale hardware store chains. Goods should be shipped only after proper authorization. PCAOB standards refer to the standard unmodified opinion audit report as an "unqualified opinion" audit
report. Responsibility means being accountable for one's actions and exercising restraint. For example, revenue recognition is likely to be inappropriate if a major customer agrees to "buy" a significant amount of inventory at year-end, but a side agreement provides for more favorable pricing and unrestricted return of the goods if not sold by the
customer. The lack of independence overrides any other scope limitations. Separation of IT Duties from User Departments As the level of complexity of IT systems increases, the separation of authorization, record keeping, and custody often becomes blurred. Interrogative inquiry is often used to determine if the individual is being deceptive or
purposefully omitting disclosure of key knowledge of facts, events, or circumstances. The company was listed on the Indian stock exchange when your audit firm was appointed auditors. She allocated $265,000 as performance materiality to the audit of accounts receivable (see Figure 8-7 on p. INCOmE STATEMENT DATA: Net sales $ 143,086 $
131,226 $ 122,685 $ 120,221 $ 117,115 Cost of sales 103,241 94,876 88,724 88,112 85,663 gross profit 39,845 36,350 33,961 32,109 31,452 Earnings before income taxes 5,681 4,659 3,351 3,124 1,450 Net income $3,934 3,194 2,279 2,142 994 Cash provided by operating activities 4,910 4,146 2,655 1,811 1,232 Per common share data: Net income $5,081 4,659 3,351 3,124 1,450 Net income $5,081 4,659 3,12
0.79 \pm 0.64 \pm 0.46 \pm 0.46 \pm 0.43 \pm 0.22 Cash dividends per share \pm 0.38 \pm 0
2.86% 26.49% 23.55% 17.69% 18.10% 9.50% 217 7 Audit EvidEncE CEO Confesses to Falsifying Documents to Hide Fraud for Over Twenty Years Nine days after his surprise Las Vegas wedding, Russell Wasendorf, Chief Executive Officer of Peregrine Financial Group, was found unconscious in his car with a tube running from the exhaust pipe into
the vehicle. For fraud, there is a distinction between misappropriation of assets, often called management fraud. (2) An audit is designed to provide reasonable assurance of detecting material errors, but there is no similar responsibility concerning fraud. Transactions were
captured online and sales and accounts receivable files were maintained on a database. summary This chapter defined auditing from account for a significant portion of the wholesale hardware market share and also carry the hard-
to-find and high-quality items we provide. Part A also provides a conceptual framework that accountants can apply to identified threats, and apply safeguards, when necessary, to eliminate the threat or reduce the threat to an acceptable level. (Although
total with the general ledger. We will issue a written report upon completion of our audit of Babb Clothing Co.'s financial statements. She used the audit software to select a random sample of invoices and performed the control tests. Because of the widespread use of audited financial statements in the U.S. economy, as well as businesspersons' and
other users' familiarity with these statements, it is common to use the terms auditor and CPA firm synonymously, even though several different types of auditors exist. General cash connects most cycles. Assume TER is 6% for each attribute. The auditor's response to fraud risk at the assertion level may involve changing the nature, timing, and extentions, and extention level may involve changing the nature.
of audit procedures. accuracy—amounts Included are Stated at the Correct amounts The accuracy objective refers to amounts being included at the correct amount. These experiences provide unique perspectives about the integration of auditing concepts in real-world settings. Analyze the account balances for accounts receivable, inventory, and
short/current long-term debt. 11-14 (Objective 11-4) Explain how client internal controls can be improved through the proper installation of IT. Ernst & Ernst, known both as a leading securities law case and as a CPA liabilities case, the U.S. Supreme Court ruled that scienter, which is knowledge and intent to deceive, is required before CPAs can be
held liable for violation of Rule 10b-5. Support your answer. However, after the dispositions of these consulting again became the major source of revenue for the Big 4—but not for long. A settlement has been tentatively reached to return the equipment for a refund of $21,000. What is the relationship between the control
environment and the other four components of internal control? 258 Part 2 / The AudiT Process 4. Figure 13-4 illustrates the methodology used to design these tests. The estimate of the total population misstatement can also be easily calculated as being between $28,000 and $64,000 at a 95 percent confidence level (1,000 \times $64). It
also indicates that the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in designing the audit procedures performed, but this assessment of internal control is not sufficient to express an opinion on the effectiveness of the entity's internal control. unrestricted
access to persons within the entity from whom we determine it necessary to obtain audit evidence. Hardware retailers, now more than ever, find it advantageous to purchase from us rather than directly from manufacturers. 501). Although the CPA was never engaged to conduct an audit for the 1136 Tenants Corporation, the CPA was found liable for
failing to detect an embezzlement scheme conducted by one of the client's managers. Identify which audit procedures can be tested by using attributes sampling. It is part of the accuracy assertion for classes of transactions. Describe the fraud risk factors that are indicated in the dialogue above. (4) Clerical errors are listed on a computer-generated
exception report. Improve auditing to better meet users' needs 3. The procedures to test effectiveness of controls in support of a reduced assessed control risk are called tests of controls. The member should determine whether to decline or discontinue the professional services engagement, or resign from the engagement. The appropriate reports for
differing circumstances were studied in Chapter 3. Response to ethics division. Loss contingency disclosures that WRS included in prior years' financial statements are being removed for the 2016 financial statements. State several factors that have affected the incidence of lawsuits against CPAs in recent years. You recently noticed that Janssen
Technology Solutions routinely excludes their statement of cash flows in the company's annual financial statements. Because external documents have been in the hands of both the client and another party to the transaction, there is some indication that both members are in agreement about the information and the conditions stated on the
document. These same documents are useful evidence for the auditor to verify the accuracy of the client's records for sales transactions. Individually or in groups, identify the following types of assurance services. As Christopher has been a risk averse person, he did not take much risk for aggressive expansion. phase I: plan and Design an auditor to verify the following types of assurance services. As Christopher has been a risk averse person, he did not take much risk for aggressive expansion. phase I: plan and Design an auditor to verify the following types of assurance services.
approach phase II: perform tests of Controls and Substantive tests of transactions Chapter 13 / Overall audit Program 469 Figure 13-9 Summary of the Audit Process PHASE I Plan and design an audit approach Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary
analytical procedures Set preliminary judgment of materiality Identify significant risks due to fraud or error Assess inherent risk Understand internal control and assess control and assess control and assess control risk Finalize overall audit strategy and audit plan PHASE II Perform tests of controls and substantive tests of transactions Plan to reduce assessed
level of control risk? 9-6 (Objective 9-2) Distinguish the different types of risk assessment procedures. Application controls may be done by computers or client personnel. For each objective, state one internal control that the client can use to reduce the likelihood of misstatements. Determining if the misstatement is in fact a material weakness or a
significant deficiency involves judgment and depends on the nature and size of the misstatement. The Responsibilities principle underlying AICPA auditing standards includes a requirement that (1) the audit be adequately planned and supervised. Review large sales returns and allowances before and after the balance sheet date to determine whether
they are recorded in the correct period (15). In scientific experiments, researchers obtain evidence to test hypotheses using controlled experiments, such as a drug trial to test the effectiveness of a new medical treatment. • Oppose lawsuits. auditor agrees with a Departure from a promulgated principle Figure 3-6 The AICPA Code of Professional
Conduct states that in unusual situations, a departure from a generally accepted accounting principle may not require a qualified or adverse opinion. The largest eight firms listed in Table 2-1 (p. Decide whether audit sampling applies to this audit procedure. Therefore, he can solve problems and respond to customers' needs quickly. Prior to going
public, Groupon recorded revenue for the entire amount of proceeds received despite owing a portion to the retailer, an aggressive practice that was deemed acceptable by the SEC. This determination is typically made by an experienced auditor who is in a position to make important decisions. On
October 22, 1999, the company reincorporated from Washington to Delaware and changed its name to Hillsburg Hardware Company (hereafter referred to as "the Company is a wholesale distributor of hardware equipment to a variety of independent,
high-quality hardware stores in the midwestern part of the United States. By combining the types of audit tests shown in Figure 13-2, the auditor obtains a higher overall assurance for transactions and accounts in the sales and collection cycle than the assurance obtained from any one test. Bearing Drives Co. 5. The general approach to be taken will
be to reduce assessed control risk to a low level, if possible, for the two main types of transactions affecting accounts payable: acquisitions and cash disbursements. All rights reserved. For each audit procedure, identify the transaction-related audit objective or objectives being satisfied. When there are a number of controls tested in prior audits that
have not been changed, auditing standards require auditors to test some of those controls testing throughout the three-year period. (3) $20,000. (2) Goods shipped FOB Pinnacle Manufacturing on December 29, 2016; arrived at Pinnacle Manufacturing on January 3, 2017. The auditor should evaluate
the reasons for the misstatement, determine whether it was intentional or a fraud, and consider whether other such misstatement is likely to change its report on internal control to assert that the controls are not operating effectively. What auditing steps should a CPA
profitability of these customers, likely affecting Hillsburg's sales and the value of assets such as accounts receivable and inventory. This achieves the following: Design and performance Format audit procedures • Eliminates duplicate procedures. II. But her biggest contribution almost did not happen. These financial statements are the responsibility
use information obtained from the control risk assessment and testing of controls to plan audit procedures? (4) increase inherent risk. Realizable value is an essential balance-related audit objective for accounts receivable because collectibility of receivables is often a significant concern. "Preparers Oppose PCAOB's Plan for More Auditor
Disclosures," K. Forensic accountants often work side-by-side with criminal justice and law enforcement personnel, as well as computer specialists, in conducting fraud examinations. By Erma, the accountant E. Three procedures must be performed in every audit. Compute inventory turnover ratios and compare with those of previous years as a test of
inventory obsolescence. (4) are an improper form of reporting. 1.5 9 Low 50 1 7 Low 65 9. Accounting and auditing standards do not provide specific materiality and risk are related and integrated into the audit process. If all sales to a customer are omitted from the sales
journal, the understatement of accounts receivable is almost impossible to uncover by tests of details of balances. Insured patients often pay a co-payment, with the balance paid by the insurance company. The decline in gross margin is likely to result in an increase in evidence in one or more of the accounts that affect gross margin. Recorded sales
are for the amount of goods shipped and are correctly billed and recorded. Accounts payable clerk receives invoices from suppliers and matches the details against the receiving reports and purchase orders. (1) Incompatible duties (3) Mistakes in judgment (2) Management override (4) Collusion among employees b. Hillsburg Hardware Co." is related
effectively. There was one experimental drug that the doctors thought might save him, but the man was not admitted into the free experimental trial. Average days to collect is a different way of looking at the average accounts receivable turnover data. Staff must therefore be assigned with that requirement in mind, and those assigned to the
engagement must be knowledgeable about the client's industry. 3. Sample sizes are the same in certain columns even when estimated population exception rates differ because of the method of constructing the tables. In preceding chapters, audit reports and the demand for audit and other assurance services were discussed. It is structured and
taxed like a general partnership, but the personal liability protection of an LLP is less than that of a general corporation or an LLC. elder Syracuse University Professor MArk s. Proper physical controls over computer equipment restrict access to hardware, software, and backup data files. Interest Expense: In 2016, interest expense increased by
$374,000, or approximately 18.4%, compared to 2015. (Filter and Stratify) required Chapter 14 / Audit of the SAleS And ColleCtion CyCle 521 15 Chapter Learning Objectives Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnsActionS After studying this chapter, you should be able to 15-1 Explain the concept of rep15-2 15-3 15-4
15-5 15-6 15-7 resentative sampling. iv. She left the firm a year later and became a housewife. Enter cash receipts journal and update the accounts receivable master file. The international auditing standards and AICPA auditing standards assertions are grouped so that assertions related across categories are included
on the same table row. If the sample is not expanded, the auditor must revise assessed control risk upward and therefore perform additional substantive tests. The SEC alleged that these actions were set by the "tone at the top" and ordered six senior executives to pay over $22 million in penalties and disgorgement of profits from their actions.
Auditing standards require the auditor to call attention to circumstances in which accounting principles have not been consistently observed in the European Union, recently enacted rules on audit firm rotation would also limit the amount of nonaudit fees that can be earned from
public clients to 70 percent of the audit fee. The company's financial reporting. Fluctuations in this account are not unusual if the client has incurred unexpected repairs. Audit Procedures 1. A new employee usually starts as an assistant and
spends 2 or 3 years in each classification before achieving partner status. Specify acceptable risk of overreliance 8. The first are misstatements that arise from differences between management's and the auditor's judgment about estimates of account balances. If misstatements are detected during these cutoff tests, the auditor should document the
additional procedures performed to determine the extent of cutoff misstatements, the conclusion as to whether any audit adjustments should be proposed. Interpretations of the rules address circumstances members may face that are threats to compliance with the rules of conduct. In the
sales and collection cycle, for example, the auditor might use: • A test of controls and substantive tests of transactions audit program for the entire cycle • Tests of details of balances audit programs for cash, accounts receivable, bad debt expense, allowance for
uncollectible accounts, and miscellaneous accounts receivable tests of controls and Substantive tests of controls and substantive tests of transactions and substantive tests of transactions and substantive tests of controls and substantive tests of transactions and substantive tests of transactions.
3-1 Relationship of Materiality to Type of Opinion Materiality Level Significance in Terms of Reasonable Users' Decisions Type of Opinion Immaterial Users' Decisions Type of Opinion Materiality Level Significance in Terms of Reasonable Users' Decisions Type of Opinion Immaterial Users' Decision Type of Opinion Immaterial Users' Decision Type of Opinion Immaterial Users' D
only when the auditor believes that the overall financial statements are so materially misstated or misleading that they do not present fairly the financial position or results of operations and cash flows in conformity with GAAP. As a test of the operating effectiveness of the credit approval process, for example, the auditor might examine a sample of 50
sales transactions from throughout the year to determine whether credit was granted before the shipment of goods. (4) qualified opinion with explanatory paragraph regarding consistency. This will help instructors to stay informed of emerging issues. Calculate SER for each attribute tested in the population. Different auditors may alter the wording
or presentation slightly, but the meaning will be the same. For exam- ple, by footing the journal and reviewing the journal for unusual items first, the auditor gains a better perspective in doing the detailed tests. (4) has a probability proportional to its dollar value of being selected. • Planned detection risk and planned audit evidence. For example, if a
business overpays a vendor's invoice by $2,000, it is unlikely to be uncovered unless the company has instituted reasonably sophisticated procedures to find this type of misstatement. 8-14 (Objective 8-3) What is the purpose of the client's performance measurement system? For the remainder of this chapter, we will discuss how auditors decide on the
specific audit procedures and their timing for auditing accounts receivable. Chapter 5 / LegaL LiabiLity 149 annually. The Securities Acts of 1933 and 1934 and Sarbanes-Oxley Act of 2002 are important statutory laws affecting auditors. Auditors can easily observe whether client personnel are following appropriate inventory counting procedures at
the same time they count a sample of inventory (physical examination). The majority of our employees are involved in day-to-day sales. Management's practice makes overly very aggressive or unrealistic forecasts to analysts, creditors, and other third parties. The preparation of good audit documentation helps the auditor perform quality audits. In
such adoption, Pure Pharmaceuticals has to search for a cloud service provider, a thirdparty vendor providing application delivery, hosting, monitoring, and other services through cloud computing. For example, the Statement on Auditing Standards, Substantive Changes Related to Using the Work of Internal Auditors, is SAS No. 128 and AU-C 610
16-27 (Objective 16-3) Jarmell Foodstuffs sells produce to small grocery stores. IFIAR encourages audit firms to use the survey evidence and individual inspection findings to identify the root causes of the audit of regulatory agencies and
courts that the audit was well planned and adequately supervised; the evidence accumulated was appropriate and sufficient; and the audit report was proper, considering the results of the audit. They generally have information about the earnings of a company long before the public is informed of the results. 1-22 (Objective 1-5) As discussed in the
chapter opening vignette and on page 33, companies are increasingly issuing reports on corporate social responsibility. A common instance is the immediate expensing of office supplies rather than carrying the unused portion in inventory because the amount is insignificant. For example, in Table 9-1, planned detection risk (D) is low for inventory
and warehousing, which causes planned evidence to be high. During audit planning for every audit, the engagement team must discuss the need to maintain a questioning mind throughout the audit to identify fraud risks and critically evaluate audit evidence. Parts IV, V, and VI dealt with obtaining an understanding of internal control and assessing
control risk for transactions affecting accounts payable of Pinnacle Manufacturing. The auditor uses all of the information discussed previously to make a subjective control risk assessment for each objective. Both the restrictions and exceptions are reasonable ones, considering the trade-off between independence and the need to permit CPAs to
function as businesspeople and individuals. aUditor'S deciSion proceSS for aUdit reports Objective 3-8 Determine the appropriate audit report for a given audit report for 
have increased the importance of understanding the client's business and industry: • Recent significantly increase a client's business risks. 457) is a matrix that shows how auditors decide tests of controls and substantive tests of transactions for sales after controls and control
deficiencies have been identified. Figure 6-4 shows that flow. Auditors identify these conditions as they perform the audit reporting. Planning Principles underlying AICPA auditing standards indicate: The audit reporting items for audit reporting. Planning Principles underlying AICPA auditing standards indicate: The audit files as discussion items for audit reporting.
assistants. Qualified Opinion In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial position of Ajax Company as of December 31, 2016, and the results of its operations and its cash flows for the year then
ended in conformity with accounting principles generally accepted in the United States of America. He therefore assessed controls. Sample sizes are calculated for attributes sampling by using the expected number of exceptions in the population, but auditors can deal more conveniently with
estimated population exception rates. 1-3 (ObjeCtive 1-3) Discuss changes in accounting and business operations over the last decade that have increased the need for independent audits. Based on inquiries and other information obtained, the auditors learned that the bank is finalizing an acquisition of a smaller community bank located in another
region of the state. (3) Confirm accounts receivable. How can an auditor verify the addresses for confirmations sent electronically? Trace the total in the cash disbursements journal to the general ledger. The standard requires not only disclosure about such matters, but also explanation of how they were addressed in
the audit. Sales transactions are properly included in the master file and are correctly summarized. You are reviewing the audit file prepared by Carol. If tests of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do not support the preliminary assessment of controls results do n
the results of the tests of controls, substantive tests of transactions, and substantive tests of details of balances as the audit progresses. When acceptable audit risk is low, more extensive review is often warranted, including a review by personnel who were
not assigned to the engagement. Describe how each of the situations might threaten Janes' independence from the auto dealership. Send a confirmation to the bank confirming amounts pledged as collateral under loan agreements. Inventory receiving reports 5. Generally, physical examination is an objective means of ascertaining both the quantity
and the description of the asset. There is confusion caused by these differing views of liability to third parties under common law, but the movement is clearly away from the tabLe 5-2 Interpretation Narrow Broad Approaches Courts Take to Assign Third-Party Liability Under Common Law Approaches by Courts and Example Cases Definition of Third
Party User Example Primary beneficiary/identified user Ultramares Corporation v. For example, there are specific accounts payable balance-related audit objectives and specific accounts payable balance-related audit objectives and specific accounts payable balance-related audit objectives. Select the best response. As noted in Chapter 1, non-accelerated filers have been permanently exempted from this
requirement by the passage by Congress of the 2010 Dodd-Frank financial reform legislation. These independence rules also generally apply to the covered member's immediate family. Client sales staff print out customer order information and enter that data into the sales accounting system: Control risk IDNC Acceptable audit risk IDNC Inherent
risk IDNC Planned evidence IDNC i. The law also requires SEC registrants under the Securities Exchange Act of 1934 to meet additional requirements of reasonably complete and accurate records, plus an adequate system of internal control. Although he did not invent the Ponzi scheme, it has become associated with his name because of the scale of
his operation. Information about downloading and using ACL and the commands used in this problem can also be found on the textbook Web site. Understand use of international accounting and auditing standards by U.S. companies. purpose 58 The purpose of an audit is to provide financial statement users with an opinion issued by the auditor on
whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. Waseem: Before you start implying that you think the company is a fake, remember that Saul and the store manager are both on the committee. The auditor can establish different TER and ARO levels for
different attributes of an audit test, depending on the importance of the attribute and related control. The increased litigation risk faced by auditors. (3) the uncertainty inherent in applying sampling procedures. Regarding Shelton Ltd., (1) Explain the overall purpose of the above four policies in the prevention of potential fraud or financial statement
misstatement. The auditor performs tests of controls and substantive procedures to obtain assurance that all audit objectives are achieved for information and amounts included in those disclosures. Closely related to auditors' liability is the SEC and PCAOB authority to sanction. Observe prelisting of cash receipts (4). Beasley, Chris E. For example,
fair value accounting related to unique and material hedging transactions would likely be considered a significant risk. Conversely, the relationship between each factor and planned detection risk is well established. The latter two are assessment of control risk steps that are required only when the auditor assesses control risk below maximum. A
report stating whether the company has complied with restrictive covenants related to officer compensation and payment of dividends contained in a bank loan agreement. (2) An auditor should plan the audit to detect fraud caused by departures from GAAP. Assume that you complete the audit and conclude that your preliminary judgment about
materiality for current assets, current liabilities, and total assets has been met. Table 2-1 shows that management consulting and other risk advisory services are a significant source of revenue for most accounting firms. Auditors consider these risks in planning procedures to obtain audit evidence primarily by applying the audit risk model. 4 In each
case the date on the duplicate sales invoice was several days later than the shipping date. In contrast, only 20 percent of companies reported this information in 2011, and less than 10 percent reported it in 2008. Even then, auditors would be unlikely to uncover all material misstatements in every audit. What kind of documentation is required for the
auditor's consideration of fraud? 240 Part 2 / The Audit Process Figure 7-3 audit File Contents and Audit Report Working Trial Balance and Adjusting Journal Entries Robinson Associates Trial Balance 12/31/16 Cash Accounts Receivable Prepaid Insurance Interest Receivable $165,237 275,050 37,795 20,493
Audit Programs Audit Planning and Risk Assessment Procedures Understanding of Internal Controls and Substantive TOT Test of Details - Assets Test of Details - Assets Test of Details - Liabilities and Equity Contingent Liabilities and Substantive TOT Test of Details - Assets Test of Details - Ass
Working papers or other documents that form the basis for the audit of the company's annual financial statements or review of the company's quarterly financial statements or review These rules significantly increase the audit or review of the company's quarterly financial statements or review of the company's quarterly financial statements.
documentation that must be retained for audits of public companies. Perfection and precision are simply not achievable. To properly prepare audit documentation, the auditor must know his or her goals. The requirements related to contingent fees are shown below. Also assume that you believe there is an equal likelihood of a misstatement of every
account in the financial statements, and each misstatement is likely to result in an overstatement of earnings. Cullen encourages each programmer to take continuing education courses to keep current with the latest technical developments. For example, the auditor can use knowledge of the client's system to identify controls that are likely to prevent with the latest technical developments.
errors or fraud in the occurrence transaction-related audit objective. Robot Banks decided to roll out a new system that consolidated all loan data onto one system. The program requires only input parameters to create a sample for the auditor to select. Machinetron's attorney offered to write a letter to Halvorson & Co. stating that in his opinion, a fax
had legal substance as a valid confirmation reply, tests of Controls (Column 3) For each internal control to verify its effectiveness, although the company's auditors understood that the sales through HSN presented potential revenue recognition issues, they did not research the issue and failed to obtain
copies of the agreements with HSN. These are called balance-related audit objectives. Legal proceedings, legislation, or similar matters that have occurred that might jeopardize the entity's ability to operate The auditor's concern in such situations is the possibility that the client may not be able to continue its operations or meet its obligations for a
reasonable period. The preliminary judgment about materiality for the fi- nancial statements as a whole was set at $442,000 (approximately 6 percent of earnings from operations of $7,370,000). Perform test on the reasonableness of salaries expense, taking into account salary increments and staff movement during the year. The planned reduction in
control risk Figure 13-2 shows the role of tests of controls in the auditor's opinion. The auditing profession's standards describe quality as a function of many aspects, including leadership within the firms ("tone at the top"),
independence, integrity, objectivity, personnel management, client acceptance and continuation policies and procedures, engagement performance, and by the end of the 1990s, 80% of Enron's earnings came from a more vague business known as "wholesale energy
operations and services." In early 2001, speculation about Enron's business dealings began to surface. For example, if revenue billings are based on the number of hours professionals charge to clients, such as in law firms and other organizations that provide services, the auditor can estimate total revenue by multiplying hours billed by the average
billing rate. account amount account amount account amount Cash Fixed assets $10,000 60,000 $70,000 Long-term loans M. She bought herself stock in Double U. Auditor's responsibility. • Examine historical and projected cash flow statements for the nature of cash inflows and outflows. When did you do this audit work? required 8-33 (Objective 8-4) In the audit of
the Worldwide Wholesale Company, you did extensive ratio and trend analysis as part of preliminary audit planning. Because of the way audits are performed, balance ratio and trend analysis as part of preliminary audit planning. Because of the way audits are performed, balance ratio and trend analysis as part of preliminary audit planning. Because of the way audits are performed, balance ratio and trend analysis as part of preliminary audit planning. Because of the way audits are performed, balance ratio and trend analysis as part of preliminary audit planning.
consequence of each alternative. The auditor then applies the same process to the other three bases. The PCAOB has authority to investigate and discipline registered public accounting firms and Objective 4-8 Describe the enforcement mechanisms for CPA conduct. effect of population Size In the preceding discussion, auditors ignored the size of the
team Members Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 305 considers the susceptibility of the client's financial statements to fraud, in addition to their susceptibility of material misstatement due to errors. You observed that the audit trainee (i) avoided all sales transaction with an amount smaller than 100,000 Korean Won and
overseas sales; and (ii) used the same samples selected to test the completeness of sales to save time. Within any state, the regulations usually differ for becoming a CPA and retaining a license to practice after the designation has been initially achieved. Another CPA firm acts as their external auditors c. FigUre 10-3 Characteristics of Fraud
Perpetrators Age of Fraudster (in years) Percentage Fraud Committed Percent
Finance 32% Female 13% Management 29% CEO 26% Other 36% Operations/Sales 25% Other 17% Employed by Organization Defrauded 90% Source: Who is the Typical Fraudster? The source of each of the rows is as follows: • Performance materiality. Because of the auditor's training and unintentional bias, certain population items are more likely
than others to be included in the sample, equal amount, because related costs of sales are usually not recognized on fictitious or prematurely recognized in the sample amount, because related costs of sales are usually not recognized on fictitious or prematurely recognized in the sample.
controls correctly process the test data. A second article is titled, "Stick to Diesel, Pinnacle!" The article claims that although Pinnacle has proven itself within the diesel engine industry. 6-2 (ObjeCtive 6-3) Distinguish between the terms errors and
fraud. Examine sales transactions for related-party or employee sales recorded as regular sales. 13. Auditors may use a combination of negative and positive confirmations by sending the latter to accounts with large balances and the former to those with small balances. The auditor needs to determine if either of the last two occurred to have
reasonable assurance that the financial statements are not misstated. During discussions with the Pinnacle controller, you learn that Pinnacle employees did a significant amount of damages under separate and
proportionate liability can be increased to 150 percent of the amount determined to be proportionate to the CPA's degree of fault when the main defendant is insolvent. For example, inclusion of an account receivable from a customer violates the existence
objective. Public confidence in the quality of professional services is enhanced when the profession encourages high standards of performance and conduct on the part of all practitioners. There is also a discussion of the types of audits and auditors, including the requirements for becoming a certified public accountant (CPA). Send confirmations to
 banks with which the client does business to confirm with the cash balances, loan balances as well as the outstanding banking facility. Headed by the Comptroller General, the GAO reports to and is responsible solely to Congress. Risk assessment procedures include the following: 1. For example, to determine that unauthorized personnel are denied
access to computer files, the auditor may make inquiries of the person who controls online-access securitypassword assignments. For each deficiency, state the type(s) of misstatement(s) that is (are) likely to result. Source: 1136 Tenants Corporation v. Which of the following is most likely true?
Signature and Address of CPA Firm Audit Report Date (Date Auditor Has Obtained Sufficient Appropriate Evidence 72 Anderson and Zinder, P.C., CPAs Denver, Colorado February 15, 2017 Part 1 / THE AUDITING PROFESSION reporting sufficient for preparation of financial statements that are free of material misstatements due to fraud or error
These schedules include information for tax returns and SEC Form 10-K and data such as time budgets and the client's working hours, which are helpful in administration of the engagement decisions. Source: Escott v. Chapter 8 /
Audit PlAnning And MAteriAlity 297 background information Your audit firm has recently been engaged as the new auditor for Pinnacle Manufacturing, effective for the audit of the financial statements for the year ended December 31, 2016. 501), the last column summarizes the follow-up actions the auditor plans to do regardless of whether the
control deficiencies were corrected. This methodology was introduced in Chapter 13 and is now applied to the audit of accounts receivable. • Chapter 15 deals with nonstatistical and statistical and statistical sampling methods for tests of controls and substantive tests of transactions. In this section, management must include a description of those risks, which
might include macroeconomic risks that broadly affect a number of entities or risks affecting the industry or geographic regions. Referring to your answers in part b(4), explain any difference for performing substantive analytical procedures in different phases. All voided and spoiled payroll checks are properly mutilated and retained. types of
Confirmation In performing confirmation procedures, the auditor must first decide the type of confirmation to use. The initial sample size is 66. In some cases, however, a portion of the receivables may have been pledged as collateral, assigned to someone else, factored, or sold at discount. For both the risk of fraudulent financial reporting and the
risk of misappropriation of assets, auditors focus on specific areas of increased fraud risk and designing audit procedures or changing the overall conduct of the audit to respond to those risks. Why did your director issue such an instruction? These objectives were introduced in Chapter 6 and are shown on pages 163-165. Inventories are not pledged
as collateral. 452) gives a general presentation of these relationships and illustrates that, even when all transaction-related audit objectives are met, the auditor will still rely primarily on substantive tests of balances to meet the following balance-related audit objectives: • Realizable value • Rights and obligations Additional substantive tests of
balances are also likely for the other balancerelated audit objectives, depending on the results of transactions. The accounting department performs a three-way match by comparing data between the purchase order, goods received note and invoice to ensure mathematical accuracy. Observe endorsement
of incoming checks by the accountant. (d) Examine the duplicate sales invoice for an indication of guantity, price, extensions, footings, and trace the balance to the accounts receivable master file. †8. Completeness Completeness or existence Direct See comments for existence objective. A binomial-based sampling distribution
tells us the probability of each possible number of exceptions occurring. Management below the president's level had conspired to materially overstate inventory as a means of covering up obsolete inventory and invoices in the sales
journal, and update the accounts receivable master file. For example, sales can be sorted to disaggregate the data by location, by product type, and across time (monthly) for further analysis. Although the Sarbanes-Oxley Act and Securities and Exchange Commission (SEC) restrict auditors from providing many consulting services
to public company audit clients, some services are allowed, and audit firms are not restricted from providing consulting to private companies that are not audit clients. The commission examines these statements for completeness and adequacy before permitting the company to sell its securities through the securities exchanges.
1-5 (ObjeCtive 1-4) Identify the three main ways information risk can be reduced. This is measured by the liquidity activity ratios. Here are some common examples: Compare the Current Year's Balance with that of the Preceding Year One of the easiest ways to perform this test is to include the preceding year's adjusted trial balance results in a
separate column of the current year's trial balance spreadsheet. Auditing standards require the auditor to perform risk assessment procedures to obtain an understanding of the client's business and its environment to assess the risk of material misstatements in the financial statements, including inquiries of management and analytical procedures.
The audit schedule format shown in Figure 16-10 is available online. PCAOB auditing standards refer to this amount as tolerable misstatement, whereas AICPA standards refer to this amount as the application of performance materiality to a particular sampling procedure. rAndAl J. information technology (IT) should be considered, as these
risks can lead to substantial losses if ignored, as demonstrated in the opening vignette related to the cyberattack on Sony Pictures. The foreman distributes the checks to the workers in the factory and arranges for the delivery of the checks to the workers who are absent. (1982) — Securities Exchange Act of 1934 Solitron was a manufacturer of
electronic devices, with its stock issued on the American Stock Exchange. Sampling inevitably includes some risk of not uncovering a material misstatement. Output Controls Output controls focus on detecting errors after processing is completed, rather than on preventing errors. Commissions and referral Fees rule A member in public practice shall
not for a commission recommend or refer to a client, or receive a commission, when the member or the
statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or (c) an examination of prospective financial information. In particular, auditors might find it helpful to review not only Item 1.A risk factors included in the
most recently filed Form 10-K for the company being audited, but also the ltem 1.A disclosures reported by the company's key competitors to understand the entity and the e
fraud and detect material misstatements due to fraud and describe major areas of fraud risk, as well as controls to prevent fraud and audit procedures to detect fraud. Adjusting Entries When the auditor discovers material misstatements in the accounting records, the financial statements must be corrected. Todd Machinery 6. The implication of these
rulings for audit firms is that an audit firm can be held liable for misstatements made in their audit report, but not for aiding or abetting management's financial statement misstatements made in their audit report, but not for aiding or abetting management's financial statement misstatements. multiPle ChoiCe Questions from CPA exAminAtions 2-13 (Objective 2-7) The following questions deal with auditing standards. 10-15 (Objective 10-7) Identify
interview techniques responding to misstatements that may be the result of fraud. The court of appeals reversed the district court. 6-15 (Objective 9-9) Explain how audit risk and materiality are related and why they need to be considered
together in planning an audit. The auditor has subordinated his or her judgment and thereby lacks objectivity. For example, sales increased $11,860 (in 000's) from the prior year, which reporting on internAl Controls 437 2. When outsourcing
to a computer service center, the client submits input data, which the service center processes for a fee and then returns the agreed-upon output and the original input. To the extent that it is practical, the cycle approach combines transactions. Inherent
Limitations Internal controls can never be completely effective, regardless of the care followed in their design and implementation. (2) become independent in fact. May June July Aug. (4) determine the acceptable level of detection risk for financial statement assertions. A comparison of Tables 6-4 (p. In practice, maintaining this attitude of
professional skepticism can be difficult because, despite some recent high-profile examples of fraudulent financial statements, material frauds are infrequent compared to the number of audits of financial statements, material frauds are infrequent compared to the number of audits of financial statements, material frauds are infrequent compared to the number of audits of financial statements conducted annually.
liability is also a significant influence on auditor conduct and is discussed in Chapter 5. The accounts payable manager compares the accounts payable manager payable manager compares the accounts payable manager payable m
the tour and throughout the audit also help the auditor learn more about the client's business to aid in assessing risk. What sources are used by the auditor to gather information to assess fraud risk? The most important difference between the quick and current ratios is the inclusion of inventory in current assets for the current ratio. This gives rise to
a loss of $50,000 for the financial year. For example, WorldCom capitalized as fixed assets billions of dollars that should have been expensed. For example, most users consider an intentional misstatement of inventory more important than clerical errors in inventory of the same dollar amount. Compares client ratios to industry or competitor
benchmarks to provide an indication of the company's performance. The list referred to in the specific balance-related audit objectives is the list of the accounts receivable from each customer at the balance sheet date. Control activities are the policies and procedures, in addition to those included in the other four control components, that help
ensure that necessary actions are taken to address risks to the achievement of the entity's objectives. Assessed control risk Sales are recorded on the correct dates (timing). Intent to deceive Privity of contract Gross negligence Foreseen users Material error or omission For each of the 11 blanks in statements 1 through 8, identify the most appropriate
term. Our audits also included performing such other procedures as we considered necessary in the circumstances. They also note that disclosure of critical audit matters may publicize aspects of the audit process that may not be useful to investors. Rhonda McMillan had been the in-charge auditor on the audit of Blaine Construction Company in
2011. © 2015, AICPA. To adequately assess the risk of material misstatements, the auditor must have an understanding of the cycle approach. Its best-selling product is the
Derma Wand, a skin care appliance used to reduce lines and wrinkles and improve overall skin appearance. The payroll accounting software application will not accept data input for an employee number not contained in the employee master file
au/professional-resources/audit-and-assurance/auditorindependence/rotation-of-auditors; Georgia Wilkins (2014), Auditors must be rotated more often, experts warn Published in the The Sydney Morning Herald March 18, 2014, Fairfax Media, Sydney nSW, Australia. The treasurer counts the cash in the presence of the clerk and places it in a safe. A
profession must police its own membership. Auditors are likely to make the revision because of changes in one of the factors used to determine the preliminary judgment; that is, the auditor decides that the preliminary judgment was too large or too small. Bohrer has audited WRS for five years. As demonstrated by the story about David Chen and the
audit of Sol Systems, appropriately applying audit sampling is a challenging part of the audit. Number of days receivables outstanding and economic conditions do not justify this change. The assets had been overstated by $500,000 of fictitious and nonexisting accounts receivable and $300,000 of nonexisting jewelry listed as inventory when in fact
Regal Jewelry had only empty boxes. associate Control Deficiencies with related audit Objectives. Depending on the significance of the account, the predictability of the relationship, and the reliability of the underlying data, the
substantive analytical procedure may eliminate the need to perform detailed tests of the accounts receivable master file is reconciled to the general ledger. For example, KOBELCO donated 200 million year and relief goods in the form of construction equipment valued at 100
million yen to the tōhoku earthquake and tsunami relief. In this case, the court held that although the accountants were negligent, they were not liable to the creditors because the creditors because the creditors because the creditors because the creditors were not a primary beneficiary. For those fraudulent financial reporting, state an audit procedure that would be effective in detecting the
fraud. Specific transactionrelated audit Objectives are determined, specific transaction-related audit objectives for each material class of transactions can be developed. The Controller and the CFO both
physically sign the Credit Memo paperwork. The cutoff assertion addresses whether transactions have been recorded in the proper accounting period. Financial Interests of immediate family members, defined as a spouse, spousel equivalent, or dependent, are ordinarily treated as if they
were the financial interest of the covered member. However, if the staff member is assigned to the engagement, he or she would have to dispose of the stock or the CPA firm would no longer be independent of that client. Normally, auditors can evaluate the
classification of accounts receivable relatively easily, by reviewing the aged trial balance for material receivables from affiliates, officers, directors, or other related parties. Are these amounts significant relative to total shipments? The auditor's focus in both the audit of financial statements and the audit of internal controls over the
reliability of financial reporting plus those controls over operations and compliance with laws and regulations that could materially affect financial reporting. However, that privilege does not extend to federal courts. Chapter 15 / Audit SAmpling for teStS of Controls And SubStAntive teStS of trAnSACtionS 551 summaRy In this chapter we described
representative samples and discussed the differences between statistical and nonstatistical and nonprobabilistic sample selection. Generalized audit software is used to verify the client's account balances. Chapter 8 / Audit PlAnning And MAteriality 279 Figure 8-7 Performance Materiality Levels for Hillsburg Hardware Co.
Balance 12-31-16 (in Thousands) Cash $ 828 Performance Materiality (in Thousands) $ 6 (a) Trade accounts receivable (net) 18,957 265 (b) Inventories 29,865 
1,470 60 (c) Accrued interest and dividends payable 2,050 6 (a) Other liabilities 2,364 72 (c) Capital stock and capital in excess of par 8,500 6 (a) 13,963 NA (f) Notes payable—total retained earnings Total liabilities and equity $61,367 $ 884 (2 × $442) NA = Not applicable. Briefly describe from whom they should be confirmed and the information
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that should be confirmed. The five sources of information to assess these fraud risks on the top of the figure are discussed further in this section. Trace from receiving reports to vendors' invoices and entries in the acquisitions journal. human resources Monitoring engagement performance (1) Yes Yes Yes Yes (3) No Yes Yes (4) Yes No Yes
c. They value the auditor's assurance because of the auditor's independence from the client and knowledge of financial statement reporting matters. Identify at least one additional service that you believe the firm should provide and explain why you believe this represents a growth opportunity for CPA firms. (2) An attestation service other than an
audit service. Auditors of large public companies must consider the implications of their fraud risk assessments, including any suspected fraud, when arriving at their opinion on the operating effectiveness of internal control over financial reporting. The first paragraph states that the auditor's responsibility is to express an opinion on the financial
statements and that the audit was conducted in accordance with auditing standards generally accepted in the United States of America. In many states, internal audit experience can be used to fulfill the experience requirement for becoming a CPA. Requiring auditors to discover all material misstatements would, in essence, make them insurers or
guarantors of the accuracy of the financial statements. • Substantive analytical procedures. Each of the four risks in the audit risk model is sufficiently important to merit detailed discussion. Except for the proprietorship, each structure results in an entity separate from the CPA personally, which helps promote auditor independence. *Confirmations
sent as of October 31. For any given class of transactions, several audit objectives must be met before the auditor can conclude that the transactions are properly recorded. To overcome this problem, auditors can select a random sample of 50 for use on all nine attributes, followed by another sample of 15 for all attributes except attributes 7 and 8, an
additional 10 for attributes 1 through 5, and 25 more for attributes 2 through 5. She notes the following exceptions in her audit schedules. 6. Taxation problems may involve individual income taxes, gift taxes, estate taxes, corporate taxes, trusts, and so on. (Remember, an ARIA of 10 percent is equivalent to a confidence level of 80 percent.) Since the
confidence limits are less than tolerable misstatement, the auditor concludes that the population is not materially misstated. And they always charge the same amount, but there is no record of the exact goods or services they provide. Further discussion may reveal that he or she actually takes over the cashier's duties when the cashier is on vacation.
Integrity means that the person acts according to conscience, regardless of the situation. Compare the date on a sample of shipping documents a few days before and after the balance sheet date with related sales journal transactions. How might the evidence obtained in parts a. What is the role of the independent auditor in this fraud? Harris, "The
Rise of Advisory Services in Audit Firms," speech given at the Practicing Law Institute on Corporate Governance, new York, nY (november 24, 2014) (www.pcaobus.org); 2. The natural tendency for those who lose money in a bankruptcy, or because of a stock price reversal, is to file suit against the auditor. 447 for
accounts) Accounts Receivable Sales Cash in Bank Sales transactions Cash receipts transactions Audited by SAP and TDB Audited by SAP and TDB Tests of controls (including procedures to obtain an understanding of internal control) (TOC) 1
Substantive tests of transactions (STOT) 1 Substantive analytical procedures (SAP) 1 Tests of details of balances (TDB) 5 Sufficient appropriate evidence must also consider the impact of the unsatisfactory test results on the audit of internal control over financial reporting. Chicago IL, United States. This topic includes discussion of the trade-offs
among the types of tests, including consideration of the cost of each type. This includes organization charts, questionnaires, and deficiencies in the system. all the deposits cleared the next day, except for the deposit for one store, which cleared a day later. This
critical step finalizes the audit strategy and entire audit program the audit program the audit procedures, sample sizes, items to select, and timing. As discussed in Chapter 6, the audit must be planned and performed with an attitude of professional skepticism in all aspects of the engagement, recognizing the possibility that a
material misstatement could exist regardless of the auditor's prior experience with the integrity and honesty of client management and those charged with governance. The system automatically rejects processing an employee's pay if inputted hours for a 2-week pay period. To obtain reasonable assurance, the auditor fulfills several
performance responsibilities. For example, assume that the auditor takes a sample from a population and calculates (x) as $46 and SE at $9. What will the auditor intend to establish by this step? In horizontal analysis, the account balance is compared to the previous period, and the percentage change in the account balances for the period is
calculated. All errors are reviewed daily by the controller immediately after the updating run. The auditor's findings about fraud and existing controls designed to prevent or detect misstatements. Describe the five circumstances when an
emphasis-of-matter explanatory paragraph or nonstandard wording is appropriate to include in an unmodified opinion audit report. Does your sampling plan consider invoice amount? With reference to your answers to a and b, discuss if the overall audit planning risk level is extreme, high, medium, or low. ." "WELCOME tO tHE NEW YOrK StatE
LOttErY. The system does not allow input of hours worked for invalid employee numbers. On the basis of audit evidence gathered and evaluated, an auditor decides to increase assessed control risk from that originally planned. Companies are also required to provide further breakdown of the "other fees" category and to provide qualitative
information on the nature of the services provided. • National/Regional firms. The auditor decided it was possible to assess control risk below the maximum. There were no escrow accounts. responsibilities. Groupon offers deep-discount deals online for local and national retailers. (4) Having the annual audit performed by the same CPA firm for 10
years in a row. The lack of previous years' audit results causes most auditors to assess a higher inherent risk for initial audits than for repeat engagements in which no material misstatements were previously found. When they do, they must then perform tests of controls to determine whether the assessed level of control risk is supported. The key is
to identify when the individual's behavior begins to change from his or her normal behavior. (3) Differences are always disclosed on a computer exception report. Classes of transactions, accounts Business Functions Documents
and records Sales Sales accounts receivable Processing customer order Shipping document Sales invoice Sales transaction file Sales journal or listing accounts receivable master file accounts receivable trial balance
Monthly statement Cash receipts Cash in bank (debits from cash receipts Cash receipts cash receipts remittance advice Prelisting of cash receipts transaction file Cash receipts remittance advice Prelisting of cash receipts remittance advice Prelisting of cash receipts cash receipts remittance advice Prelisting of Cash receipts remittance advice Prelisting remittance advice Prelisting remittance advice Prelisting remittance advice Pr
sales returns and allowances Credit memo Sales returns and allowances for uncollectible accounts receivable accounts receivabl
Providing for bad debts General journal 488 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle A customer's request for goods initiates the entire cycle. This may represent a threat to independence. Waseem: If you cause a stir, I'm sure Saul and the other committee members will agree to cooperate and get us the necessary
information. • Firm. If so, the auditor must document that conclusion in the working papers. Companies may also deliberately overstate inventory obsolescence reserves and allowances for doubtful accounts to counter higher earnings. No Yes Perform tests of controls* Perform substantive tests of transactions Assess likelihood of misstatements in
financial statements PHASE III Perform substantive analytical procedures and tests of details of balances Low Medium High or unknown Perform additional tests of details of balances PHASE IV Complete the audit and issue an audit report Perform additional tests for presentation
and disclosure Accumulate final evidence Evaluate results Issue audit report Communicate with audit committee and management * The extent of tests of controls is determined by planned reliance on controls. For example, it is possible to observe whether the billing clerk has access to cash receipts when incoming mail is opened or cash is deposited.
(Accuracy) 5. If, for example, all of the preliminary judgment of $442,000 is allocated to trade accounts receivable, a $442,000 misstatement in that account will be acceptable. Discuss the implication is applicable to difference, ratio, and mean-
per-unit estimation, but is most commonly used with mean-per-unit estimation. Mail checks to employees. What defense should Lauren Yost & Co. use in the payroll journal, and the electronic payments and the electronic payments and the suit by Stuart? The data on these time records is used in the payroll journal, and the electronic payments and the suit by Stuart?
payroll checks. The client must be responsible for authorizing all transactions, including preparation and authorization of source documents. However, as part of the AICPA Clarity Project, the ASB modified audit reporting for nonpublic entities to be similar to reporting under international auditing standards. 6-22 (Objective 6-8) The following
questions deal with management assertions. The risk of underreliance is the risk that the auditor will erroneously conclude that the controls are less effective than they actually are. For example, computer screen prompts may force online data entry of critical information before the record is electronically routed for authorizations and approvals
Management's character or set of ethical values also may make it easier for them to rationalize a fraudulent act. John Hernandez was the audit senior on the Solberg Paints audit, and he had a reputation as a patient teacher and supervisor. Examine duplicate sales invoices for consignment sales and other shipments for which title has not passed. In
its earlier years, Enron made its money from hard assets like pipelines. This audit likely represents the mix of evidence used in the integrated audit of a public company's financial statements and internal control with the auditor's
responsibilities for evaluating and reporting on internal control. The depth of the auditor's understanding depends on the complexity of the system and the extent to which the control is relied upon to reduce control risk. Therefore, there will be an audit program for accounts receivable, one for sales, and so on. Notice the similarities and differences
among these three professions. The account balances, performance materiality, and estimated overstatements in the accounts are shown next. 468 Part 2 / The Audit Process tabLe 13-6 Relationship Among Five Key Evidence-Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process tabLe 13-6 Relationship Among Five Key Evidence Related Terms Phases of the Audit Process Audit Phase Relationship Among Five Key Evidence Related Terms Phase Related
assessment procedures • Procedures • Procedures • Occurrence • Completeness • Audit procedures • Occurrence • Completeness • Accuracy • Posting and summarization
Classification • Timing Procedures to obtain an understanding and tests of controls • • • • Audit procedures Sample size Items to select Timing Perform Substantive Analytical
Report (Phase Iv) Presentation and disclosurerelated audit objectives • Occurrence and rights and obligations • Completeness • Accuracy and valuation • Classification and understandability Analytical procedures • Audit pro
and Substantive Tests of Transactions (Phase II) Audit procedures Sample size Items to select Timing Physical examination Confirmation Inspection Inquiries of client Audit procedures Sample size Items to select Timing summAry of The Audit
process Figure 13-9 (p. Vincent Huck, "EU Settles on 10 Years Mandatory Audit Rotation" (December 17, 2013) (www.theaccountant-online.com). In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Decisions
alternative Conclusions 1. 6-11 Explain the relationship between audit objectives and the accumulation of audit evidence. Degree of objectivity. Mr. Baik from future tax advisory roles in his company. He works at Heritage Storage Devices Inc.
Ratios can be linked to the trial balance so that calculations are automatically updated as adjusting entries are made to the client's statements. (2) All sales have been recorded. Obtaining an understanding of internal control is required for all audits. With the explosion of the childcare services and education over the past decade, new education
approaches have been launched to learning products and services to consumers. Several common controls for detecting errors in outputs include: • Reconcile computer-produced output to manual control totals • Compare a sample of transaction output to input
source documents • Verify dates and times of processing to identify any out-of-sequence processing For sensitive computer output, such as payroll checks, control can be improved by requiring the use of direct deposit into the employees' pre-approved bank
accounts. Firewalls are becoming increasingly sophisticated as the frequency and severity of cyberattacks grow. For parts a. Similarly, cashiers scan bar codes on coupons or member discount cards presented by the customer to process discounts. The AICPA principles and the auditing standards should be viewed by practitioners as minimum
standards of performance rather than as maximum standards or ideals. Computed upper exception rate (CUER) c. The last phrase in the Independence Rule, "as required by standards promulgated by Council," is a convenient way for the AICPA to include or exclude independence requirements for different types of services. How
will they differ for a hospital or a government unit? required 406 a. Continuity helps the CPA firm maintain familiarity with the technical requirements and closer interpersonal relations with client personnel. She conducts weekly IT departmental meetings on Tuesday mornings. For each of the above, identify the specific risk that the audit objective is
intended to address. Select the Sample and Perform the Audit Procedures 10. Compare the importance of independence of CPAs with that of other professionals, such as attorneys. The type of control will, of course, depend on the type of business. Compare the importance of independence of CPAs with that of other professionals, such as attorneys.
to a buyer of a car. He had previously embezzled $105,000 of DMO funds. The firm is considering adopting resources and applications from any location via an Internet connection. Several chapters throughout the book include text or mid-chapter vignette coverage of
international issues, and international issues are also addressed in homework problems. CO. An investment bank partner who served as a McKesson outside director, concerned about his responsibilities, responded to the news by exclaiming, "Let's fire him anyway!" Sources: 1. Although the source of information is independent, the evidence will not
be reliable unless the individual providing it is qualified to do so. Describe how communication of these matters may not be beneficial to users of the financial statements. PCaOB Staff audit Practice alert No. 12 highlights several matters related to auditing revenue identified through inspections, including: • Revenue from contractual arrangements.
WRS's bank has a loan officer who meets regularly with WRS's CEO and controller to monitor WRS's financial performance. Joint and several liability The assessment against a defendant of the full loss suffered by a plaintiff, regardless of the extent to which other parties shared in the wrongdoing. It is important that all cash receipts are deposited in
the bank at the proper amount on a timely basis and recorded in the cash receipts transaction file. We then discussed the 14 steps in nonstatistical sampling for tests of balances. 13-25 (Objectives 13-1, 13-4, 13-5) The following are independent internal controls commonly found in the acquisition and payment cycle. Statements are mailed to
customers each month (C9). It would result in the independent audit of such closely related accounts as inventory and cost of goods sold. E. Biggs, University of Connecticut Robert Braun, Southeastern Louisiana University of Connecticut Robert Braun, Southeastern Louisiana University Joe Brazel, North Carolina State
University Joseph V. Pinkas then misappropriated $632,000 from the same client to cover the disgorgement he agreed to pay as part of a settlement in the other matter with the Commission. Identify the specific Section 404(a) reporting requirements for management. Yosef: I think the integrity of our company should be equally important, though.
294) and observe that these two illustrations include the same concepts. (c) Examine the buses to determine each bus's physical condition. During 2017, we will continue to apply the same strategic efforts that improved 2016 performance. D 3 Purchase order 4 By purchase order 3 Explanatory Notes A. The formula to calculate the
confidence limits is shown in Table 17-14, step 6. This permits the auditor to directly test the accounts receivable balance on the financial statements without making any inferences about the transactions taking place between the confirmation date and the balance sheet date. The city and state of the audit firm should also be indicated. Cash and
financial instruments are studied late in the text to demonstrate how the audit of cash and financial instrument balances is related to most other audit areas. C Recorded sales are supported by authorized shipping documents and approved customers orders (C2). 3-13 (Objective 3-5) Distinguish between a qualified opinion, an adverse opinion, and a
disclaimer of opinion, and explain the circumstances under which each is appropriate. The Fraud Resistant Organization: Tools and Techniques to Deter and Detect Financial Reporting Fraud, The Center for Audit Quality, 2014; 2. The body of the matrix is used to show how each contributes to the accomplishment of one or more transaction-
related audit objectives. These methods compare audited sample values to recorded values to develop an estimate of the misstatement in the account value. Halvorson & Co. recalled their audit report, but this was too late to prevent the harm done to investors. The American Institute of Certified Public Accountants. 10-6 (Objective 10-3) Describe
identified risks of material misstatement due to fraud. Controls are ineffective a. Similarly, Chapter 17 begins with general sampling concepts for tests of details of balances. The phrase free of material misstatement is intended to inform users that the auditor's responsibility is limited to material financial information. This paragraph and the related
discussion in the standards about the auditor's responsibility to detect material misstatements include several important terms and phrases. • Lick lips, swallow, or clear their throats frequently. Note, however, that the conflict seldom occurs. The appropriate date for the report is the one on which the auditor completed the auditory procedures
needed to obtain sufficient appropriate audit evidence, the literal translation of monozukuri is 'production'. When a company must be protected, given they could be costly or even impossible to reconstruct. (1) The entity's industry is
experiencing declining customer demand. One method of fraudulently accelerating revenue is through violating accounting rules related to "bill-and-hold" sales. Based on the author's belief that the fundamental concepts of auditing center on the nature and amount of evidence that auditors should gather in specific engagements, the text's primary
objective is to illustrate auditing concept. Auditors should evaluate whether fixed assets are being financed with short- or long-term loans, as large amounts of required cash outflows during a short time can force a company into bankruptcy. Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 39 certified puBlic accounts of required cash outflows during a short time can force a company into bankruptcy.
ObjeCtive 1-8 Describe the requirements for becoming a CPa. Figure 1-3 Use of the title certified public accountant (CPA) is regulated by state law through the licensing departments of each state. (4) eliminates the need to reconcile control accounts and subsidiary ledgers. Holy Family Hospital 14. Objective 10-3 Understand the auditor's
responsibility for assessing the risk of fraud and detecting material misstatements due to fraud. auditing Standards requirements 1. Once shipment occurs and is recorded in the sales journal, all shipping documents are marked "recorded" by the accounting staff. 246 Part 2 / The AudiT Process summary An important part of every audit is determining
the proper types and amounts of audit evidence to gather. Their recent survey from year 2014 inspection findings identified similar deficiencies in audit engagements of publicly traded companies around the world. The auditor should obtain sufficient appropriate evidence regarding material amounts and disclosures that are directly affected by laws
and regulations. For each control, list one test of control the auditor could perform to test the effectiveness of the control statements: fraudulent financial reporting and misappropriations of assets. Auditing standards require the auditor to ask
management to identify the entity's related parties and inquire as to whether the entity has entered into any transactions with these related parties and, if so, the type and purpose of the transactions with these related parties and, if so, the type and purpose of the transactions with these related parties and, if so, the type and purpose of the transactions with these related parties and, if so, the type and purpose of the transactions with these related parties and, if so, the type and purpose of the transactions with these related parties and inquire as to whether the entity has entered into any transactions.
ethical issue in this situation is not difficult to identify. The SEC requirements of greatest interest to CPAs are set forth in the commission's Regulation S-X, Accounting Series Releases, and Accounting Series Releases, 
can state the conclusions drawn from a confidence interval using statistical inference in different ways. Sales returns and allowances be matched with related sales if the amounts are material. The auditor will sample more inventory items for obsolescence in this audit than one
where the likelihood of obsolescence is low. To more effectively avoid legal liability, CPAs need to have an understanding of how they can be held liable to their clients or third parties. Purchase requisition P.O. Purchase order Inv. In many cases, the PCAOB Objective 12-4 Understand how control risk impacts detection risk and the design of
substantive tests. The auditor's audit objectives follow and are closely related to management assertions. Effectiveness and efficiency of operations 3. The PCAOB is authorized to establish ethics and independence standards for auditors
of public companies. In a common law action against an accountant, lack of privity is a viable defense if the plaintiff (1) is the client's creditor who sues the accountant for negligence. Audit Evidence was defined in Chapter 1 as any information used by the auditor to determine whether
the information being audited is stated in accordance with the established criteria. materiality Objective 8-5 Apply the concept of materiality to the audit. successfully sued Deloitte & Touche in Canada for C$85 million for its negligence. • Reperformance is used in every type of test except substantive analytical procedures. When held to the light, the
accountant could read that the marked-out sentence read, "Do not post until merchandise received." The staff auditor thereafter called Omar Zaki, Irac, and was informed that the $130,000 in goods had not been returned and the money was not owed to Nefret by Zaki. The second are projections of misstatements based on the
auditor's tests of a sample from a population. Once the three major factors affecting sample size have been determined, the auditor can decide an initial sample size. The actual estimate of misstatements in earnings exceeds your preliminary judgment. Audit documentation should identify the items tested, any significant audit findings or issues
acquisitions and cash disbursements using all audit procedures in requirements c. The PCAOB is also considering changes to its Auditing Standards that might expending the exceptions noted above and by expanding the types of receivables that should be confirmed. For example, auditors might
evaluate the efficiency and accuracy of processing payroll transactions in a newly installed computer system. Assess the Entity's Ability to Continue as a Going Concern Analytical procedures are often a useful indicator for determining whether the client company has financial problems. Because large CPA firms usually have clients that must file one
or more of these reports each year, and the rules and regulations affecting filings with the SEC are extremely complex, most CPA firms have specialists who spend a large portion of their time ensuring that their clients satisfy all SEC requirements. Ltd for the year ended 30 June 2016. For those attributes, the difference between TER and EPER is
smallest, thus requiring a larger sample size than attributes 6 through 9. He knew that if the project were impaired, the value of his investment would plummet. (3) increase the performance materiality in the accounts. 164 Part 1 / THE AUDITING PROFESSION 2 Part The AudiT Process Chapters 6-13 P art 2 presents the audit process in a manner
throughout the book and are emphasized in selected mid-chapter vignettes and homework problems. Without an appropriate financial statements. What sections of the federal securities laws are the individuals involved accused of violating? The presentation and
disclosure-related audit objectives are similar to the transaction-related audit objectives, except that they focus on the presentation of information in the form of financial statements and the related footnote disclosures. If an opinion cannot be expressed, the auditor's report should state that conclusion. Because the industry data
are broad averages, the comparisons may not be meaningful. He was a defendant in an action involving, among other things, the overvaluation of portfolio investments and misrepresentations and omissions to an advisory client. The auditor may issue a qualified opinion, adverse opinion, or disclaimer of opinion on the operating effectiveness of
internal control over financial reporting. The detail tie-in objective is concerned that the details on lists are accurately prepared, correctly added, and agree with the general ledger. Management may refuse to allow the auditor to send confirmation requests to certain customers. Additionally, auditors should also apply professional skepticism as they
consider how management responds to the auditor's inquiries. Briefly outline key points that you would make in your presentation to address these questions. The reason can be honest optimism about future events or an intentional emphasis designed to influence users. To ensure that the principles in auditing standards are followed on every audit, a
CPA firm follows specific quality control procedures that help it meet those standards consistently on every engagement. He had a heart for sharing his knowledge of auditing with students throughout his career. Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 591 required 4. Other internal audit staffs may
have more than 100 employees who have diverse responsibilities, including many outside the accounting area. The only parties who can recover from auditors under the 1933 act are the original purchasers of securities. reliance on evidence from the prior Year's audit When auditors plan to use evidence about the operating effectiveness of internal
control obtained in prior audits, auditing standards require tests of the controls' effectiveness at least every third year. Confirmation requests were sent to a stratified sample of 51 vendors listed in Figure 16-8. Before goods are shipped, a properly authorized person must approve credit to the customer for sales on account. Identify the four audit
evidence decisions that are needed to create an audit program. (1) The financial statements are free from material misstatement, and no disclosure is required in the notes to the financial statements taken as a
whole. G. After reconciling timing differences and customer errors, the following 12 items were determined to be client errors (understatements) stated in applications that are available only electronically. Adverse relationships between management and
employees with access to assets susceptible to theft motivate employees to misappropriate those assets. You complete the audit of Munich Department Store, and in your opinion, the financial statements are fairly presented. She told the company that her husband was dying and asked that they sell the drug for a lower price or let her pay later.
Although a discreditable act is not well defined in the rules or interpretations, some of the requirements are discussed below. Such specificity would eliminate some difficult audit decisions and provide a line of defense for a CPA firm charged with conducting an inadequate audit. As a result, inventory is susceptible to manipulation by managers who
want to achieve certain financial reporting objectives. The choice of which types of tests to use and how extensively they need to be performed can vary widely among audits for differing levels of internal control effectiveness and inherent risks. The appeals court held that one who breaches a duty of inquiry and disclosure owed another is liable in
damages for aiding and abetting a third party's violation of Rule 10b-5 if the fraud would have been discovered or prevented had the breach not occurred. Based on your audit work, you have substantial doubt that Deep Clean will be in business by the end of its next fiscal year. Assume that the audit report date for December 31, 2015, financial
statements is February 10, 2016, but the registration statement is dated November 1, 2016. For example, the percent of each expense category to total sales can be compared with that of previous years. Because this procedure is relatively time-consuming, it is ordinarily performed only when specific concerns with embezzlement exist because of a
deficiency in internal control. One of the underlying principles in auditing standards is that: Auditors are responsible for having appropriate competence and business processes, an auditor should assess management's philosophy and operating style and its
ability to identify and respond to risk, as these significantly influence the risk of material misstatements in the financial statements. Figure 3-5 presents such an explanatory paragraph. The sales are done in cash or credit, using the store's own billing rather than credit cards. For each objective, list one audit procedure. Note that two of the
characteristics that determine the appropriateness of evidence—relevance and timeliness—are not included in Table 7-4. "Mark Gill". A common way to divide an audit is to keep closely related types
(or classes) of transactions and account balances in the same segment. When the auditor develops expectations using substantive analytical procedures and concludes that the client's ending balances in the same segment. When the auditor develops expectations using substantive analytical procedures and concludes that the client's ending balances in the same segment.
update the supplier list with reference to the suppliers' quality and price on an annual basis. 11-25 (Objective 11-3) The division of the following duties is meant to provide the best possible controls for the Meridian Paint Company, a small wholesale store: †1. 189) illustrates the significant overlap between the transaction-related and balance-related
audit objectives. These are listed in Table 2-3 with brief descriptions and procedural examples that firms might use to satisfy the requirement. Although the credits, the audit partner, Mark Jack, accepted the credits based on the credits, the audit partner, Mark Jack, accepted the credits based on the credits, the audit partner, Mark Jack, accepted the credits based on the credits based on the credits, the audit partner, Mark Jack, accepted the credits based on the credit based o
officers. 4-8 (Objective 4-6) What consulting or nonaudit services are prohibited for auditors of public companies? If IT systems fail, organizations can be paralyzed by the inability to retrieve information or by the use of unreliable information caused by processing errors. All three of these difficulties are considered in the allocation in Figure 8-7
(p. 264). Chapter 8 / Audit PlAnning And MAteriAlity 269 reporting investigated by the SEC, the chief executive officer (CFO) was named as being involved in perpetrating the fraud, representing almost 90 percent of the cases. The president stated that it was impractical to count all inventory on the same day because of
personnel shortages and customer preference. While at home during her semester break, she and her father discussed the following questions: a. Even if the estimated misstatement is less than performance materiality for accounts receivable, the
misstatements found in a sample can be symptomatic of a more serious problem. This practice overstated revenue by $2.5 billion over a three-year period. Often the risk of fraud is high for accounts that are based on management's subjective estimation. Under this concept, a foreseen user is treated the same as a known third party. required 6-32
(ObjeCtive 6-10) The following (1 through 18) are the balance-related, transaction related, and presentation and disclosure-related audit objectives. Performing preliminary analytical procedures is the third step in the planning process and is discussed next. Source: Adapted from Ken Tysiac, "Learn from Data to Improve Audits," Journal of
Accountancy (September 2014), pp. John reviewed the schedules in detail and tested the key calculations. Chapter 3 / Audit RepoRts 85 For example, assume that the auditor believes there is a $100,000 overstatement of inventory because of the client's failure to follow GAAP. (1) Population size (2) Expected population exception rate (3) Tolerable
exception rate (4) Acceptable risk of overreliance c. If attributes sampling is used, (1) What changes will be made to your discussion in part b (1)? Draft appropriately modified opinion audit reports under a variety of circumstances. In contrast, the auditor's responsibilities include understanding and testing internal control over financial reporting. You
believe that management is somewhat lacking in personal integrity compared with the previous management. 470 Part 2 / The AudiT Process tabLe 13-7 Timing of Tests phase I Plan and design audit approach. (c) Large performance materiality as a percent of account because account because account can be verified at extremely low cost, probably with substantive
analytical procedures. As a result, to address the presumption of a fraud risk over revenue recognition, many auditors perform substantive tests of transactions. The first division, Welburn, has been in existence for 35 years and creates powerful diesel engines for boats, trucks, and commercial farming equipment
Most companies prepare budgets for various aspects of their operations and financial results. Deliver daily cash deposits to the bank. in Figure 14-6 of having "one starting point" procedures followed by other related procedures. A small company may find it less expensive to pay higher interest costs than to incur the costs of reducing information risk
integRated case application — pinnacle manufacturing: paRt vi 15-36 (Objectives 15-3, 15-5, 15-7) In Part V of the Pinnacle Manufacturing case, you prepared a performance format audit program. Distinguish the different types of risk assessment procedures. The two main disadvantages of questionnaires are their inability to provide an overview of
the system and their inapplicability for some audits, especially smaller ones. An auditor might use ratio information to identify areas where Hillsburg faces increased risk of material misstatements. The methodology for designing tests of controls and substantive tests of transactions is, in concept, the same for each of the five classes of transactions
and includes the following steps: • Understand internal control • Assess planned controls • Design tests of controls of the SAleS And ColleCtion CyCle 509 • Determine the extent of tests of controls of controls and substantive tests of controls of tests of controls of tests of controls of the SAleS And ColleCtion CyCle 509 • Determine the extent of tests of controls of tests of tests of controls of tests of controls of tests of tests of controls of tests of 
transactions, auditors focus on testing internal controls that they intend to rely upon to reduce control risk. Refer to Table 5-1 for distinctions among these three levels of negligent actions. Touche (1931) Credit Alliance v. If timely correction is made by management, the corrected controls will be tested before year-end for purposes of reporting on
internal control over financial reporting. This chapter describes the audit, and the specific objectives of the audit, the auditor tries to accomplish. This resulted in a very smooth audit with fewer adjusting entries arisen from the audit. Balance Sheet Cycle accounts Sales and collection
Acquisition and payment Payroll and personnel Inventory and warehousing Capital acquisition and repayment required Income Statement accounts Chapter 6 / Audit Responsibilities And objectives 199 b. China Metal recycling enjoyed a number of profitable years and successfully had its shares listed on the Hong Kong Stock Exchange. Both
overstatements and understatements must be considered. above help the auditor in testing accounts receivable? trading of the company's shares was suspended from January 2013. A difficulty with sharing information risk with management is that users may not be able to collect on losses. Granting Credit Shipping Document Appendix of the company's shares was suspended from January 2013. A difficulty with sharing information risk with management is that users may not be able to collect on losses.
shipping document is prepared to initiate shipment of the goods, indicating the description of the merchandise, the quantity shipped, and other relevant data. Examine subsequent cash receipts and the credit file on all larger accounts over 90 days and evaluate whether the receivables are collected. If users of services do not have confidence in
physicians, judges, or CPAs, the ability of those professionals to serve clients and the public effectively is diminished. 6-2 Distinguish management's responsibility for the financial statements from the auditor's responsibility for the financial statements from the auditor's responsibility for the financial statements from the auditor's responsibility for the financial statements.
Individuals at each level of the audit supervise and review the work of others at the level just below them in the organizational structure. The following is an important part of the court's opinion in the case: • Accountants should not be held to a higher standard than that recognized in their profession. Inherent risk represents the auditor's assessment
of the susceptibility of an assertion to material misstatement, before considering the effectiveness of the client's internal controls. For example, the accuracy of sales transactions can be examined by testing from a duplicate sales invoice to a shipping document or vice versa. An increased risk of material misstatement should be incorporated in the
auditor's evaluation of inherent risk or control risk, which will then affect the appropriate extent of evidence. State the appropriate audit report on internal control over financial reporting for the four companies. These should not be taken lightly as such occurrences would jeopardize investors' confidence in the stock market. • Form 10-Q.
Communications to those Charged with Governance and Management Letters cate significant deficiencies and material weaknesses in writing to those charged with Governance as soon as the auditor becomes aware of their existence. Observe that the tests of controls in
Table 14-2 relate directly to the internal controls. Dodge is planning to use accounts receivable confirmation requests to obtain sufficient appropriate evidence as to trade accounts receivable. As indicated in Table 14-2, the lack of verification to prevent the possibility of duplicate recording of sales invoices is a deficiency at Hillsburg Hardware Co.
confirmations from persons not familiar with the business world. They also are unlikely to have an effect on the following is true or false and give yourseld to the audit of internal control throughout all these transaction cycle chapters. State whether each of the following is true or false and give yourseld to the audit of internal control throughout all these transaction cycle chapters.
reasons: a. Organize your answer as follows:* Brief Description of principle 2-20 (Objective 2-6) International Standards on Auditing (ISAs) are issued by the International Auditing and Assurance Standards Board (IAASB). The auditor also performs audit procedures to
obtain assurance about the four presentation and disclosure-related audit objectives described in Chapter 6. When information is obtained from others, the likelihood of it being intentionally misstated increases. When lawsuits are filed in state court, state laws determine which approach to damages applies. n = sample size 100
accounts receivable are selected randomly from the aged trial balance containing 4,000 accounts. 400 Acts discreditable X X 510 Contingent fees X A member in public practice shall not perform for a contingent fee any professional service if the member also performs for the client an audit, review, or certain compilations of financial statements, or
an examination of prospective financial statements. are chains of soft drinks and beverage products industry that cater to customers who desire soft drink and beverage goods at certain prices. As shown in Figure 10-1, these three conditions are referred to as the fraud triangle. The cash is deposited in the bank the next morning by Diab, and he
receives Chapter 11 / Internal Control and CoSo Framework 405 a deposit slip, which he gives to the accounts receivable clerk. The cash generated is used to pay dividends and interest or finance capital expansion and to start the Figure 6-6 relationships among transaction Cycles General cash Capital acquisition and repayment cycle Sales and
collection cycle Acquisition and payment cycle Inventory and warehousing cycle 180 Part 2 / The Audit Process Payroll and personnel cycle cycles again. Should focus on enhancing the auditor's understanding of the client's business and the transactions and events that have occurred since the last audit date 2. Does the accountant independently
reconcile the bank account? To minimize this risk, the auditor relies primarily on (1) substantive tests. Benchmarks are Needed for evaluating Materiality Because materiality is relative, it is necessary to have benchmarks are Needed for evaluating Materiality is relative, it is necessary to have benchmarks are Needed for evaluating Materiality is relative, it is necessary to have benchmarks for establishing whether misstatements are material.
affiliated companies, amounts due from officers, cash disbursements made payable to cash, and accounts receivable outstanding for several months. • Although the audit opinion on the financial statements addresses multiple reporting periods, the auditor's opinion about the effectiveness of internal control is as of the end of the most recent fiscal
year. Two new staff auditors are assisting you with the initial audit planning and have asked you the following questions. For example, assume that management recorded prepaid insurance as an asset in the previous year and decides to expense it in the current year to reduce record-keeping costs. Clients implement database management systems to
reduce data redundancy, improve control over data, and provide better information for decision making by integrating information throughout functions and departments. The partners think he's great because his jobs always come in under budget. Some companies, for example, automatically prepare a multicopy prenumbered sales invoice at the
time a customer order is received. This responsibility includes selecting the appropriate accounting principles and maintaining internal control over financial Objective 3-1 Describe the parts of the standard unmodified opinion audit report for nonpublic entities under AICPA auditing standards. Independent auditors' report to the members of Tesco
PLC is on Page 145 of 2015 Annual Report and Financial Statement. For these 12 examples, state the most likely type of auditor (Chartered Accountant, GAO, IRS, or internal) to perform each. An example of a low control risk is adequate separation of duties between asset custody and accounting. To document the understanding of the design of
internal control, I suggest using internal control questionnaire only as this method has no disadvantages and it is a quick way to complete the procedures which involves only a 'yes' or 'no' to responses." Comment on Kelly's statements. For recorded sales in the sales journal, the file of supporting documents includes a duplicate sales invoice, bill of
lading, sales order, and customer order (procedure 14). Another is a plastic bushing that is used with certain fastener systems. Mr. John is a member of ABC Outing's board of directors. Donalds & Company, CPAs, audited the financial statements included in the annual report submitted by Markum Securities, Inc., to the SEC. Assume that you define
materiality for the financial statements as a whole as a combined misstatement of earnings from continuing operations before income taxes of 5%. Decide whether audit report release. Approximately 75 percent of sales earn sales commission
PCaOB release No. 105-2011-002, april 5, 2011 (pcaobus.org/Enforcement). D There is a lack of control to test for timely recording (D2). An auditor's decision either to apply analytical procedures as substantive tests or to perform substantive tests or to perform substantive tests of transactions and account balances usually is determined by the (1) availability of data aggregated at
a high level. Because a less precise estimate is needed (TER minus EPER is larger) for attributes 7 and 8, a sample size of only 50 items is needed. B. Ideally, clients establish several controls to reduce the likelihood of uncollectible accounts. Calculate analytical procedures indicated in carry-forward audit schedules (not included) and follow up on any
significant changes from prior years. Hint: See pages 241-243 for guidance on calculating the point estimate. How will this situation affect the evidence you should accumulate in auditing fixed assets as compared with another audit in which the controls, as long as the computer is programmed accurately and
control environment has on other components of internal control, the six categories of general controls have an entity-wide effect on all IT functions. As a result, the Code has been restructured to provide separate guidance for members in public practice, those in business, and other AICPA members, such as members who are retired or no longer
working. 500 Testing and evaluating controls over revenue. (4) sampling risk. —In six cases there were no initials for internal verification. There are currently no proposals to further restrict consulting and advisory services beyond the restriction in the Sarbanes-Oxley Act. • A policy of writing off uncollectible accounts when they are no longer
likely to be collected. assess Control risk for the Sales and Collection Cycle The methodology for evaluating control risk will be applied to both sales and cash receipts in the audit of accounts receivable. Some substantive tests of transactions will also be included. 15-34 (Objectives 15-6, 15-7) The sampling data sheet below is missing selected
information for six attributes involving tests of transactions for the sales and collection cycle. Jacob Blunge, "Regulators Probe Role of 'Glitches' in Market Upheavals," NASDAQ News (June 27, 2012) (www.nasdaq.com); 2. What audit objective does this procedure satisfy? Wide area networks (WANs) link equipment in larger geographic regions
including global operations. review accounting estimates for Biases Fraudulent financial reporting is often accounting estimates. Lake was under a lot of pressure to get the job completed and decided to make the statistical calculations himself. Is there independent comparison of the quantity on the
shipping documents to the sales invoices? Assume the auditor accepts the control as effective based on tests of the control components is best represented by each internal control. When the auditor determines that the internal controls are not
operating effectively, management should be informed in a timely manner. 2 Inv. (4) knowledge and understanding of the client's prescribed procedures and methods. For example, PCAOB Standard 5 (AS 5) addresses audits of internal control over financial reporting required by the Sarbanes-Oxley Act. The cost of the audit is likely to be relatively
high because of the amount of detailed substantive testing. Regardless of the auditor is deemed to lack independence under the rules of the auditors are responsible for looking beyond generally accepted
accounting principles to determine whether users might be misled, even if those principles are followed. • Perform the audit procedure for each of the 100 items and determine that three exceptions exist. No circumstances were identified in the continuation review to cause discontinuance. 500) as a frame of reference for completing the sampling
data sheet. Chapter 5 / LegaL LiabiLity 147 foreseeable user approach, and thus toward the first two approaches. The 1136 Tenants case was important chiefly because of its emphasis on the legal liability of the CPA when associated with (1) an SEC engagement. I want you to throw away the schedules where you tested the last 40 small items and
       t vou ever did them." 136 Part 1 / THE AUDITING PROFESSION When Barbara asked about the possible audit adjustment regarding the small items, none of which arose from the first 10 items, Jack responded, "Don't worry, it's not material anyway. There is an answering service for the phone system, but no one returns my call. The auditor's
responsibilities regarding noncompliance with laws and regulations (frequently referred to as illegal acts) depend on whether the laws or regulations are expected to have a direct effect on the amounts and disclosures in the financial statements. What factors should an auditor consider prior to accepting an engagement? coDe of professioNal coNDuct
Members of the AICPA agree to follow the AICPA code of Professional Conduct. Objective 6-9 Link transactions receipts and the related accounts receipt accounts receipt accounts receipt and the related accounts receipt accounts received accounts receipt accounts received accounts recei
concerned with keeping accurate records to maintain good relations with customers. The scandal has so far caused the energy company to lose at least $2 billion. Estimate the population deviation or exception rate. When customers do not respond to confirmation requests, auditors examine supporting documents in the same way as described for the
existence objective. • Inform Charles that he will not work the additional hours or will charge the ad- ditional hours to the engagement. Specific authorization applies to individual transactions. Identify the major factors affecting client business risk and acceptable audit risk for this audit. discussion QuesTions And problems 13-22 (Objectives program
required 476 13-1, 13-2) The following are 11 audit procedures taken from an audit 1. Auditing standards require the audit in response to those assessed risks. Extensive detailed financial information, including audited financial statements, is contained in this
report. (For the purpose of this textbook chapter, however, we will assume that complete details are included on bills of lading.) The bill of lading is often transmitted electronically, once goods have been shipped, and automatically generates the related sales invoice as well as the entry in the sales journal. On appeal, the Second Circuit Court of
Appeals concluded that there had been sufficient evidence for the jury to conclude that the CPA firm had knowledge of the fraud. However, the auditor must be persuaded that the opinion is correct with a high level of assurance. • Use distracting noises, such as finger tapping or drumming.
                                                                                                                                                                                                                                                                                                                                                                                  the sales journal and
ledger. The letter representing a cycle is shown for each account in the left column beside the account name. Part 1 / THE AUDITING PROFESSION Livent's restatement in 1998 of the unqualified financial statements of 1996 and 1997 was disastrous. (1) The accountants cannot recover their fee and are liable for $187,000. (3) the results of internal
examinations of financial and accounting matters to a company's top-level management. His son, Jonathan Man was appointed to fill in the position. Over half of companies reports. If parents, teachers, employers, siblings, coworkers, and friends all
consistently lied, it would be almost impossible to have effective communication. this is a key element of the company's philosophy. Classification Cutoff Detail tie-in realizable value rights and obligations the company's philosophy.
sampling, testing of Controls related to Significant risks As described in Chapter 9, significant risks are those risks that the auditor may identify unusual sales activity. PCAOB auditing standards state that fraud of any magnitude by senior management may have
important implications for the auditor's opinion on internal control over financial reporting, which is discussed in Chapter 12. Chapter 6 / Audit Responsibilities And objectives 183 assertions related to account balances, as shown in Table 6
3 (p. (Summarize and Total) Which customer number has the largest balance due? The auditor also designs substantive tests of transactions for each class of transactions for each class of transactions are correctly recorded. As stated in Chapter 15, "Audit sampling applies whenever the auditor plans to reach
conclusions about a population based on a sample." Although auditors commonly sample in many accounts, in some situations sampling does not apply. The Auditing Standards Board in the U.S. has revised its audit standards to converge with the international standards. Purposes of Analytical Procedures During the Audit Engagement As this
discussion illustrates, the purposes of analytical procedures and their nature depend on when they are used during the audit. Compilation and review standards, reports Involving Other auditors 1. Because inventory is material for most manufacturing companies, it is common to borrow money using inventory as security, reliance on Service Center
auditors In recent years, it has become increasingly common for service center to engage a CPA firm to obtain an understanding and test internal controls of the service center (often referred to as "service centers to engage a CPA firm to obtain an understanding and test internal controls of the service center (often referred to as "service centers to engage a CPA firm to obtain an understanding and test internal controls of the service center (often referred to as "service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service center (often referred to as "service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and test internal controls of the service centers to engage a CPA firm to obtain an understanding and
might calculate the gross margin percentage for total sales, while during substantive testing of accounts receivable, the auditor might calculate gross margin percentage by month or by line of business, or possibly both. It should also state any restrictions to be imposed on the auditor's work, deadlines for completing the audit, assistance to be
provided by the client's personnel in obtaining records and documents, and schedules to be prepared for the auditor. (1) (2) (3) (4) Increase sample size Decrease sample size Decrease sample size Increase sample size Increase in tolerable Misstatement Increase in tolerable Misstatement Increase sample size Increase sample 
sample size Decrease sample size 17-20 (Objectives 17-2, 17-3, 17-4) The following apply to evaluating results of audit sampling for tests of details of balances. Identify which of the conditions requiring a modification of or a deviation from an unqualified report is applicable. Most countries, including the United States, base their auditing standards on
ISAs, modified as appropriate for each country's regulatory environment and statutory requirements. the association of Certified Fraud Examiners Web site (www.acfe.org); 2. Pay will be affected. The cash receipts journal is prepared by the treasurer's department. Times interest earned 4. Of course, it does not do much good to have prenumbered
documents unless they are properly accounted for. These were maintained on a perpetual inventory management system that used a relational database. When the auditor concludes that there is a risk of material misstatement due to fraud, auditing standards require the auditor to treat those risks as significant risks. after misappropriating these
funds, he violated an investment adviser bar imposed in the other matter by continuing to associate with an investment adviser. Timely recorded transactions are also less likely to contain misstatements. Chapter 10 / Assessing And Responding to FRAud Risks 363 essenTial Terms Assessment inquiry—inquiry to corroborate or contradict prior
information obtained Earnings management—deliberate actions taken by management to meet earnings objectives Fraud risk factors—entity factors that increase the risk of fraud 
changes in financial statement numbers compared to the previous period Income smoothing—form of earnings Informational inquiry—inquiry to obtain information about facts and details the auditor does not have Interrogative inquiry—
inquiry used to determine if the interviewee is being deceptive or purposefully omitting disclosure of key knowledge of facts, events, or circumstances Premature revenue have been met Vertical analysis—analysis—analysis in which financial statement
numbers are converted to percentages of a base; also called common-size financial reporting and give two examples that illustrate fraudulent financial reporting. Which are prohibited by the Sarbanes-Oxley Act or the SEC? It has similarly prohibited a number of CPA firms
from accepting any new SEC clients for a period, such as six months. —In one case freight was not charged. In each case, auditors compare client data with: 1. It is as follows: Statistical Inference CIx = X^ \pm Z · SE where: CI x = confidence interval for the population mean X^ = point estimate of the population mean II 1 = 68.2% confidence level Z =
confidence coefficient \langle 2 = 95.4\% confidence level \langle 3 = 99.7\% confidence \langle 3 = 99.
results can also be stated in terms of confidence limits (CIx). 11-4 (Objective 11-2) When performing an integrated audit of a public company, what are the auditor's responsibilities related to internal control as required by PCAOB standards? This success led him to make even bolder bets. To prevent fraud, management should deny cash access to
anyone responsible for entering sales and cash receipts transaction information into the computer. During December 2016, WRS increased its casualty insurance coverage on several pieces of sophisticated machinery from historical cost to replacement cost. However, it is essential that either method be applied with due care. Even if the count is
correct, management might override the procedure and instruct an employee to increase the count to improve reported earnings. What is the objective of an audit of internal control over financial reporting according to PCAOB auditing standards? Relaxing either TER or ARO may be difficult to defend if the auditor is ever subject to review by a 540
Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Figure 15-5 Analysis of Exceptions CLIENT: Hillsburg Hardware ANALYSIS OF EXCEPTIONS YEAR-END: December 31, 2016 Attribute Number of exceptions 2 2 4 10 5 Nature of exceptions MSW Prepared by:
                                                                                                                                                                                                                                                                                                                                                                                  Date: 11/15/16 Effect on the financial statement audit
and other comments* Both errors were posted to the wrong account and were still outstanding after several months. The increase in receivables and merchandise inventory in 2015 compared to 2014.
adequate Documents and records Because each company has a unique system of originating, processing, and recording transactions, auditors may find it difficult to evaluate whether each client's procedures are designed for maximum control. 5. Substantive testing c. These problems are related to the topic of the chapter so that students can see how
audit software is used to perform specific types of audit tests. • Bellamy issued debentures on January 31, 2015, in the amount of $10 million. What other restrictions and requirements apply to auditor's primary concern in the audit of
the write-off of uncollectible accounts receivable is the possibility of client personnel covering up an embezzlement by writing off accounts receivable that have already been collected (the occurrence transaction-related audit objective). Do not result in detection of misstatements 5. A manager may be responsible for more than one engagement at the
same time. Objectivity and Independence A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. Figure 14-1 shows the way accounting information flows through the various accounts in the sales and collection cycle. Table 7-4 includes the eight types of evidence related to five of the six
criteria that determine the reliability of evidence. Refer back to Figure 15-5 and you can see that: • Substantive tests of transactions results for the accuracy objective were only fair because of exceptions found for attribute 2 (procedure 13a). The most commonly reported types of differences in confirmations include: Part 3 / APPlicAtion of the Audit
Process to the sAles And collection cycle payment has already Been Made Reported differences typically arise when the customer has made a payment in time for recording before the confirmation date. Buscuits and Cream operate as a partnership in Glasgow. List the
deficiencies in internal control for each of these situations. We discussed these earlier, but we review them again here. Although concerns were raised over the years about the consistency of the returns generated, and the SEC investigated Madoff several times, his scheme was not revealed until the market plunge in 2008 triggered investor
withdrawals from the firm. 194 Part 2 / The AudiT Process c. The relationships among performance materiality and the four risks to planned audit evidence are shown in Figure 9-5. We did not audit the financial statements of Stewart Pane and Lighting, a wholly-owned subsidiary, which statements reflect total assets constituting 20 percent and 22
percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent, respectively, of consolidated total assets at December 31, 2016 and 2015 and 2016 
objectives 175 table 6-1 Strategies to Mitigate Common Judgment tendency Confirmation: the tendency Confirmation that is consistent with initial beliefs or preferences Make the opposing case and consider potentially disconfirming disconfirming tendency to put more weight on information that is consistent with initial beliefs or preferences Make the opposing case and consider alternative explanations.
or conflicting information Overconfidence: the tendency to overestimate one's own abilities to perform tasks or to make accurate assessments of risks or other judgments and decisions Challenge opinions and experts Challenge underlying assumptions Anchoring: the tendency to make assessments by starting from an initial value and then adjusting
insufficiently away from that initial value Solicit input from others Consider management bias, including the potential for fraud or material misstatements Availability: the tendency to consider why something comes to mind Obtain and
consider objective data Consult with others and make the opposing case Source: Professional Judgment Resource, Provided courtesy of the Center for audit Quality (2014). For example, most auditors treat fixed assets and notes payable as different segments. All accounts receivable have been recorded. As shown in the COSO cube in Figure 11-2
(p. 364), the organizational structure can consist of the entity level, divisions, operating units, and functions within those units, and functions within those units, and controls operate at each of these levels. Table 1-1 lists some of the other assurance service opportunities for CPAs. Additional information on the performance of assurance and attestation services is included in Chapter
25. Nearly 75% of all first-time customers make at least one additional purchase within one year of their first purchase. During the audit, he noticed that there was one major software development, which needed to be impaired as there is no market for software development, which needed to be impaired as there is no market for software development, which needed to be impaired as there is no market for software development.
cycle when it develops in-house software. Why is the framework needed? Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Attributes Sampling Data Sheet: Tests of Hillsburg Hardware Co.'s Billing Function Figure 15-8 Year-end: 12/31/16 Pop. Undue influence The threat that a member will subordinate his or her judgment to
an individual associated with a client or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personnel, they are called manual controls. Some companies establish a reserve, similar to the
allowance for uncollectible accounts, for the expected amount of returns in the subsequent period. In audits of nonpublic companies and non-accelerated filers, there is no requirement for an audit of internal control over financial reporting. These procedures are especially important if a few large balances are noncurrent and are not being paid on a
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regular basis. When the auditor decides that adherence to GAAP would result in misleading statements, there should be a complete explanation in an added paragraph. Locate Management's Annual Report on Internal Control Over Financial Report Over Financial Report Over Financial Report Over Financial Repot Over Financial Report Over Financial Report Over Financial Re
effective internal controls? Identify the sequence in which the auditors must be careful not to rationalize or assume a misstatement is an isolated incident. This chapter deals with the types of evidence available to auditors, and the use of that evidence in performing audits
and documenting the results. All trademarks used herein are the property of their respective owners. Even with these efforts, some customers do not return the confirmation, so it is necessary to follow up with alternative procedures. Appropriateness of evidence is a measure of the quality of evidence, meaning its relevance and reliability in meeting
audit objectives for classes of transactions, account balances, and related disclosures. performance Responsibilities related to the performance of the audit related to auditor activities in any such control activities in any
entity, including controls performed manually and controls built into a computer-based system (automated controls). For example, assume that the auditor is concerned that a client is failing to bill customers for shipments (completeness transaction objective). Our objective is to provide up-to-date coverage of globally recognized auditing concepts
with practical examples of the implementation of those concepts in real-world settings. The instruction should state what the auditor who is skilled in using inquiry evaluates verbal and nonverbal cues An auditor who is skilled in using inquiry evaluates verbal and nonverbal cues when listening to the interviewee. The objective of effective
internal control over financial reporting is to fulfill these financial reporting responsibilities. The financial reporting facts. Do the same thing for cash disbursements that you did in requirement a. For example, the auditor normally makes limited
tests to ascertain that the information in the sales journal has been included for the proper customer and at the correct amount in the subsidiary accounts receivable records and is accurately summarized in the general ledger. This change in policy is fully disclosed in footnotes. The firm was ultimately convicted of one count of obstruction of justice
Production supervisors complete a requisition form when they are in need of raw materials. Typically, the journal or listing includes totals of every account number for the time period. There are also both general and specific balance-related and presentation and disclosure-related audit objectives. He writes a check for himself in the amount of an
invoice, then cancels the check originally written to pay for the invoice. Identify tasks that she does that strengthen the cloud and share research projects with staff members working in another office easily. ASIC is of the view that during the
audit of ABC's 2007 financial report, Mr. Green failed to perform analytical procedures at disaggregated levels. trace sales journal entries
to supporting documents, including duplicate sales invoice, bill of lading, sales order, and customer order (14). Is a record of shipments maintained? In Chapter 17, we'll address sample size and selecting items from the population for testing. As in any profession, the level varies among practitioners. Specific recommendations are needed to correct
the internal verification of sales invoices and to improve the approach to credit approvals. What is your assessment of the data control function at Jacobsons? Similarly, if the CPA firm sues management for fraudulent financial reporting or sales or
those involved with complex or unusual transactions, may provide insights about risks related to revenue recognition or issues involving valuation of receivables. Perform expanded tests 3. . In response, Ramses Abdullah, the president of Nashwa, and handed the phone to the staff auditor.
The size and age of unpaid balances can then be compared with similar information from previous years to evaluate whether the amount of noncurrent receivables is increasing over time. explanation audit Objectives These are the objectives of an audit that must be met before the auditor can conclude that any given class of transactions
or account balance is fairly stated. Existing cash disbursement transactions are recorded. STATEMENT FROM ADVENT SIGN MFG. Explain how auditor if such restrictions came up. 16-6 (Objective 16-3) Why does an auditor review sales returns subsequent to year-end? Chapter
17 / Audit SAmpling for teStS of detAilS of BAlAnCeS 629 The standard deviation has a significant effect on the computed precision interval. In practice, the procedures to gain an understanding of internal control vary considerably from the flowchart in
Figure 14-3 and the internal control checklist in Figure 12-2 (p. An auditor's preliminary analysis of accounts receivable turnover revealed the following is the most likely cause of the decrease in accounts receivable turnover? But the substantive tests of
transactions procedures and sample size, in part, depend on the results of the tests of controls. Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 589 (3) Inquire about receivable spledged under loan agreements. An audit of a private company in Egypt with no public equity or debt. Qualify the Opinion Accounts ReCeivable 589 (3) Inquire about receivable spledged under loan agreements.
qualified opinion or disclaimer, depending on materiality, is required if the principal auditor is not willing to assume any responsibility for the work of the other auditor. CPA firms perform numerous other services that generally fall outside the scope of assurance services. But she had made great progress on the Solberg engagement. After you decide
on the deficiencies, include each deficiency in the bottom portion of one of the two matrices. Nefret's Chapter 7 / Audit EvidEnCE 253 controller initially stated that they were a payment so that Nefret would continue to use Nashwa as a
supplier. Typically, fraudulent financial reporting is committed by management, sometimes without the knowledge of employees. The organization of the Preface and then includes Rules for members in business and others. Required Identify
deficiencies in the sufficiency and appropriateness of the evidence gathered in the audit of accounts payable of Nefret Stores. • Bank reconciliation—done monthly by the treasurer. The control activities generally fall into the following five types, which are discussed next: 1. The risk of material misstatement at the overall financial statement levels.
refers to risks that relate pervasively to the financial statements as a whole and potentially affect a number of different transactions and accounts. Invoice No. required Comment 5028 Sales invoice was originally footed incorrectly but was corrected by client before the bill was sent out. How and where they believe the entity's financial statements
might be susceptible to material misstatement due to fraud. (2) Have an independent auditing firm examine and report on management's assertion about the design and operating effectiveness of the control activities relevant to inventory.
Other attestation Services CPAs provide numerous other attestation services. What kinds of inquiries about fraud risks are required by PCAOB Standard No. 12? Management also created false bank statements to reflect payments on the false invoices and support the fictitious cash balances. The auditor's opinion on the effectiveness of internal
controls is as of the end of the fiscal year. html (accessed 9 October 2015), Sa Partners (2012) toyota's Monozukuri, Sa Partners LLP, Caerphilly, United Kingdom apartners.com/wp-content/uploads/2012/08/Toyotas-Monozukuri.pdf (accessed 9 October 2015). The wording of the financial statements in the report should be identical to the titles used by
management on the financial statements. Calculate the difference between your expectation and the client's recorded amount)/expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - recorded amount)/expected value - recorded amount as a percentage using the formula (expected value - r
exposure to lawsuits: 1. contents prefACe 17 The AudiTing Profession The demAnd for Audit And oTher AssurAnce services leArning oBJeCtives 27 Nature of Auditing 30 Economic Demand for Auditi
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Commission 54 American Institute of Certified Public Accountants (AICPA) 55 International and U.S. Auditing Standards 56 Organization of U.S. Auditing Standards 57 Organization of U.S. Auditing Standards 58 Organization of U.S. Auditing Sta
Problems 68 ChApter 3 ChApter 3 ChApter 4 6 CONTENTS 66 AudiT rePorTs leArning oBJeCtives 70 Standard Unmodified Opinion Audit Report and Report on Internal Control Over Financial Reporting Under PCAOB Auditing Standards 74
Unmodified Opinion Audit Report with Emphasis-of-Matter Explanatory Paragraph or Nonstandard Report Wording 78 Modifications to the Opinion 87 Auditor's Decision Process for Audit Reports 90 International Accounting and Auditing Standards 92
Summary 93 Essential Terms 93 Review Questions 94 Multiple Choice Questions from CPA Examinations 95 Discussion Questions and Problems 96 ProfessionAl eThics leArning oBJeCtives 102 What Are Ethics? During 2016, litigation filed against WRS in 2003 alleging that WRS discharged pollutants into state waterways was dropped by the state.
Customers use the link to the inventory parts listing on the Web site to view product descriptions and prices. 16-11 (Objective 16-4) Under what circumstances is it acceptable to confirm accounts receivable before the balance sheet date? These risks are assessed in order to design effective audit procedures. The original and second copies for each
sale are given to the cashier. When was the audit completed? j. The audit comp
describe assurance services, including auditing and the role of certified public accounting (CPA) firms and other organizations in performing audits of financial statements and other information. The distribution for a sample size of 100 from a population with a 5 percent exception rate differs from the previous example, as will the distribution for a
sample of 50 from a population with a 3 percent exception rate. • Designed for multiple use, when possible, to minimize the number of different forms. Accounts receivable consists of 4,000 accounts listed on the aged trial balance with a recorded value of $600,000. Despite the auditor's best efforts in planning, the assessments of acceptable audit
risk, inherent risk, and control risk, and control risk, and therefore planned detection risk, are highly subjective and are only approximations of reality. (3) is the accountant's client. Thus, the audit is not designed to detect deficiencies in internal control that individually, or in the aggregate, are less severe than a material weakness. A 95 percent confidence level
provides a 5 percent sampling risk.) 524 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle In nonstatistical sampling, auditors do not quantify sampling risk. Cash disbursement transactions are properly classified. Typical controls developed for manual systems are still important in IT systems, such as: application Controls developed for manual systems are properly classified.
Management's authorization of transactions • Adequate preparation of input source documents • Competent personnel Controls specific to IT include: • Adequate preparation of transaction information • Pull-down menu lists of available software options • Computer-performed validation tests of input
accuracy, such as the validation of customer numbers against customer master files • Online-based input controls for e-commerce applications where external parties, such as customers and suppliers, perform the initial part of the transaction inputting • Immediate error correction procedures, to provide for early detection and correction of input
errors • Accumulation of errors in an error file for subsequent follow-up by data input personnel Chapter 11 / Internal Control and CoSo Framework 393 tabLe 11-3 Batch Input Controls Control Definition Examples Financial total Summary total of field amounts for all records in a batch that represent a meaningful total such as dollars or amounts The
total of dollars of all vendor invoices to be paid Hash total Summary total of codes from all records in a batch that do not represent a meaningful total The total of physical records in a batch The total of wendor invoices to be processed For IT systems.
that group similar transactions together into batches, the use of financial batch totals, and record count totals helps increase the accuracy and completeness of input. By conducting analytical procedures in which the current year's unaudited information is compared with prior years' audited information or industry data, changes are
highlighted. Discuss the concept of "reasonable assurance" and the degree of confidence that financial statement users should have in the financial statement. This provides a check figure of the number of transactions processed. Figure 10-8 highlights the most common detection methods, with tips being the most frequent method of fraud detection
The Inland Revenue Board has found the directors of Pian Lang Berhad guilty of tax evasion. ARIA is the statistical risk that the auditor has accepted a population that is, in fact, materially misstated. What organizations are responsible for establishing U.S. auditing standards used by CPA firms when auditing financial statements prepared by
organizations based in the U.S.? This is a question that is of interest to regulators, audit firms, and users of financial statements. The most important part of evaluating the client's method of obtaining a reliable cutoff is to determine the procedures in use. reports on Internal Control Over Financial reporting As discussed in Chapter 1, Section 404(b)
of the Sarbanes-Oxley Act requires the auditor of a public company to report on the effectiveness of internal controls create opportunities for theft. The AICPA also promotes the accounting profession
through organizing national advertising campaigns, promoting new assurance services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the quality of services in specialist certifications to help market and ensure the properties of the properties
has been violated, even if the amount of the invoice was accurately calculated. Larger public companies (known as accelerated filers) are required by the SEC to annually obtain an auditor's report on internal control over financial reporting. Set performance Materiality Auditors must decide the preliminary judgment about materiality for the audit as
a whole and then allocate the total to account balances, to establish performance materiality for each significant balance. The tenants sued the CPA firm for negligence and breach of control clerk. For those companies using more than one sales
classification, such as companies issuing segmented earnings statements, proper classification is essential. For simplicity, we assume that the same internal controls exist for both cash and credit sales. 213 Cash flows Hillsburg Hardware Company Statement of Cash Flows (in thousands) Year Ended December 31 OPERATING ACTIVITIES 2016 2015
2014 $ 3,934 $ 3,194 $ 2,279 1,452 1,443 1,505 — 16 (8) 43 Trade and other receivables (2,777) (393) (918) Merchandise inventory Net income Adjustments to reconcile net income to net cash provided by (used in) operating activities: Depreciation and amortization (Gain) or Loss on sale of assets (720) Deferred income taxes increase (decrease)
Changes in assets and liabilities: 1,735 (295) (430) Prepaid expenses (5) (27) (55) Accounts payable 288 132 76 Accrued liabilities 714 77 142 Income taxes payable 273 23 13 4,910 4,146 2,655 (10,500) (1,800) (2,292) Net cash provided by operating activities INvESTINg ACTIVITIES Capital expenditures Sale of equipment — 10,324 Net cash used in a section of the contraction 
investing activities — (176) (1,800) (2,292) Dividend payment (1,900) (1,900) (1,900) (1,900) Proceeds (repayments) from borrowings (net) (2,749) (423) (4,649) (2,323) (298) 85 23 65 FINANCING ACTIVITIES Net cash and cash equivalents 743 Cash and cash equivalents at beginning of year Cash and cash
equivalents at end of year See Notes to Financial Statements. (3) Inspect the shipping records documenting the merchandise sold to the debtors. • Reconciliation of amounts. For cash receipts, however, the occurrence transaction-related audit objective affects the completeness balance-related audit objective. recorded Sales are Correctly Classified
Although it is less of a problem in sales than in some transaction cycles, auditors must still be concerned to the correct general ledger account. Although the invoices were recorded as sales before year-end. In addition to orchestrating vendor kickback
schemes to siphon off millions of dollars and numerous customer side-agreements to falsify revenues, senior management manipulated the accounting records to shift costs of shows to fixed Part 2 / The AudiT Process assets from expenses. fairly stated. 27-28). Many of these firms also have international affiliations. assess risk of Material
Misstatement The auditor uses the understanding of the client's industry and business strategies, as well as the effectiveness of controls, to assess the risk of misstatements in the financial statements in the financial statements. Most of us would believe that Bryan is an unethical person if he follows that course. This case brought about two noteworthy consequences: 1. The
number at the intersection is the CUER. All new clients are approved by the firm management committee, including assessing whether the engagement. For example, it is not a violation for a CPA to charge fees as an expert witness determined by the amount awarded to the plaintiff or to base
consulting fees on a percentage of a bond issue if the CPA firm does not also do an audit or other attestation for the same client. Be sure to eliminate any duplicate audit procedures. 2-11 (Objective 2-8) The following is an example of a CPA firm does not also do an audit or other attestation for the same client. Be sure to eliminate any duplicate audit procedures.
have completed a basic auditing course and have been interviewed and approved by an audit partner of the firm before he or she can be hired for the audit staff." Which element of quality control does this procedure affect, and what is the importance of having the requirement? Securities and Exchange Commission Litigation Complaint, December
11, 2008 (www.sec.gov/litigation). While the SEC's 2010-2015 strategic plan seemed to suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as early as 2015, more recent developments suggest that U.S. public companies may be able to use IFRS as 2016, more recent developments suggest that U.S. public companies may be able to use IFRS as 2016, more recent developments as 2015, more recent developments as 201
will therefore be lower for the existence of cash than for fixed asset valuation. Using your understanding of the relationship between the four preceding factors while the other three are held constant: (1) A decrease in the ARO (2) A decrease
in the population size (3) A decrease in the sample size (4) A decrease in the number of exceptions in the sample d. Auditors should be aware of unusual markings and alterations on documents, and they should rely on original rather than duplicate copies of documents. Also, establishing criteria for evaluating the information in an operational audit is
extremely subjective. Common examples include trial balances or lists in support of trade accounts payable, repair and maintenance expense, legal expense, and miscellaneous income. Other assurance services provided by firms other than CPAs include the Nielsen television and Internet ratings and Arbitron radio ratings.
The calculations are illustrated in tables like Table 15-9 (p. Auditors can perform tests of controls separately from all other tests, but it's often more efficient to do them at the same time as substantive tests of transactions. For example, assume that an auditor finds misstatements totaling $12,000 in a sample with a recorded value of $208,000. The
confidentiality requirement applies to all services provided by CPA firms, including tax and management services. Unpaid Fees Network of Firms sarbaNes-oxley aND relateD iNDepenDence requirements of the PCAOB
and SEC. Auditors have completed an evidence-planning worksheet similar to the one in Figure 16-7. credit approval by the credit manager (test of control). Following are common methods. (4) unmodified opinion with explanatory paragraph. No application control was ever applied over the input process. There are no simple, well-defined guidelines
that enable auditors to decide when something is immaterial, or highly material, or highly material. Evaluate each internal control independently and determine which controls must be tested in the current year's audit of the December 31, 2016, financial statements. In 1924, Philip Musica, a highschool dropout with fraud convictions and a prison record,
reinvented himself as F. Auditors should also 344 Part 2 / The AudiT Process IT PAyS TO BLOW THE WHISTLE On FRAUD Whistle-blowing is the single most effective method of detecting corporate and financial fraud. Adverse The auditor concludes that the financial statements are not fairly presented. (Note that the first three procedures are the
same as those used to obtain an understanding of internal control.) • Make inquiries of appropriate client personnel • Examine documents, records, and reports • Observe control-related activities • Reperform client procedures to obtain an understanding to help them determine whether
controls have been appropriately implemented. The auditor is required to "look back" at significant prior-year estimates to identify any changes in the company's processes or management's judgments and assumptions that might indicate a potential bias. May result in unrealistic time budgets. According to the employment agreements, Johnny's
father and mother are employed in the capacity of office assistant and janitor, respectively. For example, auditors often prefer to do counts of inventory as close to the balance sheet date as possible. To determine whether the tax return was prepared in a manner consistent with the requirements of the federal Internal Revenue Code, the agent
examines supporting records provided by the taxpayer and from other sources, such as the taxpayer's employer. Basis for Qualified Opinion Laughlin Corporation's investment in XYZ Company, a foreign affiliate acquired during the year and accounted for under the equity method, is carried at $2,475,000 on the balance sheet at December 31, 2016
and Laughlin's share of XYZ Company's net income of $365,000 is included in Laughlin Corporation's net income for the audit. The methods for identifying controls have already been discussed. The auditor is of the opinion that the sales figure of the client was under declared and
must be adjusted. There are three main ways to do so. For example, say an auditor uncovers a current-year sale that should properly be reflected as a sale in the following year. Proposals for use of AQIs include sharing the AQIs with the audit committee of the board of directors of an existing or potential audit engagement client Objective 2-3
Understand the role of the Public Company Accounting Oversight Board and the effects of the Sarbanes-Oxley Act on the CPA profession. Assume that number is 3,895. Identify the six principles. Exceptions in tests of controls are called controls are called controls are called controls.
concerned him relating to the business of the company. This in turn enabled the company to borrow money at a lower interest rate and to obtain higher fire insurance settlements than were proper. Examine a sample of daily batches, recalculate the shipping quantities, and trace totals to reconciliation with input reports (reperformance). 5-8
(Objective 5-5) Is the auditor's liability under common law affected if the third party was unknown rather than known? In some cases, auditors later copy the identified transactions to a separate data file and then process those transactions using parallel simulation to duplicate the function done by the client's system. elements of professional
(Objectives 17-1, 17-2, 17-3, 17-4) Define what is meant by sampling risk. If two or four such items are found in the sample, the sample is reasonably representative. The Sarbanes-Oxley Act further requires the audit committee of a public company to be responsible for the appointment, compensation, and oversight of the work InCREASE In
COnSULTING BRINGS CALLS FOR LIMITS In the period immediately preceding the passage of the Sarbanes-Oxley Act (SOX), three of the Big 4 firms sold or spun off their consulting practices. An adequate flowchart includes the same four characteristics identified for narratives. (3) review the credit and collection policy. Access to the application
from desktop computers or workstations is managed by network server software or other interfaces with cloud computing technology. Indicate which of the weaknesses, if any, increase the likelihood of misappropriate general transaction-related audit objective.
Long Beach Lawn Service 13. Staff the engagement Partner—Joe Anthony Manager—Leslie Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and one person to be named later Understand client's industry and external environment Anthony and Franklin Senior—Fran Moore Assistant—Mitch Bray and External Environment Anthony and Exter
customer's record or at the wrong amount in the master file or the sum of all sales transactions posted from the sales journal to the general ledger is inaccurate, this objective is violated. Court cases clearly demonstrate that auditors must be technically qualified and experienced in those industries in which their clients are engaged. Confirm the
amount of inventories kept in public warehouse. 554 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle b. Throughout the auditor to learn about risks of fraud. Examine file of completed bank reconciliations. The misstatement has
not been discovered. Koss Corporation designs, manufactures, and sells stereo headphones and related accessories. Confirmation of accounts receivable is discussed further in Chapter 16. For each control: a. By communicating fraud detection and punishment policies, management can deter employees from committing fraud. Although the SEC
requires considerable information that is not of direct interest to CPAs, the securities acts of 1933 and 1934 require financial statements, accompanied by the opinion of an independent public accountant, as part of a registration statement and subsequent reports. The SEC stated that Xerox accelerated the recognition of equipment revenue to
increase revenues by over $3 billion and pre-tax earnings by approximately $1.5 billion over the period 1997 through 2000. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether any
Condition exists requiring a Departure from a Standard Unmodified Opinion report The most important conditions are identified in Table 3-2. Because of their value and salability, fixed assets are also targets for theft. Does it matter whether the amounts are material or immaterial to the financial statements? to provide us with i. (2) can prove the
presence of gross negligence that amounts to a reckless disregard for the truth. • Presentation and disclosed. The AICPA Code of Professional Conduct states that a CPA shall not disclose any confidential client information obtained in the course of a
professional engagement except with the consent of the client. The company did not record credit memos for returns received in the last month of the year. Is 66 a large enough sample size for this audit? An example of an audit report that includes an unmodified opinion but makes reference to the report of another auditor for a nonpublic company is
shown in Figure 3-7 (p. For more serious disasters, organizations need detailed backup and contingency plans such as off-site storage of critical software and data files or outsourcing to firms that specialize in secure data storage. However, you are reluctant to take complete responsibility for their work. 13-13 (Objective 13-3) Design an evidence mix
for a company with some controls and an initial assessment of low inherent risk but was subsequently assessed to have material weaknesses in its control. Make inquiries of appropriate client personnel. Auditors commonly use three types of documents to obtain and document their understanding of the design of internal control: narratives,
flowcharts, and internal control questionnaires. ICtV retained title to the product until sold on-air and shipped to customers. Do this for both acquisitions and accessories items. Working Trial Balance Because the basis for preparing the financial
statements is the general ledger, the amounts included in that record are the focal point of the audit. For each situation, do the following: a. Select the appropriate types of audit tests. 16-28 (Objectives: 1. The following may affect a user's
decision and therefore the auditor's opinion in a different way than most misstatements: 1. However, they are typical of the types of guidelines CPA firms issue to their staff. Known history of violations of securities laws or other laws and regulations. Auditing standards require that the report be titled and that the title include the word independent.
Indicate whether the fraud involves misappropriation of assets or fraudulent financial reporting. (1) Details about the preliminary audit strategy (2) Overview of the engagement (3) Statement that management is responsible for the financial statements (4) Description of the level of assurance obtained when conducting the audit c. An
example of a McClain-manufactured product is a plastic chair pad that is used in a carpeted office. First, as the terms imply, balance-related audit objectives are applied to account balances such as accounts receivable and inventory rather than classes of Part 2 / The AudiT Process transactions such as sales transactions and purchases of inventory
Understand client's operations, strategies, and performance system See Figure 8-3 (p. Inherent risk was assessed as low for all other objectives. User departments have high regard for the IT staff. Such fraud can be prevented by canceling supporting documents to prevent their use as support for multiple payments. Unlike the client, the 1 378
Copyright by American Institute of CPAs. All rights reserved. The amount recorded in the master file differs from the amount recorded in the system. • The uncollectible accounts written off were verified as a part of the substantive
tests of transactions. The increase in gross margin largely explains the operating income increase of $676,000. Enforcement of violations of the code, regardless of the level of the employee committing the act, sends clear messages to all employees that compliance with the code of conduct and other ethical standards is important and expected. Your
client is unhappy that his investment in Cancerfree, a company that implants good cells from dogs into humans to cure cancer is not included in his company's Statement of Financial Position. In this chapter, we will show how these concepts fit into the planning phase of the audit. If assets are left unprotected, they can be stolen. Efficiency and
effectiveness of operations. A control closely related to documents and records is the chart of accounts, which classifies transactions into individual balance sheet and income statement accounts. Are there any gaps or duplicates in Shipping Numbers? In light of this presumption, auditors should evaluate the types of revenue and revenue transactions
and the assertions related to these transactions, which may increase fraud risk. (2) Determining the fair market value, unless it is clearly defined in the blue book for each condition. Scope Paragraph A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial
reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These short in-chapter review questions are intended to help call student attention to key concepts as they read the material in the chapter. During the audit, other audit procedures may bring instances of
suspected noncompliance to the auditor's attention. organIzatIon The text is divided into six parts. Now assume that you have decided to allocate 75% of your preliminary judgment to accounts receivable, inventories, and accounts payable because you believe all other accounts have a low risk of material misstatement. (2) Disclosing confidential
information in compliance with a subpoena issued by a court. Which, if any, risks would be considered a significant risk? 466) presents the control risk matrix for cash receipts for Hillsburg Hardware. Additional substantive testing required for
goods to be released from the warehouse. Labor hours for payroll are reviewed for reasonableness by the computer system. This can Example of the Effect of Fictitious Inventory on Inventor
whether the goods or services received are reasonable and of the type normally used by the client's business. For auditors, it is in terms of what other competent auditors would have done in the same situation. To the extent possible, follow the appropriate action Only Bryan can decide the appropriate option to select in
the circumstances after considering his ethical values and the likely consequences of each option. For example, obsolescence in inventory is unlikely to affect any objective other than realizable value. The tax returns being audited vary from the simple returns of individuals who work for only one employer and take the standard tax deduction to the
highly complex returns of multinational corporations. 296 Part 2 / The Audit Process The prior auditors disputed that a contingent tax liability existed that a contingent tax liability existed that required disclosure. 509) based on the sample exceptions identified and the actual sample size tested. The auditor should test the population for completeness and detail
tie-in before a sample is selected to ensure that all population items are subjected to sample selection. For which types of tests do auditors use attributes sampling? Because billing customers is the means by which the customer is informed of the amount due for the goods, it must be done correctly and on a timely basis. Misstatements resulting from
failure to follow GAAP are known. * Controls (C) and Deficiencies (D) are from the control matrix for sales in Figure 12-3 (p. and b., state the appropriate report from the following alternative materiality level): (1) Unmodified opinion—
standard wording (2) Unmodified opinion—explanatory paragraph (3) Unmodified opinion—scope limitation (6) Disclaimer (7) Adverse* * Based on AICPA question paper, American Institute of Certified Public Accountants. through h.) and management
assertions about account balances (1 through 4). For example, when auditor, discover that error?
passed by the Parliament, Congress or Local Legislative Bodies. We are also implementing a new warehouse information system designed to increase productivity and reduce stocking and distribution costs. Arthur Andersen & Co. (1986) in New York, a lender brought suit against the auditor of one of its borrowers, claiming that it relied on the
financial statements of the borrower, who was in default, in granting the loan. Objective 13-6 Understand key evidence-related terms. Lack of initials indicating credit approval. Figure 1-1 reporting audit of a tax return Information Competent, independent person Accumulates and evaluates evidence Internal revenue agent Examines cancelled checks
and other supporting records Federal tax returns filed by taxpayer Report on results Determines correspondence Report on tax deficiencies Established criteria Internal Revenue Code and all interpretations Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 29 distiNction Between auditiNg and accounting Objective 1-2
Distinguish between auditing and accounting. For companies that are "out-of-network," confirmation service providers such as Capital Confirmation can assist the auditor with printing and posting confirmation.com platform. Substantive
analytical procedures indicated a significant slowing in accounts receivable turnover. 490 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle accounts receivable Master File This is a computer file used to record individual sales, cash receivable turnover. 490 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle accounts receivable turnover.
balances. Cost of Types of Evidence Terms Used in Audit Procedures Chapter 7 / Audit EvidEnCE 231 tabLe 7-5 terms, audit procedures, and types of evidence Examine—A reasonably detailed study of a document or record to determine specific facts about it. The Haberdashery Co. 29.
In fact one client, a computer server maker Koko Company complained of the constant need for their engineers to inspect the hard discs coming from the Bagan plant and to return the hard disc soming from the Bagan plant and to return the hard discs coming from the Bagan plant and to return the hard discs coming from the Bagan plant and to return the hard discs coming from the Bagan plant and to return the hard discs computed upper
confidence limit LCL 5 computed lower confidence limit E 5 point estimate of the total misstatement CPI 5 computed precision interval at desired CL ^ 4. Describe the extent to which the auditor can rely on tests of controls performed in prior years. 2-15-17 Date of audit report. Added Explanatory Paragraph Chapter 3 / Audit
Reports 79 3. revising risks and evidence Chapter 9 / Assessing The Risk of MATeRial MissTATeMent 321 Completeness Accuracy Classification Cutoff Realizable value Rights Acceptable audit risk Existence Evidence-Planning Worksheet to Decide Tests of Details of Balances for Hillsburg Hardware Co.—Accounts Receivable Detail tie-in Figure 9-4
Medium Me
overstated. The court held that only one who enters into a contract with an accountant for services can sue if those services are rendered negligently. As misstatements become more pervasive, the likelihood of issuing an adverse opinion rather than a qualified opinion increases. †5. The auditor also considers the client's business strategies and
processes and critical success factors related to those strategies. The data control clerk reviews exception reports and prepares correction forms for reprocessing. The design of these procedures is normally the most difficult part of the entire planning process because it is subjective and requires considerable professional judgment. What examples of
auditor responses to fraud risk related to revenue recognition are provided in PCAOB auditing standards? Notice the headings preceding each paragraph. The third category of audit objectives relates to the presentation and disclosure of information in the financial statements. How is it determined? Typically, a senior partner with extensive
knowledge of the client's business conducts the analytical procedures during the final review of the audit. Although the profession has not established standards or guidelines for setting inherent risk, we believe that auditors are generally conservative in making such
assessments. (2) sample exception rate is less than the expected rate of exception used in planning the audit of December 31, 2014, financial statements. For ex ample, the Commission found the audit was deficient in examining the disclosure surrounding an October 1996 disbursement of $1.5 million which
Palatin and others at the company claimed were placed in escrow for purported investment banking fees related to a possible strategic alliance. Most importantly, a research report was published in January 2013 stating that the earnings of the company were overstated. (3) An assurance or nonassurance service that is not an attestation service. The
following additional information is obtained from independent sources and the client's records as a means of investigating the controller's explanations: Jones Drugs ($ in thousands) required Drug Sales Nondrug Sales Drugs and related products 2016
$5,126 $9,085 $3,045 $6,178 32.7 2015 5,051 7,865 2,919 5,347 32.9 2014 4,821 6,641 2,791 4,522 33.0 2013 4,619 5,732 2,665 3,908 33.2 a. Completeness—all assets, liabilities, and equity interests that should have been recorded have been recorded. Khalid also prepares monthly bank reconciliations and reconciles the general ledger to the aged
accounts receivable trial balance. Second, there are eight balance-related audit objectives compared to six transaction-related audit objectives. Toyota, Inc., suffered significant losses arising from business risks when 270 Part 2 / THE AUDIT Process production problems involving gas pedals and brakes in several of its most popular vehicles
triggered significant declines in sales and stockholder value. Cutoff for accounts receivable is correct 7. Robert's colleagues in the United States have long complained about the budgets submitted by the Bagan plant. Keeping costs reasonable helps the firm remain competitive. Later, these documents can be examined more carefully as a part of the
tests of individual audit areas. Check the pricing, extensions, and footings. Although the auditors than might be assumed. 143) can exist without a written agreement, but an engagement letter defines the contract more clearly. What are some
possible deficiencies in the store's system? This will be discussed more extensively in Chapters 12 and 13. Explain the causes of an increased or decreased planned detection risk. The term exception should be understood to refer to both deviations from the client's control procedures and amounts that are not monetarily correct, whether because of
an unintentional accounting error or any other cause. *This column documents conclusions about implications for the financial statement audit. Moreover, as we discussed in Chapter 6, the auditor cannot guarantee the complete absence of material misstatements. This is necessary because of the close relationship between income statement and
balance sheet accounts. ICtV recorded seven sales through HSN totaling $2.8 million. The software also facilitates tracking audit progress by indicating the financial position of Bellamy Corporation as of December 31, 2016
and the results of its operations for the year then ended in conformity with generally accepted auditors more often than previously to reduce audit cost. Examine sales invoice for supporting documents (13b). Because CPA firms play an
important social role, several organizations, including the PCAOB, SEC, and AICPA, provide oversight to increase the likelihood of appropriate audit quality and professional conduct. For example, programs and transaction files are released to operators only when a job is scheduled to be processed. Our responsibility is to express an opinion on these
financial statements and an opinion on the company's internal control over financial reporting based on our audits. The Hong Kong Labor Department also requires all employees' compensation insurance policy to cover their employees. the
manager had to repeat this process every day to hide the theft, which made it appear that there was an extra-day delay in the deposit clearing the bank. Information and communication b. Calculate TER - SER for each attribute and evaluate whether the calculated allowance for sampling risk is sufficiently large given the 5% ARO. Inquiries of
management and others within the entity Analytical procedures Observation and inspection Discussion among engagement team members Other risk assessment procedures Chapter 9 / Assessment Procedures Procedures Procedures Chapter 9 / Assessment Procedures Proced
others Analytical procedures Observation and inspection Discussion among engagement team members Provide input for understanding entity and its environment, including internal controls Help auditor identify and assess the risk of material misstatement Used to develop audit strategy and audit plan in response to assessed risks Other risk
assessment procedures Collectively, the performance of risk assessment procedures is designed to help the auditor obtain an understanding of the entity and its environment, including internal controls, for purposes of assessment
procedures do not provide sufficient appropriate audit evidence to form an audit opinion on the financial statements. Examine sales invoices and contracts with customers to determine whether any goods are out on consignment with a number of
transactions and events, general transaction-related audit objectives, and specific transactionrelated audit objectives and their relationships to each other. Internal auditors' responsibilities vary considerably, depending on the employer. Figure 13-4 Methodology for Designing Tests of Controls and Substantive Tests of Transactions Understanding on the employer.
internal control Assess planned control risk Determine extent of tests of controls and substantive tests of controls is determined by planned reliance on controls. The auditor should stay attentive by
maintaining eye contact, nodding in agreement, or demonstrating other signs of comprehension. If the controls over verification of invoice quantities, prices, and extensions are automated, tests can be further reduced, assuming general IT controls are effective. Analytical procedures Read—An examination of written information to determine facts
pertinent to the audit. 397). Similarly, liabilities must belong to the entity. In turn, these conflicts often reflect on the users' perceived quality of the audit risk A business failure occurs when a business is unable to repay its lenders or meet the
expectations of its investors because of economic or business conditions, such as a recession, poor management decisions, or unexpected competition in the industry. Sensitivity of Sample Size to a Change in the Factors To understand the concepts underlying sampling in auditing, you need to understand the effect of increasing or decreasing any of
the four factors that determine sample size, while the auditor to assess the risk of material misstatement due to fraud, and those standards provide guidance to assist the auditor in making that assessment. Cash receipts transactions are correctly classified
(classification). Say that net working capital included in the financial statements is only a few hundred dollars more than the required minimum in a loan agreement. Auditors can use services such as those offered by Capital Confirmation to upload accounts receivable samples in spreadsheet form so that confirmation can be sent electronically to
thousands of "in-network" companies that are already validated and ready to respond electronically. A member of your CPA firm, who is currently on-site in Detroit at the Welburn division, calls you to see how everything is going while you are visiting Solar-Electro in Texas. Examine the financial statements of Hillsburg Hardware Figure 8-5 Set
materiality for the financial statements as a whole Step 2 Determine performance materiality Step 3 Estimate total misstatement in segment Step 4 Estimate total misstatement in segment about what amounts to consider material
The file can also include returns and allowances, or there can be a separate file for those transactions. For example, individual accounts receivable on a listing of accounts
transaction cycles include extensive coverage of internal controls to help students understand how the auditor's consideration of internal controls is integrated for audits of the financial statements and internal controls over financial reporting. It is also common for clients to unintentionally or fraudulently misstate the allowance for uncollectible
accounts (realizable value) because of the difficulty in determining the correct balance. By combining all evidence from the entire audit, the auditor is able to decide when he or she is persuaded to issue an audit report. Visit the COSO Web site (www.coso.org), and refer to the "Guidance" tab. Combined misstatements in the income statement should
ordinarily be measured at 3 percent to 6 percent of operating income before taxes. With over 400,000 CPAs, the AICPA is the largest professional association for CPAs in the United States. We omit discussion of some procedures only because their purpose and the methodology for applying them should be apparent from the description provided in
Table 14-3. For example, knowledge of a large misstatement in fixed assets might affect a user's willingness to loan money to a company if the assets were the collateral. Code of Professional Conduct. The program is also likely to include a description of the
assessed level of control risk. All accounts on the list are expected to be collected within one year. For this reason, many audit firms perform additional procedures to assess fraud risk beyond assessing the risk of material misstatements in relevant audit objectives. Identify the type of evidence used for each audit procedure, such as inspection and
observation. Compare attributes 1 and 3. Identify the type of evidence for each procedure. Thompson is a third-party beneficiary of the contract Doyle and Jensen made with Regal Jewelry.* 5-22 (Objectives 5-5, 5-6) Johnny Kan starts his investment consulting business on January 1, 2007. As a result, they may only provide a broad indication about
whether a material misstatement exists. Authorization can be either general or specific. Patricia Hurtado (2015) Petrobras Investors Claim PwC Ignored Red Flags of Fraud, BloombergBusiness, NY 3. A major portion of this book is concerned with the study of evidence accumulation and the circumstances affecting the amount and types needed. C C C
C C Cash receipts transactions are internally verified (C6). Statistical sampling differs from nonstatistical sampling in that, by applying mathematical rules, auditors can quantify (measure) sampling risk in planning the sample (step 1) and in evaluating the results (step 3). The audit program always includes a list of the audit procedures, and it usually
includes sample sizes, items to select, and the timing of the tests. recorded sales are for the amount of goods shipped and are correctly billed and recorded (accuracy). Some of the assurance services discussed in Chapter 1 provide objective information about the reliability of a business partner's IT system. For example, assume the auditor decided
that a control is not effective if there is a population exception rate of 6 percent. What is the relationship among these five components? 6-3 (ObjeCtive 6-3) Explain the auditor's responsibility for detecting material misstatements due to fraud or error. The control in this case is not acceptable because the true exception rate of 8 percent exceeds TER
Once an audit procedure is selected, auditors can vary the sample size from one to all the items in the population being tested. Other National Wholesale Hardware Bros. The auditor can compute a reasonable estimate of the value of the population standard deviation by using the standard statistical
formula shown in Table 17-14, step 4. Gary Dutton vs. However, in assessing risk factors, greater emphasis is placed on individual incentives and opportunities for theft. The auditor should read the minutes to obtain authorizations and other information that is relevant to performing the audit. We believe that the audit evidence we have obtained is
sufficient and appropriate to provide a basis for our opinion. 9-5 (Objective 9-2) Describe the types of procedures auditors perform as part of their risk assessment procedures. Cullen is responsible for the day-to-day oversight of the IT function and reports to Jacobsons' chief operating officer (COO). In fact, the auditor would have had some leeway
with that amount because the results of cash and accounts receivable procedures indicate that those accounts are within their performance materiality limits. A monetary loss occurred. What is the criteria for an audit of a company's financial statements? Pinnacle is a medium-sized corporation, with its headquarters located in Detroit, Michigan. For
example, adverse economic conditions in the client's industry may make the auditor conclude that a high risk of uncollectible accounts receivable (realizable value objective) exists. 1 5 5 93 100 2 2 6.2 3. Chapter 8 described how the auditor gains an understanding of the client's business and industry to assess client business risk and the risk of
material misstatements. Over the years (from 2006 to 2012), its revenue increased by over 70 times and its profit surged by over 17 times. Give an example of each. Prepare an improved audit schedule, using an electronic spreadsheet software program. When he asked Sarah about this, she responded that she had asked the company's vice president
for the Mauritius division about the contract and he told her that it was their standard contract. A patient cannot be expected to evaluate whether an operation was properly performed. This opinion is based on the evaluation of audit evidence obtained and the auditor's findings. Each note carries a fixed interest rate of 8.5%. What type of condition
will cause the auditor to issue a qualified or disclaimer of opinion on internal control over financial reporting? The following Monday, the NFA received a fax purportedly from the bank indicating the account held more than $200 million; investigation revealed that the fax had been sent by Wasendorf. Materiality Decisions—Scope Limitations
Condition When there is a scope limitation in an audit, the audit report will be a standard unmodified opinion, or a disclaimer report, depending on the materiality of the scope and opinion, or a disclaimer report with a qualified scope and opinion, or a disclaimer report, depending on the materiality of the scope limitation. The audit report will be a standard unmodified opinion, or a disclaimer report, depending on the materiality of the scope limitation.
auditing matters from employees, customers and suppliers. To uncover instances in which the client has limited rights to receivables, the auditor Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle may review the minutes, discuss with the client, confirm with banks, examine debt contracts for evidence of accounts receivable
pledged as collateral, and examine correspondence files. Management has engaged an outside valuation expert to ensure that the valuations are properly measured and reported. Amount okay. Under the Hong Kong Inland Revenue *Based on AICPA question paper, American Institute of Certified Public Accountants. Describe the files in the
accounting system which would be immediately updated upon the generation of sales invoice. The batch totals are compared with the sales journal weekly. Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 523 Nonsampling risk is the risk that the auditor reaches an incorrect conclusion for any reason not
related to sampling risk. (2) The auditor must adopt a critical attitude during the audit. Bristol-Myers Squibb Company Agrees to Pay $150 Million to Settle Fraud Charges, August 4, 2004 (www.sec.gov); 2. That is a misrepresentation of the facts; therefore, the CPA's integrity has been impaired. This causes no problem if the characteristic of interest,
such as a possible control deviation, is distributed randomly throughout the population, but this may not always be the case. (3) Shipping documents and sales invoices are matched by an employee who does not have the authority to write off bad debts. Explain why you believe the suggested internal control improvements will prevent problems in the
future. PCAOB Board Member Steven Harris describes four potential threats from the increased advisory services: Distraction by the audit firm away from audit and its core values. This EU follows ASIC's investigation into Mr. Green's conduct of the audit of the 2007 financial report of ABC Learning Centres Limited (ABC). Many people would
consider such an extreme reaction naive. The change is not disclosed in the footnotes. The Accounting and Review Services Committee is responsible for issuing pronouncements of the CPA's responsible for its an additional prono
recycling in the opening story illustrate the importance of control environment and internal controls in the sales and collection cycle. Table 14-2 (p. Identify whether each misstatement is an error or fraud. One example is Capital Confirmation.com service, which provides secure electronic confirmation services for auditors.
Obtain and document understanding of internal control design and operations. Part 1 / THE AUDITING PROFESSION BIG FOUR SUED FOR NOT PAYING OVERTIME COMPENSATION Auditors are subject to lawsuits filed by clients or third parties based
on work performed, but they are also subject to lawsuits related to other issues, such as fair labor laws. At the completion of the engagement, audit files are retained on the CPA's premises for future reference and to comply with auditing standards related to document retention. Some related to accounting only indirectly, such as environmental
protection and civil rights laws. Also investigate any significant increases or decreases in sales toward year-end. He applied to join to Blank Cassettes Inc as the Finance Director in charge of general accounting. Observe whether statements were sent to customers on a monthly basis which details the amounts outstanding. Two are examined in detail
1. Purchase order 1 To vendor Purchase order 5 Purchase order 5 Purchase order 5 Purchase order 4 6 By purchase order 3 4 5 Purchase order 4 6 By purchase order 3 4 5 Purchase order 3 4 5 Purchase order 3 Wilsion Purchase order 3 4 5 Purcha
communications, management can show that dishonest and unethical behaviors are not tolerated, even if the results benefit the company. The primary products are power and hand tools, landscaping equipment, electrical equipment, residential and commercial construction equipment, and a wide selection of paint products. If the client's credit policy
has remained unchanged and the results of the tests of credit policy and credit approval are consistent with those of the preceding year, the change in the balance in the 
(ObjeCtive 6-3) What is the auditor's responsibility when noncompliance with laws or regulations is identified or suspected? Auditors should also consider management's choice of accounting principles. For the most part, this relationship is straightforward. Audit risk at the financial statement level is influenced by the risk of material misstatements
which may be indicated by factors related to the entity, management, and the industry environment. • Part V—Design tests of controls and substantive tests of transactions, Chapter 14. It is, in essence, a copy of the customer's portion of the accounts receivable master file. International and aICpa assertions PCAOB standards provide for one set of
assertions that apply to all financial statement information. professional Skepticism Questioning Mind Auditing standards emphasize consideration of a client's susceptibility to fraud, regardless of the auditor's beliefs about the likelihood of fraud and management's honesty and integrity. Does setting materiality at a lower level result in collecting
more or less audit evidence (as compared to setting materiality at a higher level)? Dependence on a few major customers may result in material losses from bad debts or obsolete inventory. Copyright by American Institute of CPAs. Allpp. The CPA provides a lower level of assurance for reviews of financial statements compared to a high level for
audits, therefore less evidence is needed. When determining whether an exception is highly material, the extent to which the exception affects different parts of the financial statements must be considered. Define the sampling unit, organization of population items, and random selection procedures: Sales invoice number, recorded in the sales journal
sequentially; computer generation of random numbers. Evidence is usually more reliable for balance sheet accounts when it is obtained as close to the balance sheet date as possible. Utu recommended that both transactions be approved, seconded by Kalyani and unanimously approved. Because of adverse economic conditions, loans receivable have
significantly increased and collections are less than normal. He tosses the briefcase and keeps the money. Explain the use of sustainability reports in integrated reporting. Analytical procedures performed during audit planning generally use aggregate data to help understand the client's business and identify areas where misstatements are more
likely. In Figure 15-5 (p. The ownership of stock rule is more complex than it appears at first glance. These reports were discussed in Chapter 3. In addition to the purposes directly related to the audit report, the audit report, the audit report, the audit report, the audit reports. Possible online marketing was also
briefly discussed. (2) State the Excel RANDBETWEEN function to determine the first item in the sample. Process a sale. Morehead does not permit overtime. The effectiveness of this process depends on the other subcomponents discussed above. 262) to make a preliminary
judgment of materiality of $442,000. Lake's firm settled the suit for $3.5 million. 128) that the rule on discreditable acts applies to all members, including members in business and other members in business and other members. Hillsburg's market consists of smaller, independent hardware stores. 1 5 Low 100 3. Throughout the engagement, the auditor may get additional
information about why the client is having an audit and the likely uses of the financial statements. The second division, Solar-Electro, was recently acquired from a high-tech manufacturing firm based out of Dallas, Texas. Consider prior-year results for EPER. (2) make the investigation necessary to determine whether fraud has actually occurred.
Audit or spreadsheet software can generate a sample using either of these probabilistic methods. For example, valuation of goodwill is dependent on key assumptions made by management about any potential impairment. Another method involves 354 Part 2 / The AudiT Process issuing side agreements that modify the terms of the sales transaction.
These revenue frauds are often referred to as "sham sales." Another effective approach to detecting the three types of misstatements of sales transactions just discussed is to trace the credit in the accounts receivable master file to its source. (2) employees have stolen inventory just before year-end, analysis of audit 2 This company is medium sized.
with some controls and a few inherent risks. The newsletter includes a column on matters relating to the company's code of conduct which emphasize the importance of integrity. This can be the result of the client failing to adjust the allowance or economic factors. There are different ways to express this assessment. Finally, note in Figure 15-6 that
all substantive tests of transactions results were satisfactory except for the accuracy and cutoff objectives for sales. Use the following data for the sales and collection cycle for illustration on how you would perform the task differently. Privity with the CPA. The companies listed on the bourse are not only from Singapore but from various countries
around the world such as Australia, Japan and the People's Republic of China. The customer was told that they could return the goods without penalty if they were unable to sell the goods. PCAOB auditing standards note that ineffective oversight by the audit committee may be a strong indicator of a material weakness in internal control over financial
reporting. • Many clients may have invested in complex financial instruments, such as collateralized debt obligations or mortgage backed securities, which may have invested in complex financial risks for the client. Physical examination
Confirmation Inspection Analytical procedures Inquiries of the client Recalculation Reperformance Observation Objective 7-4 Identify and apply the eight types of evidence used in auditing. Chapter 3 highlights reporting on internal controls over financial reporting for auditors of accelerated filer public companies. Other Audit Implications Auditing
standards require the auditor to consider the implications for other aspects of the audit. 17-18 of the report): a. Thus, it is unlikely that a public company auditor will make a preliminary assessment of control risk at maximum. Specific methods to Chapter 2 / The CPA Profession 59 ensure that auditors maintain their independence and comply with
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other relevant ethical requirements are studied in Chapter 4. List other services other than audits that Czarnecki and Hogan likely provides. The primary purpose of the requirements is to provide support for the ASB, PCAOB, FASB, IASB, and other technical standards-setting bodies. Because materiality depends on the decisions of users who rely on
the statements to make decisions, auditors must have knowledge of the likely users of the client's statements and the average billing rate, they must be confident that both numbers are reasonably reliable. What is the primary purpose of analytical
procedures during each phase of the audit? Several of the large construction contracts showed a profit in 2011 using the percentage of completion method, but they ultimately resulted in large losses for the buyer. If the auditor is reporting on the effectiveness of internal control over financial reporting, extensive tests of controls must be performed to
provide the basis for the auditor's report. We will now discuss different selection methods. Similarly, declining economic conditions or significant changes in the industry may increase the risk of material misstatement at the overall financial statement level. Because the auditor cannot check every invoice, the actual percentage of missing shipping
documents remains unknown. Chapter 5 / LegaL Liability Generally, the partners, or shareholders in the case of a professional corporation, are jointly liable for the civil actions against any owner. The customer copy is
then mailed to the customer, and the shipping copy is sent to the data processing department. Combined misstatements in the balance sheet should originally be evaluated for current assets, current liabilities, and total assets. Joan Lappin, "GRPN is Now Half Price Without a Groupon," Forbes.com (April 23, 2012). Al&Bee adjusted its accounting
records accordingly. A trade creditor that has not previously conducted business with the client. Perform alternative procedures for nonresponses to confirmations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any
evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Auditors use a well-defined process for deciding the appropriate audit report in a given set of circumstances. Of course, if the CPA
firm also performs an audit, that violates the independence requirements for attestation services. Each chapter's opening story illustrates important auditing principles based on realistic situations. Even if none of the previously discussed conditions exist, the CPA firm may decide not to continue doing audits for a client because of excessive risk.
Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of transactions 527 Although haphazard and block sample selection methods, they are often useful in situations where the nature of the data makes it more difficult to use a probabilistic method. Existence 3. List any
frequently asked questions (FAQ), if there are any, related to experience and education requirements for your state, along with a summary of the responses. Although management letters are not required by auditing standards, auditors generally prepare them as a value-added service of the audit. The day shift operator reviews the job processed log
(which chronologically details the jobs processed) generated at the end of the previous night shift for deviations from the schedule. Accounting standards require that companies state accounts receivable at
the amount that will ultimately be collected. Compare bad debt expense as a percentage of gross sales with previous years. Which of the factors appears to have the greatest effect on the CUER? But the knowledge of sampling distributions enables auditors to draw statistical conclusions, or statistical inferences, about the population. Because of the
number of different products, features, sizes, and colors, McClain's inventory consisted of 2,450 different items. Read the SEC guidance on revenue recognition (www.sec.gov/interps/account/sabcodet13.htm) to answer the following questions: 590 required a. 12-26 (Objectives 12-2, 12-7) Most grocery stores use bar code scanning technologies that
interface with cash registers used to process customer purchases. In making your determination regarding the timing of the revenue recognition, what criteria has the SEC determined to be important? For example, recording a sale that did not occur violates the occurrence transaction-related audit objective and existence balancerelated audit
of the audit or a nonindependent relationship under the AICPA Code of Professional Conduct between the auditor and the client. Notice in Figure 13-3 that any point to the right of point B results in no further reduction of control risk because even with maximum reliance on controls, some substantive procedures are still required in an audit of
financial statements. 12-14 (Objective 12-7) Explain what is meant by auditing through the computer, and describe the challenges and benefits of this approach in an audit of a client that uses IT extensively to process accounting information. Local area networks (LANs) link equipment within a single or small cluster of buildings and are used only
 within a company. He is likely to be our firm's next audit manager. For the 16th edition we reorganized Chapters 8-12 to include expanded coverage of the auditor's performance of risk assessment procedures, including the identification of significant risks. iNDepenDence rule The value of auditing depends heavily on the public's perception of the
independence of auditors. "IAASB Issues Final Standards to Improve Auditor's Reports," International Federation of Accountants, January 15, 2015 (www.ifac.org); 2. (2) review the going concern ramifications. What is the nature of the complaint underlying LR No. 22902? By using a questionnaire, auditors cover each audit area reasonably quickly
Only operations staff have a card-key to access the room, and security cameras monitor access. Safeguards After evaluating the significance of a threat, if the member concludes that eliminate the threat or reduce it to an acceptable level. Accept client and perform
initial audit planning Understand the client's business and industry Perform preliminary analytical procedures Set preliminary judgment of materiality Identify significant risk business and industry Perform preliminary judgment of materiality and performance materiality Identify significant risks due to fraud or error Assess inherent risk Understand internal control and assess control risk Finalize overall audit strategy and audit plan Figure
8-3 provides an overview of the strategic approach to understanding the client's business and industry. Assume that the auditor is unable to satisfy himself or herself whether inventory is fairly stated in deciding on the appropriate type of opinion. Partners are not personally liable for liabilities arising from negligent acts of other partners and
employees not under their supervision. AU-C 500, Audit Evidence, in the AICPA auditing standards refers to information produced by the entity. 7-13 (Objective 7-6) Describe the liquidity activity ratios and explain why these ratios are useful to auditors. (3) Office figures are for CBIZ; MHM has 34 offices. They include such diverse items as sales
invoices, purchase orders, subsidiary records, sales journals, and employee time reports. In applying variables sampling, an auditor attempts to (1) estimate a qualitative characteristic of interest. Figure 10-5 (p. A clerk compares the purchase order, compares the purchase order, compares the purchase order.
recomputes the extensions, re-adds the total, and examines the account number indicated on the invoice to determine whether it is correctly classified. Yehaya Ali seconded the motion and it was unanimously passed. timing 580 The most reliable evidence from confirmations is obtained when they are sent as close to the balance sheet date as possible
Michelle fell in love with the youngest son of the founder of Desire Records Inc. In addition to increasing audit evidence for a higher inherent risk in a given audit tests more thoroughly. Even though it may not be common to formalize policies in
manuals, it is certainly possible for a small company to have (1) competent, trustworthy personnel with clear lines of authority; (2) proper procedures for authority; (2) proper procedures for authority; (3) adequate documents, records, and recording of transactions; (4) physical controls over assets and recording of transactions; (5) to a limited degree, independent checks
on performance. (b) Large performance materiality because account is large and requires extensive sampling to audit the account. What is your conclusion on whether Fastjet's trade receivables and allowance for doubtful receivables are accurately reflected on December 31, 2014? Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE
SERVICES 33 review of historical Financial Statements For a review of historical financial statements, management asserts that the statements are fairly stated in accordance with accounting standards, the same as for audits. Seconded by Amanullah and unanimously approved. Analytical procedures performed during substantive testing, such as for
the audit of accounts receivable, are typically more focused and more extensive than those done as part of planning. It is the risk of rejecting accounts receivable as incorrect if it is not actually misstated by a material amount. When client data are compared with budgets, there are two special concerns. 9-7 (Objective 9-2) Auditing standards require
that the engagement team members engage in discussion about the risk of material misstatement. If these lease obligations were capitalized, property would be increased by $4,00,000, and retained earnings by $400,000 as of December 31, 2016, and net income and earnings per share would be increased by $4,00,000.
and $1.75, respectively, for the year then ended. Both include inquiry, inspection, and observation. For example, risk assessment Figure 13-8 Level of Disaggregation of planning activities Disaggregation of planning activities Disaggregation.
materiality Balance-related audit Objective Understand client's business and industry transaction-related audit LeVeL OF DISaGGreGatION P Understand internal control: Control environment P Risk assessment P Control activities P Information
to which planning activity is applied Chapter 13 / Overall audit Strategy and audit PrOgram 465 procedures related to obtaining background information about the client's business and industry pertain to the overall audit. 11-18 (Objective 11-5) Compare the risks associated with network systems and database systems to those associated with
centralized IT functions. If so, identify the nature of the violation(s). These assertions apply to classes of transactions, account balances, and presentation and disclosures. Assume that for a given company, an auditor decides that a misstatement would need to be
$250,000 or more to be material for current assets. 41.06 7. Investigate the nature of and review support for any large or unusual entries or any entries for searching for errors and fraud. If the auditor is concerned about the
possibility of a fictitious duplicate copy of a shipping document, it may be necessary to trace the amounts to the perpetual inventory was reduced. Self-esteem—the self-confidence to resist persuasion and to challenge assumptions or conclusions Awareness of these six elements throughout the engagement can
help auditors fulfill their responsibility to maintain an appropriate level of professional skepticism. Based on the facts above, what accounts receivable balance related audit objective(s) might have a high risk of material misstatement? Which of the following best describes why an independent auditor is asked to express an opinion on the fair
presentation of financial statements? For example, customer data, such as the customer's name and address, can be shared in the sales, credit, accounting, marketing, and shipping functions. Note that only some of the situations in Part II will relate to acceptable audit
risk. Auditors commonly do parallel simulation testing using generalized audit software (GAS), which is programs designed specifically for auditing purposes. Judgment Required to Correctly Record Account Balances and Transactions. Accordingly, the staff person "reworked" the audit risk model as follows: PDR = .05 1.0 \times .8 \times .6 PDR = .10 A 10%
test of details risk still seemed to the staff person to be in the "moderate" range, so he recommended no increase in planned sample size for substantive tests. Responses are also needed to address the risk of management override given it is present in all organizations. Therefore, most auditors do not attempt to do so. cOncept check 1. If all other
factors specified in a sampling plan remain constant, changing the ARO from 5% to 10% will cause the required sample size to (1) increase. The liability of auditors under the Securities Exchange Act of 1934 often centers on the audited financial statements issued to the public in annual reports submitted to the SEC as a part of annual Form 10-King the ARO from 5% to 10% will cause the required sample size to (1) increase.
reports. Careful design of audit procedures, proper instruction, supervision, and review are ways to control nonsampling risk. required Discuss whether the facts in any of the situations indicate violations of the AICPA Code of Professional Conduct. The discussion in this chapter is restricted primarily to those two aspects of public accounting. In
addition to Cullen, the IT department is composed of seven other individuals: three programmers, three operators, and one data control clerk. 1-10 (ObjeCtives 1-5, 1-6) What is the data required by the auditor about the client's business during an audit of their financial statements? Which alternative procedures are the most reliable? While auditors
accept some level of uncertainty in performing the audit function, the consideration of risk as defined by the audit risk model is necessary for the auditor to effectively address those risks in the most appropriate manner. The court reasoned that Ernst & Ernst had a common-law and statutory duty of inquiry into the adequacy of First Securities'
internal control because it had contracted to audit First Securities and to prepare for filing with the commission the annual report of its financial condition. What major conclusions can be drawn from this information about the commission the annual report of its financial condition. What major conclusions can be drawn from this information about the commission the annual report of its financial condition.
and events that should have been recorded have been
For attribute 1, the failure to record a sales invoice would be highly significant, so the lowest TER (4 percent) is chosen. The PCAOB is evaluating standards and vill likely issue either a revised exposure draft or a new standard by 2016. While AICPA auditing standards and PCAOB auditing standards
refer to inspection of physical assets and inspection of documents as one type of evidence, we separate them into physical examination of assets and inspection of documents in this text to help auditors did not seek an
explanation for the differences because the amounts were not material. Calculate the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding year. Management has also prepared information elsewhere in this Annual Report that is consistent with data in the financial statements. Subsequently, in
the Supreme Court's ruling on the Janus Capital Group, Inc. Prenumbered but not accounted for. Customer orders are compared with an approved customer list. However, highly specific requirements could turn auditing into mechanistic evidence gathering, devoid of professional judgment. same time, the existence of auditing standards does not
mean the auditor must always follow them blindly. prelisting of Cash received by someone who has no access to accounting records. Sometimes circumstances beyond the client's or auditor's control prevent the issuance of an
unmodified ("clean") opinion. The increase in net sales can be explained largely by an aggressive advertising campaign that the Company organized during the second half of 2016. Auditors use eight types of evidence in an audit. For example, the sales accounting system should be designed to ensure that all shipments of goods are correctly recorded
as sales (completeness and accuracy assertions) and are reflected in the financial statements in the proper period (cutoff assertion). (4) a record to be used as a basis for the following year's engagement. Despite these limitations, auditors need to work to overcome these judgment biases and they need to be continually reminded of the importance of
maintaining appropriate professional skepticism, and recognize that the risk of material misstatements is present in all audits. The company recently missed a loan payment, and Olson is becoming concerned about whether Danville will be able to repay the full amount of the loan. As noted in Figure 5-6, the CPA firm was held liable for a lack of due
diligence required under the 1933 act when performing its review of events occurring subsequent to the balance sheet date. (1) Review the cash receipts journal for the month prior to year end. In some cases, as a result of the terms of the side agreement, the transaction does not qualify as a sale under accounting standards. Describe two types of
substantive analytical procedures often performed in the audit of the sales and collection cycle and describe how they might indicate a possible misstatement in the financial statements. For example, Figure 13-7 v Approach to Designing Tests of Details of Balances Apply transactionrelated audit objectives to a class of transactions Identify key
controls and make a preliminary assessment of control risk Apply balancerelated audit objectives to an account balance Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Sample size Items to select Timing Design tests of transactions Audit procedures Audit procedure
Part 2 / The Audit Process Make preliminary judgment about materiality Design substantive analytical procedures Sample size 464 Decide performance materiality Identify significant risks Assess inherent risk for details of
balances can be reduced. Al was a past president of the American Accounting Association and a former member of the AICPA Auditing Standards Board. Arthur Andersen (1986) Auditor knows and intends that user will use audit report. There are no unrecorded receivables. C Separation of duties exists among billing, recording of sales, and handling
of cash receipts (C3). Is the recording of sales supported by authorized shipping documents and approved customer orders? Although the quantity, type, and content of audit documentation will vary with the circumstances, audit documentation generally will include the (1) copies of those client records examined by the auditor during the course of
the engagement. 16-3 (Objective 16-2) List five analytical procedures for the sales and collection cycle. Describe the types of procedures that constitute risk assessment procedures that constitute risk assessment procedures that constitute risk assessment procedures for the sales and collection cycle. Describe the types of procedures that constitute risk assessment procedures for the sales and collection cycle.
responsibility to test controls in an audit of a nonpublic company. Use the format below: Factor effect on the risk of Material Misstatement audit risk Model Component Henderson is a new client Increases Inherent risk Part 2 / The AudiT Process Figure 9-6 Stanton Enterprises Summary Financial Statements Balance Sheet preliminary 12-31-16 Cash
$ Trade accounts receivable Allowance for uncollectible accounts Inventories Prepaid expenses Total current assets 243,689 3,544,009 audited 12-31-15 $ 133,981 2,224,921 (120,000) (215,000) 4,520,902 3,888,400 29,500 24,700 8,218,100 6,057,002 Property, plant, and equipment: At cost 12,945,255 9,922,534 Less accumulated depreciation
(4,382,990) (3,775,911) 8,562,265 6,146,623 1,200,000 345,000 Total assets $17,980,365 $12,548,625 Accounts payable $2,141,552 $2,526,789 Bank loan payable $2,141,552 $2,526,
240,000 4,455,152 5,123,809 960,000 1,200,000 Common stock 1,250,000 1,000,000 Additional paid-in capital 2,469,921 1,333,801 8,845,292 3,891,015 Total current liabilities and stockholders' equity 12,565,213 6,224,816 $17,980,365 $12,548,625
Combined Statement of Income and retained earnings preliminary 12-31-16 audited 12-31-15 $43,994,931 $32,258,015 24,197,212 19,032,229 Gross profit 19,797,719 13,225,786 Selling, general, and administrative expenses 1,117,845 865,030
83,376 104,220 11,793,442 9,869,682 Income before taxes 8,004,277 3,356,104 Income tax expense 1,800,000 1,141,000 Net income 6,204,277 2,215,104 Beginning retained earnings 3,891,015 (1,250,000) (1,000,000) $8,845,292 $3,891,015 Chapter 9 / Assessing The
Risk of MATeRiAl MissTATeMenT 333 9-38 (Objectives 9-5, 9-6, 9-7, 9-9) It is 2013 and you are planning the audit of Stanton Enterprises Ltd (SS LTD) for the financial year ended 31 December 2013. For full-time students, most universities charge a set tuition amount after students enroll in a minimum number of courses per term. The
purpose is to determine the effectiveness of automated controls and to obtain evidence about electronic account balances. The timing of audit procedures can therefore vary from early in the accounting period to long after it has ended. There are three main reasons why the auditor should properly plan engagements: to enable the auditor to obtain
sufficient appropriate evidence for the circumstances, to help keep audit costs reasonable, and to avoid misunderstanding—recognition that people's motivations and perceptions can lead them to provide biased or misleading information PCaOB StaFF aLErt ON Professional Skepticism that people's motivations and perceptions can lead them to provide biased or misleading information PCaOB StaFF alert ON Professional Skepticism that people's motivations and perceptions can lead them to provide biased or misleading information PCaOB StaFF alert ON Professional Skepticism that people's motivations and perceptions can lead them to provide biased or misleading information PCaOB StaFF alert ON Professional Skepticism that people's motivations and perceptions can lead them to provide biased or misleading information PCaOB StaFF alert ON Professional Skepticism that people's motivations are provided by the professional Skepticism that people is a supplication of the professional Skepticism that people is a supplication of the professional Skepticism that people is a supplication of the professional Skepticism that people is a supplication of the profession of t
publishes Staff audit Practice alerts to highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of the PCaOB standards. Comparison of details may take the form of details over time, such as comparing the monthly totals for the current year and preceding year for
sales, repairs, and other accounts, or details at a point in time, such as comparing the details of loans payable at the end of the current year with the detail at the end of the preceding year. Insufficient appropriate evidence in audit output to
the client's list of customer orders that were rejected for exceeding authorized credit limits. In those cases, the capital acquisition and repayment cycle is also related to inventory and warehousing. Compare date of recording of sale in sales journal with duplicate sales invoice and bill of lading (13b and 13c). They occur in every business in the
recording of the five classes of transactions in the sales and collection cycle. Return on equity 12. The auditor should obtain evidence to evaluate the reasonableness of the client's request, and evaluate whether the request indicates a potential fraud risk or increased risk of material misstatement. The reason for using audit objectives, rather than the
assertions, is to provide a framework to help the auditor accumulate sufficient appropriate evidence and decide the proper evidence to accumulate given the circumstances of the engagement. 24.32 9. They alleged that Ernst & Ernst failed to conduct a proper audit that should have led them to discover the "mail rule" and the fraud. Some may argue
that this is a prime example of why SOX 404(b) audits of internal controls over financial reporting should also be required for non-accelerated filers. Source: United States v. 12-4 (Objective 12-2) Describe how the nature of evidence used to evaluate control activities. The
essence of an effectively controlled organization lies in the attitude of its board of directors and senior management. Post-sale service arrangements designed to further develop and maintain our customer base. BarChris Construction (1968). For each error or fraud, select one internal control that if properly designed and implemented,
most likely would be effective in preventing or detecting the errors and fraud. The auditor is of the opinion that he cannot accept the value of finished goods presented in the client's Statement of Financial Position. Lake believed that sales transactions and accounts receivable confirmation tests should be done using statistical sampling and he asked
 future as she sat in her graduation ceremony in May 2015. Are prenumbered documents properly accounted for? Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 587 You are the audit supervisor. Numerous federal court decisions have clarified that Rule 10b-5 applies not only to direct sellers but also to
 accountants, underwriters, and others. The term misappropriation of assets is normally used to refer to theft involving employees and others internal to the organization. The procedures for this type of testing are commonly referred to as tests of controls. Review the total of repairs and maintenance for each month to determine whether any month'
total was unusually large. Auditors should not, however, ignore controls affecting internal management information, such as budgets and internal performance reports. Financial Interests The AICPA Code prohibits covered members from owning any stock or other direct investment in audit clients regardless of materiality because it is potentially
damaging to actual audit independence (independence (independence (independence in appearance). (They must always perform tests of controls in an audit of internal control over financial reporting.) If tests of controls support the control risk Part 2 / The AudiT Process
 when merchandise is received) 14. Many companies use bar codes and handheld computers to record removal of inventory from the warehouse, essential terms Analytical procedures—evaluations of financial information through analysis of plausible relationships among financial and nonfinancial data Evidence mix—the combination of the types of
risks of material misstatement identified by the auditor's risk assessment procedures Phases of the audit process—the four aspects of a complete audit: (1) plan and design an audit approach, (2) perform tests of controls and substantive tests of transactions, (3) perform substantive analytical procedures and tests of details of balances, and (4)
complete the audit and issue an audit report Procedures to obtain an understanding of internal control—procedure an analytical procedure an analytical procedure and implementation of recorded amounts or ratios to gather evidence about the design and implementation of specific controls.
provide evidence supporting an account balance Substantive tests—audit procedures designed to test for dollar (monetary) misstatements of financial statements to determine whether the six transaction-related audit objectives have been satisfied for
 each class of transactions Tests of controls—audit procedures to test the effectiveness of controls in support of a reduced assessed control risk Tests of details of balancerelated audit objectives have been satisfied for each significant account balance Types
of tests—the five categories of audit tests auditors use to determine whether financial statements are fairly stated: risk assessment procedures, and tests of details of balances Chapter 13 / Overall audit Strategy and audit PrOgram 473 revieW QuesTions 13-1
the financial statements of the company for financial years 1996 and 1997. A group of longtime friends decided to try their hand at online art auctions and online trade in antiquities. The company was famous for producing stage musicals in Canada and in the United States such as the productions of Joseph and the Amazing Technicolor Dreamcoat.
Kiss of the Spider Woman, and the 1993 Broadway revival of Show Boat, Fosse and Ragtime. Expand the review of cash receipts after year-end to evaluate the collectibility of accounts receivable. Although there have been several high-profile cases in the past involving apparent audit failures, the existing legal exposure of CPAs, peer review
requirements, PCAOB inspections, and the potential for interference by the SEC and government has kept audit quality high. Carol was very familiar with the internal controls of OnePlus Technology as she did the system walkthrough in the previous audit engagements. 1 Material error or omission is required for liability under the 1933 act. What is
the meaning of the rule that requires the auditor be independent? A major responsibility of the IRS is to audit taxpayers' returns to determine whether they have complied with the tax laws. this process allowed those invoices to be included in revenue, but concealed their existence from the heads of Satyam's business units, who would recognize that
the services had not been provided. As businesses grow and have increased information needs, they typically upgrade their IT systems. Examine vendors' statements for accounts payable balance. A study sponsored by the Committee of Sponsoring Organizations (COSO) found that more than half of financial statement frauds involve revenues and
accounts receivable. 9-18 (Objective 9-7) Explain the effect of extensive misstatements found in the prior year's audit on inherent risk, planned audit evidence. Discuss how each of the following could affect independence of mind and independence
from doing each one: (1) Owning stock in a client company. 16-34 (Objective 16-4) Samsung is a Korean conglomerate that operates in many industries including consumer electronics, life insurance, shipbuilding, and advertising. Confidence coefficients for ARIR are also shown in Table 17-12. Prenumbered credit memos are used for granting credit
for goods returned. Auditors should then consider whether such antifraud programs and controls mitigate the identified risks of material misstatements due to fraud or whether a client's calculation is correct. Identify which
controls, if tested within the last two prior year audits, would not have been made since auditor testing was completed. The statements have been prepared in conformity with accounting principles generally accepted in the
United States of America and include amounts based on management's best estimates and judgments. Assume that Dodge has received a satisfactory response to the confirmation requests. This is accomplished in three ways: by a written statement in the form of a memorandum, by initialing the audit procedures in the audit program, and by notations
directly on the schedules. A client evaluation form, dealing with such matters as predecessor auditor comments and evaluation of management, must be prepared for every new client before acceptance. What concerns do you have about shipments recorded as sales in 2014, if any? These are "one-sided tables," meaning they represent the upper
exception rate for a given ARO. For example, developing an audit objective specific to the accuracy of transactions, while developing an audit objective for the classification of transactions helps the auditor design and perform audit
procedures to obtain evidence about whether the transactions are recorded in the appropriate accounts. • The ending balance in the allowance account has been verified by various means. Magdelene Gomez used to work as an analyst at a CPA firm. The auditor must also understand any unique accounting requirements of the client's industry. 8-30 and the country is a country of the client's industry.
 (Objective 8-2) Identify client's reasons for audit. The SEC ultimately brought charges against a number of senior executives at ABC and some supplier representatives. Vendors' invoices 4. Other SEC findings included failures in the confirmation process, failure to adequately evaluate related party transactions, and inadequate evaluation of audit
differences identified during testing. 103 Ethical Dilemmas 104 Special Need for Ethical Conduct in Professions 107 Code of Professional Conduct 120 Enforcement 127 Summary 129 Essential Terms 129 Review Questions 129 Multiple
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CIA, and CMA Examinations Discussion Questions and Problems 884 index Credits 16 CONTENTS 831 888 896 881 PrefAce Integrated approach is an introduction to auditing and other assurance services. However, cost is never an adequate
justification for omitting a necessary procedure or not gathering an adequate sample size. Send positive confirmation to a large sample of the client's debtors, requesting that they confirm the existence and dollar amount of their outstanding receivable 16-29 (Objective 16-4) Dodge, CPA, is auditing the financial statements of a manufacturing
company with a significant amount of trade accounts receivable. A member is also responsible for compliance with the rules by employees, partners, and shareholders. Did any of the information pertain to the December 31, 2012, audit? 10-20 (Objectives 10-5, 10-7) The following questions concern the auditor's responses to the possibility of fraud. A
description of those assessed risks of material misstatement that were identified by the auditor and that had the greatest effect on the engagement team; b. He thought that goods sent to a hub were considered sold. For the most part, auditors treat each
interest rate on that debt is reduced by only 1 percent, the annual savings in interest is $100 million. 7-3 (Objective (s) to which the control relates. Loss of major customers, the occurrence of uninsured catastrophes
such as an earthquake or flood, or unusual labor difficulties 4. The degree to which external users rely on the statements. Kashir Advertising Credits—Nefret had arrangements with some vendors to share the cost of advertising Credits. Reconcile the bank
 account. KPIs are metrics that provide a high-level overview of past performance. Bad debt expense is then simply a residual balance that can be verified by recalculation. • Chapter 16 presents the methodology for designing audit procedures for the audit of accounts receivable and other account balances in the sales and collection cycle. CPAs
have provided many assurance services for years, particularly assurances about historical financial statement information is correct because the computer produced it." Unfortunately, auditors sometimes depend on the untested accuracy of computer-generated output because they forget that computers perform
only as well as they are programmed. Auditors are not expected to be trained or be experts in document authentication. Jérôme Kerviel, a junior trader with a modest base salary of around $70,000, had gambled more than the bank's entire net worth in high-risk bets involving unauthorized trades related to European stock index funds. A combined
total of less than 3 percent is presumed to be immaterial in the absence of qualitative factors. But no man, whether skilled, undertakes that the task he assumes shall be performed, which are combined into the audit program, which
contains the detailed instructions for the gathering of audit evidence to support the auditor's opinion. Reasonable assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. This control is most relevant to which transactionrelated objective
for sales? Images appealed to upscale working women and offered its own credit card. While most cases of fraudulent financial reporting involve an attempt to overstate income—either by overstate income—either by overstate income—or by omission of liabilities and expenses—companies also deliberately understate income. The firm knew in a general way that
Regal Jewelry wanted that number of copies of the auditor's report to furnish to banks and other potential lenders. trace cash receipts entries from the SEC independence rules require the lead and concurring audit partner to rotate
 off the audit engagement after five years. These findings have been communicated to management to allow an opportunity for correction of the control deficiency to be made before year-end. Thus, the auditor may also identify the risk of misstatement related to the realizable value balance-related objective for accounts receivable as a significant risk
                    ee oversight also serves as a deterrent to fraud by senior management. The appropriate report to issue in these circumstances depends on whether the situation involves a GAAP departure or a scope limitation, as well as the level of materiality. Therefore, assuming the auditors plan to obtain a low assessed control risk from the
beginning of the audit, they will likely combine both types of procedures and perform them simultaneously. If the audit of accounts audited earlier can be used to revise the performance materiality established for accounts audited later. 100.00 5. For each of the
12 blanks in procedures 1 through 10, identify the most appropriate term. Prenumbered credit memos are used for granting credit for returned goods. 14-16 (OBJeCtIVeS 14-3, 14-5) Under what circumstances is it acceptable to perform tests of controls and substantive tests of transactions for sales and cash receipts at an interim date? Safeguards
implemented by the firm, including policies and procedures to implement professional and regulatory requirements. The legal right to perform audits is granted to CPA firms by regulation in each state. Sample exceptions Sample exceptions Sample exceptions are Calculated Allowance for Sampling Risk (TER - SER) Intended use of sampling results: 1
Overall responses to Fraud risks Chapter 10 / Assessing And Responding to FRAud Risks 351 If the risk of misstatement due to fraud is increased, more experienced personnel may be assigned to the audit. Compute Ratios and Percent Relationships for Comparison with Previous Years Comparing totals or details with previous years has two
shortcomings. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Stewart Pane and Lighting, is based solely on the report of the other auditors. The opinion paragraph is stated as an opinion rather than as a statement of absolute fact or a
guarantee. Briefly describe how control environment and monitoring help address cyber risks. Monthly customer statements should be sent out before the 3rd day of the next month after being reviewed by a responsible supervisor. Immediate family members are a spouse, spousal equivalent, or dependent. Provide Evidence Supporting an Account
Balance In many cases, an analytical procedure can be used to provide evidence supporting recorded account balances. Often, the client's line of business is not the same as the industry standards are referred to as Statements on Auditing Standards. These standards are referred to as Statements on Auditing Standards.
assertions for classes of transactions, account balances, and presentation and disclosure are not achieved. Banks and officers using market rates. Explain how Annie should interpret the CUER of 7.92%. Is the appropriate
sampling unit for audit procedure 11 the shipping document? • Results of the procedures performed to address the risk of management override of controls. Which of the following will likely provide the most assurance concerning the accuracy balance-related objective for accounts receivable? All of the seventeen principles must be present and
functioning for internal controls to be effective. It is often helpful to think of the sampling unit as the starting point for doing the audit tests. 288 Part 2 / The Audit Process discussion Questions and ProBlems 8-28 (Objectives 8-2, 8-3, 8-4, 8-5) The following are various activities an auditor does during audit planning. Chapter 12 / Assessing Control
risk And reporting on internal Controls 415 Figure 12-5 Deficiencies in Internal Control Client Hillsburg Hardware Co. Schedule P-3 Deficiencies in Internal Control Prepared by JR Cycle Sales and Collection Deficiency 1.
control, and auditors' responsibility for detecting fraud. 10 years ago she was one of the accountants involved in the preparation of Double U's prospectus. The library of program files. Describe Waseem's misconceptions regarding the
consideration of fraud in the audit of Gilgamesh's financial statements that are contained in the preceding dialogue, and explain why each is a misconception. Bank or trade creditors when the auditor is aware that the client has provided audited financial statements to such users. How are they different? There are significant potential rewards, but
the company's management recognizes that there are significant risks in the business that could jeopardize the success of its existing mining business. 10-8 (Objective 10-4) Describe the purpose of conduct and identify three examples of items addressed in a typical code of conduct. Then, list audit procedure(s) that can test the
respective audit objective. This framework provides a frame of reference for assurance practitioners. Audit sampling for tests of details of balances is similar to audit sampling for tests of controls and fulfills the experience
stipulations by becoming a GAO auditor, he or she may then obtain a CPA certificate. The auditor may review monthly sales by product line. Opportunities for theft exist in all companies. Sarah Cream, his other partner was convicted of manipulating the results of the
audit of Red Bean Ltd. Although Table 16-1 focuses on the comparison of current year results with previous years, auditors also consider current year results compared to budgets and industry trends. For the 16th edition, we have partnered with Becker CPA Review to include new multiple choice problems from their CPA exam preparation materials.
A criminal investigation was launched in Canada. Do the same for points C2 and C3. It is common for auditors to want an equally low likelihood of misstatements for each cycle after the audit is finished to permit the issuance of an unmodified opinion audit report. As Figure 13-1 illustrates, tests of controls are performed to support a reduced
assessment of control risk, while auditors use substantive analytical procedures and tests of details of balances to satisfy planned detection risk, but it does allow the auditor to measure the risk associated with a given sample size if statistical methods of sample selection and evaluation are used.
Customers must click on the Accept or Reject sales button to indicate approval or rejection of the online sale. Commercial and residential customers are not differentiated on bills of lading. For public companies, PCAOB rules require a CPA firm, before its selection as the company's auditor, to describe in writing and document its discussions with the
audit committee about all relationships between the firm and the company, including executives in financial reporting positions, to determine whether there is any impairment of the CPA firm's independence. The AICPA standards adopted by the PCAOB as interim standards retained the original AU classification that was used for those standards.
Provide a possible explanation for any gaps or duplicates that you find. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies used accounting policies are accounting to the significant accounting policies accounting the significant accounting policies accoun
become CPAs start their careers working for a CPA firm. For Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle example, auditors rarely send accounts receivable confirmations to customers with zero balances are
understated. Determine the value of each misstatement in the sample. "How was your weekend?" one guy asked the other. Table 10-5 is an example of the effects of fictitious inventory on inventory on inventory turnover based on the Crazy Eddie fraud. For example, the auditor's documentation of the facts and information associated with the unusual sales
transaction and the auditor's rationale for concluding the transaction was recorded in accordance with standards and may help the auditor identify for further consideration any aspects that might not be clear or persuasive before reaching a final conclusion about the appropriateness of the accounting treatment. Foreign Corrupt practices act of 1977
Sarbanes-Oxley act of 2002 AND THE CURTAIN FELL 152 Another significant congressional action affecting both CPA firms and their clients was the passage of the Foreign Corrupt Practices Act of 1977. Identify which procedures are tests of details of balances, which are tests of controls, and which are substantive tests of transactions. These
results were also taken from Figure 15-6. For example, if an auditor takes a sample of 100 items for an attribute and finds no exceptions (SER = 0) and TER is 5 percent, the calculated allowance for sampling risk is 5 percent, the calculated allowance for sampling risk is 5 percent, the calculated allowance for sampling risk is 5 percent, the calculated allowance for sampling risk is 5 percent, the calculated allowance for sampling risk is 5 percent, the calculated allowance for sampling risk is 5 percent.
division in order to focus more on core operations—engine manufacturing. The combination of these two pieces of information indicates a possible understatement of the allowance. Audit practice alerts typically result in a nationallevel response by the audit firms. What factors might have caused the auditor to inappropriately accept the assertions by
management that the supplier allowances should be reflected in the financial statements? (KOBELCO), one of Japan's leading steelmakers and supplier of aluminum and copper products, has been around for more than a century since their establishment in 1905. Chapter 8 described the auditor's consideration of materiality as part of audit planning.
Several of the inventory items were misstated, but the combined net amount of the sample misstatement was not material. essentIal terMs Application controls—controls typically at the business process level that apply to processing, and outputting, processing, and outputting of sales or cash receipts Application service providers
(ASPs)— third-party entities that manage and supply software applications or software applications or software application controls—application controls—app
computing environments—a computer resource deployment and procurement model that enables an organization to obtain IT resources and applications at an IT service center shared with other organization to obtain IT resources and applications at an IT service center shared with other organization to obtain IT resources and applications at an IT service center shared with other organizations.
Control activities—policies and procedures, in addition to those included in the other four components of internal control, that help ensure that necessary actions are taken to address risks in the achievement of the entity's objectives; they typically include the following five specific control activities: (1) adequate separation of duties, (2) proper
authorization of transactions and activities, (3) adequate documents and records, (4) physical control environment—the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control and its
importance to the entity COSO principles—represent the fundamental concepts related to each of the five components of internal control and CoSo Framework 397 principles must be functioning for controls to be effective Cybersecurity—the information technology and internal control processes an organization has
in place to protect computers, networks, programs, and data from unauthorized access Database management systems—hardware and software systems—electronic certificates that are used to authenticate the validity of individuals and
companies conducting business electronically Encryption techniques—computer programs that change a standard message or data file into one that is coded, then decoded using a decryption program Enterprise resource planning (ERP) systems—systems that integrate numerous aspects of an organization's activities into one accounting information
system Entity-level controls—controls —controls that have a pervasive effect on the entity's system of internal control gateway General
authorization—companywide policies for the approval of all transactions within stated limits General controls—controls built into the computer equipment by the manufacturer to detect and report equipment failure Independent
checks—internal control activities designed for the continuous internal verification of other controls Information and communication—the set of manual and/or computerized procedures that initiate, record, process, and report an entity's transactions and maintain accountability for the related assets Input controls—controls designed by an
organization to ensure that the information to be processed by the computer is authorized, accurate, and complete 398 Part 2 / The AudiT Process Internal control—a process designed to provide reasonable assurance regarding the achievement of management's objectives in the following categories: (1) reliability of reporting, (2) effectiveness and
efficiency of operations, and (3) compliance with applicable laws and regulations Local area networks (LANs)—networks that connect computer equipment, data files, software, and peripheral equipment within a local area, such as a single building or a small cluster of buildings, for intracompany use Manual controls—application controls done by
people Monitoring—management's ongoing and periodic assessment of the quality of internal controls designed to ensure that computer-generated data are valid, accurate, complete, and distributed only to authorized people
Parallel testing—a company's computer testing approach that involves operating the old and new systems simultaneously Pilot testing—a company's computer testing approach that involves implementing a new system in just one part of the organization while maintaining the old system at other locations Processing controls—controls designed to
ensure that data input into the system are accurately and completely processed Risk assessment—management's identification and analysis of risks relevant to the preparation of duties—separation of duties—separation of the following activities in an organization: (1) custody of
assets from accounting, (2) authorization from custody of assets, (3) operational responsibility from record keeping, and (4) IT duties from outside users of IT Service center—an organization that provides IT services for companies on an outsourcing basis Specific authorization—case-by-case approval of transactions not covered by companywide
policies Those charged with governance—the person(s) with responsibility for overseeing the entity, including overseeing the entity, including overseeing the financial reporting and disclosure process Wide area networks (WANs)—networks that connect computer equipment, databases, software,
and peripheral equipment that reside in many geographic locations, such as client offices located around the world revIew QuestIons 11-1 (Objective 11-1) Describe which of the financial statements and internal control over financial
reporting. State the four major types of services CPAs perform, and exchange Commission in accounting and auditing. • The occurrence (completeness) objective for cash receipts relates to the completeness
(existence) objective for accounts receivable. In those cases in which it is a violation, explain the nature of the existing rule. One type of indexing is illustrated in Figure 7-4 (p. The CPA firm had at least one person at each site to audit the inventory count procedures and actual count. Interviewing allows the auditor to
clarify unobservable issues and observe the respondent's verbal and nonverbal responses. You determined through the planning phase that working capital, debt-to-equity ratio, and other indicators of financial condition improved during the past year: Control risk IDNC Acceptable audit risk IDNC Inherent risk IDNC Planned evidence IDNC g.
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Specific application processing controls are often programmed into software to prevent, detect, and correct processing errors. During the past year, a computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system was installed and inventory records of finished goods and parts were converted to computer system.
subcomponents, typically made up of classes of transactions such as sales, sales returns, cash receipts, acquisitions, and so on. It can create exams as well as evaluate and track student results. If the other person has decided that this behavior is ethical and acceptable, there is a conflict of ethical values that is unlikely to be resolved. Acquisitions 6
The report is usually addressed to those for whom the report is prepared, including the company, its stockholders, or the board of directors. That does not imply, however, that the principles are less important for an orderly society. For attributes sampling, the auditor compares CUER with TER for each attribute. 442 required a. The use of the term
reasonable assurance is intended to indicate that an audit cannot be expected to completely eliminate the possibility that a material misstatement will exist in the financial statements. It is apparent by examining the three ratios that the cash ratio may be useful to evaluate the ability to pay debts immediately, whereas the current ratio requires the
 conversion of assets such as inventory and Chapter 7 / Audit EvidEnCE 237 accounts receivable to cash before debts can be paid. Table 6-5 illustrates the relationships among management assertions, the general balance-related audit objectives, and specific balance-related audit objectives as applied to inventory for Hillsburg Hardware Co. Notice
that there is a one-to-one relationship between assertions and objectives, except for the valuation and allocation assertion. Stakeholders have become more engaged, seeking greater transparency and accountability for the integrity Objective 11-3 Explain the five components of the COSO internal control framework. Other factors affecting that
decision are shown in the darker shaded boxes on the right side of the figure. The remainder of this chapter deals with reports other than standard unmodified opinion audit reports. Complete the audit reports other than standard unmodified opinion audit reports. Complete the audit reports of the figure.
and related disclosures, it is necessary to combine the information obtained to reach an overall conclusion as to whether the financial statements are fairly presented. Yosef: Still, I think that we need to bring up the issue with the auditing committee. What are the major causes of information risk? You agreed with her changes. Parties who have a
relationship that is established by a contract are said to have privity of contract. The standards are followed. internAtionAl And u.s. Auditing standards Objective 2-6 Understand the role of international auditing standards and their
relation to U.S. auditing standards. One colleague suggested that since Bagan was operating at an inefficient manner, the Bagan plant should be closed and all work transferred to the other plant in Sibu. An internal document has been prepared and used within the client's organization and is retained without ever going to an outside party. (You must
decide which attributes should be combined, which should be kept separate, and which exceptions are actual exceptions before you can calculate SER.) d. Understand requirements for auditor reporting on internal control. The auditor is likely to consider other factors in making the decision, including the materiality of accounts receivable and the
auditor's exposure to lawsuits because of the possibility of client bankruptcy and similar risks. 17-8 (Objective 17-3) An auditor is determining the appropriate sample size for testing inventory valuation using MUS. Determine performance mate riality during audit planning. The management of Hillsburg Hardware Company is responsible for
establishing and maintaining adequate internal control over financial reporting. Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and obligations of the Rights and Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and Occurrence Completeness Accuracy Classification Cutoff Detail tie-in Realizable value Rights and Occurrence Completeness Accuracy Classification Cutoff Detail Realizable value Rights and Occurrence Completeness Accuracy Classification Cutoff Detail Realizable value Rights and Occurrence Realizable value Rights and Occurrence Realizable value Rights and Occu
Classification and understandability Identify the specific audit objective (1 through 18) that each of the following specific audit procedures (a. For example, a retail establishment may require that all sales be recorded on a cash register. Goelzer at Investment Company Institute's 2003 Tax & Accounting Conference, September 15, 2003 (pcaobus.org)
The most important general ledger account included in and affecting several cycles is general cash (cash in bank). Similarly, the librarian releases a test copy to programmers only on approval by senior management. The company incurred large amounts of advertising expenses and most suppliers offered financial assistance through unwritten
 agreements with ABC to help pay for these advertising expenses. There are two primary differences in the application of these common procedures. You have recommended a new computer system for the past two years, but management believes the cost is too great, given their low profitability. Whitehead's discussions with the predecessor auditor
revealed that the client has experienced some difficulty in correctly tracking existing property, plant, and equipment items. Diab must approve of any credit sales that exceed $500. One of the recent initiatives was the expansion of the sales force to online ordering so that individual customer could order through the internet. Sometimes network
security may be compromised when networks consist of equipment with incompatible security features. When auditors use documentation to support recorded transactions or amounts, the process is often called vouching. We will continue to complete the worksheet as we proceed through phase III in this chapter. 9-22 (Objective 9-8) Auditors have
not been successful in measuring the components of the audit risk model. Auditors accept some level of risk or uncertainty in performing the audit function. Observation is particularly useful in evaluating the effectiveness of client procedures in counting inventory, as well as in many other parts of the audit. The request is then forwarded to the
purchasing director in the application system. Ability to Meet Long-term Debt Obligations Debt to equity 5 Times interest expense 2,409 5 1.73 5 3.06 A company's long-run solvency depends on the success of its operations and on its ability to raise capital for
 expansion, as well as its ability to make principal and interest payments. In doing so, we will focus primarily on the following three strategic components of our business plan: 1. For each one, auditors require a threefold approach to determine the reasonableness of cutoff: accounts receivable are accounts receivable are properly Classified
Cutoff for accounts receivable Is Correct 1. Audit documentation is an essential part of every audit for effectively planning the audit, providing a record of the evidence accumulated and the results of the tests, deciding the proper type of audit report, and reviewing the work of assistants. Understand the concept of evidence mix and how it should be
varied in different circumstances. Auditors perform tests of the debits and credits to individual customers' balances by examining supporting documentation for shipments and cash receipts. Independence of mind is often referred to as being independent in fact. It is a summary of the audit procedures in Tables 14-2 and 14-3 (p. The company
prepares a receiving report for returned goods and returns them to storage. the audit and Supervisory Board would have independent members from within the management. Cai Di worked on the audit of China Healthcare Associations (CHA), which operates hospitals and outpatient
centers in Shanghai and Beijing. Litigation Releases, which are descriptions of SEC civil and selected criminal suits in the federal courts, are posted on a high acceptable audit risk for an account or objective. She wanted to know why
you are asking her to perform such mundane tasks. What must the auditor do to evaluate whether information provided by the client is sufficiently reliable? Suggested commands, where applicable, are indicated at the end of the problem requirements. In contrast, a misclassification in the balance sheet, such as a classification of a note payable as an
account payable, will have no effect on operating income. He noted that, possibly due to a change in personnel of the client's accounting department, the test results were not as satisfactory as expected. The various planning activities we have discussed in Chapters 6 through 13 are applied at different levels of disaggregation, depending on the
nature of the activity. 7-18 (Objective 7-8) Why is it essential that the auditor not leave questions or exceptions in the audit documentation without an adequate explanation? The activities designed to encourage CPAs to conduct themselves at a high level, described in Figure 4-2 (p. An example is the unintentional failure to make sure that a small
audit client included all disclosures in its financial statements, which violates the Accounting Principal auditor, or the principal auditor has
 thoroughly reviewed the other auditor's work. Net sales divided by tangible assets 9. The statements of publicly held corporations are normally relied on by many more users than are those of closely held corporations. These indicators go beyond financial statement figures, such as sales and net income, to include measures tailored to the client and
its objectives. 390 Part 2 / The AudiT Process Programmers should not have access to input data or computer operations to avoid using their knowledge of the system for personal benefit. I think they have a right to know of this, even if it ends up being nothing. 178) illustrates the application of cycles to audits using the December 31, 2016, trial
balance for Hillsburg Hardware Company. part I In evaluating the audit approach for McClain for the audits of small nonpublic companies. Chapters 14 and 15 examined tests of controls and substantive tests of transactions for the sales and
collection cycle, both of which are part of phase II of the audit process. So, if ARIA equals 10 percent, the confidence coefficients for various ARIAs are shown in Table 17-12 (p. While both statistical audit sampling methods are used extensively for tests of details of balances, auditors must decidence coefficients for various ARIAs are shown in Table 17-12 (p. While both statistical audit sampling methods are used extensively for tests of details of balances, auditors must decidence coefficients for various ARIAs are shown in Table 17-12 (p. While both statistical audit process.)
which method to use, depending on their preference, experience, and knowledge about statistical sampling. It is common to spell out these procedures in sufficiently specific terms so an auditor may follow these instructions during the audit. Increase the sample size for sales cutoff testing for sales recorded before year-end. The effect of the tests on
accounts receivable, bad debt expense, and allowance for uncollectible accounts is considered in Chapter 16. An example is the decision to omit an important footnote disclosure about pending litigation. Palmer, Longwood College Vicki S. Liability to third parties under common law and the 1934 act depends on the degree of negligence. My initials
are right here in the upper right-hand corner. Make an advance population standard deviation estimate—variability of the population. The computer authorizes those sales based on its comparison of customer credit limits to the master file and posts all approved sales in the sales cycle journals. The auditor may also be able to identify additional
compensating controls. The pressure was enormous. Describe the key functions performed by the AICPA. • Misstatements that are otherwise minor may be material if there are possible consequences arising from contractual obligations. The importance of a significant deficiency or material weakness is directly related to the likelihood and materiality related to the li
of potential misstatements. Liability to third parties under common law also depends upon the jurisdiction and whether the third party is a primary beneficiary or known user of the financial statements. What do you think about the wife's actions? summAry This chapter discussed the nature of the CPA profession and the activities of CPA firms. When
traditional source documents such as invoices, purchase orders, billing records exist only electronically, auditors must change their approach to auditing. The profession continues to pursue litigation reform at the state level, including
application of a strict privity standard for liability to nonclients and proportionate liability in all cases not involving fraud. Under a system in which the sales invoice is prepared only after a shipment has been made, the likelihood of failure to bill a customer is high unless some compensating control exists. The most important output control is review of
the data for reasonableness by someone knowledgeable about the output. Nonstatistical attributes sampling for exception rates were illustrated for the Hillsburg Hardware Co. essential teRms Acceptable risk of overreliance (ARO)—the risk that the auditor is willing to take of accepting a control as effective or a rate of monetary
misstatements as tolerable when the true population exception rate is greater than the tolerable exception rate
attribute of interest Audit sampling—testing less than 100 percent of a population for the purpose of making inferences about that population Block sample selection—a nonprobabilistic method of sample selection in which items are selected in measured sequences.
exception rate; the highest exception rate in the population exception rate (EPER)—exception rate the auditor expects to find in the population before testing begins Exception rate the auditor expects to find in the population exception rate the auditor expects to find in the population at a given ARO Estimated population rate the auditor expects to find in the population rate the auditor expects to find in the population rate (EPER)—exception rate the auditor expects to find in the population rate (EPER)—exception rate (E
sample selection—a nonprobabilistic method of sample size—sample s
method of sample selection in which the auditor uses professional judgment to select items from the population Nonsampling risk (nonsampling risk (nonsampling error) is caused by failure to recognize exceptions and by inappropriate or ineffective audit procedures
Nonstatistical sampling—a sampling—a sampling procedure that does not permit the numerical measurement of the sample such that each population item has a known probability of being included in the sample and the sample is selected by a random
process Random sample—a sample in which every possible combination of elements in the population has an equal chance of constituting the sample exceptions in the sample with characteristics the sample as those of the population has an equal chance of constituting the sample exceptions in the sample with characteristics the sample exceptions in the population has an equal chance of constituting the sample exceptions in the sample exception in the samp
distribution—a frequency distribution of the results of all possible samples of a specific parameters Sampling risk—risk of reaching an incorrect conclusion inherent in tests of less than the entire population because the sample is not representative of the population; sampling risk
may be reduced by using an increased sample size and an appropriate method of selecting sample items from the population Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Statistical sampling—the use of mathematical measurement techniques to calculate formal statistical results and quantify sampling risk Systematic
sample selection—a probabilistic method of sampling in which the auditor calculates an interval (the population size divided by the number of sample items desired) and selects the interval Tolerable exception rate (TER)-
the exception rate that the auditor will permit in the population and still be willing to conclude the control is operating effectively and/or the amount of monetary misstatements in the transactions established during planning is acceptable Review Questions 15-1 (Objective 15-1) Distinguish between sampling risk and nonsampling risk. Seidman &
Seidman. Calculate the Initial Sample Size The initial Sample size for Hart Lumber can be now calculated using the following formula: | SD*(Z + Z)N | A R n = | TM - E*| | 2 where: n = initial sample size SD* = advance estimate of the standard deviation ZA = confidence coefficient for ARIA (see Table 17-12) ZR = confidence coefficient for ARIA
(see Table 17-12) N = population size TM = tolerable misstatement for the population (materiality) E^* = estimated point estimate of the population misstatement Applied to Hart Lumber, this equation yields: 2 \lceil 20(1.28 + 1.15)4,000 \rceil 2 n = | | = (9.97) = 100 \ 21,000 - 1,500 \ | | Generalize from the Sample to the population The auditor selects the
sample, performs the testing, and identifies sample misstatements. Figure 12-9 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach. If Thompson alleges and proves negligence on the part of which is included in Figure 12-19 illustrates the use of the test data approach.
(p. Some controls do not leave an evidence trail, which means that it is not possible at a later date to examine evidence that the control was executed. Compare sales returns and allowances as a percentage of gross sales with previous years (by product line). Quality controls are therefore established for the entire CPA firm, whereas auditing
standards are applicable to individual engagements. In an MUS sample with a sampling interval of $5,000, an auditor discovered that a selected accounts receivable with a recorded amount of $10,000 had an audit value of $8,000. C C Statements are sent to customers each month (C5). Engagement risk is closely related to client business risk, which
was discussed in Chapter 8. What internal controls could BestSellers.com implement to ensure that shipments of books occur only for customers who have the ability to pay for those books? We'll examine this in greater detail later in the chapter. 4-15 (Objective 4-7) State the allowable forms of organization a CPA firm may assume. The expanding
consulting practice could result in conflict between audit and advisory services in the firm. For integrated audits, the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls that are not operating effectively on the auditor must also consider the impact of those controls.
 auditor of a construction company suddenly quit, Basil, CPA, was hired to do the accounting for the company. through f. If auditors are independent in fact but users believe them to be advocates for the client, most of the value of the audit function is lost. A formatted control risk matrix is Chapter 12 / Assessing Control risk And reporting on internAl
Controls 445 Figure 12-12 Information for Audit of Accounts Payable — Previous Year Accounts payable Transactions, 2015 Acquisitions: Number of accounts payable Range of individual balances Performance materiality for accounts payable Transactions, 2015 Acquisitions: Number of accounts payable Transactions, 2015 Acquisitions Total accounts payable Range of individual balances Performance materiality for accounts payable Transactions, 2015 Acquisitions: Number of accounts payable Transactions, 2015 Acquisitions Total accounts payable Range of individual balances Performance materiality for accounts payable Transactions, 2015 Acquisitions Total accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance materiality for accounts payable Range of individual balances Performance Materiality for accounts payable Range of individual balances Performance Materiality for accounts payable Range of individual balances Performance Materiality for accounts Performance Mater
disbursements Total cash disbursements Results of audit procedures—tests of controls and substantive tests of transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase quantities, prices, and/or extensions not correct Transactions for acquisitions (sample size of 100): Purchase order not approved Purchase order
other exceptions Results of audit procedures—cash disbursements (sample size of 100): Cash disbursement recorded in wrong period No other exceptions Results of audit procedures—accounts payable: (50% of vendors' balances were verified; combined net understatement amounts were projected to the population as follows): Three cutoff
misstatements One difference in amounts due to disputes and discounts No adjustment was necessary because the total projected misstatement was not material. "It is one of the rules of controls: a trader who doesn't take holidays is a trader who doesn't take ho
immediately fired, and Speedtrack instituted new procedures that required same-day reporting of sales and procedures to investigate immediately any delay in cleared deposits. The staff assistant's work is then reviewed by the in-charge as well as by the manager and partner. Credit is approved (procedure 13e). When fraud is suspected, the audito
gathers additional information to determine whether fraud actually exists. 6-8 Distinguish among the management assertions about financial information. In an effort to provide measures of audit quality, the PCAOB, the AICPA's Center for Audit Quality, and many of the large audit firms are developing sets of potential "Audit Quality Indicators," or
AQIs, that may be informative about performance on individual audit engagements and at the firm level. Identify whether each audit procedure is a test of control or a substantive test of transactions. Effect on Audit Plan: Controls tested through attributes 1, 3, 6, 7, and 9 can be viewed as operating effectively given that TER equals or exceeds CUER
If the debt-to-equity ratio is too high, it may indicate that the company has used up its borrowing capacity and has no cushion for additional debt. The system must also avoid duplicate recording of sales and recording a sale if a shipment did not occur (occurrence assertion). Confirmation may not be appropriate in the following circumstances:
Objective 16-4 Obtain and evaluate accounts receivable confirmations. We conducted our audits in accordance with the rules fall into seven broad categories: adverse interest, advocacy, familiarity, management
participation, selfinterest, self-review, and undue influence. The auditing concepts illustrated throughout this book are generally applicable to all audits. Recorded accounts receivable exist 3. Chapter 8 / Audit PlAnning And MAteriAlity 299 acl ProBlem 8-40 (Objective 8-4) This problem requires the use of ACL software, which can be accessed through
the textbook Web site. (4) A fee based on the fee charged by the prior auditor. Bank reconciliation statements should be prepared and reviewed monthly. These types of information are often important sources used by management to run the business and can be important sources of evidence that help the auditor decide whether the financial
statements are fairly presented. "N/A" means that the alleged auditor action is not an available basis to seek liability from the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial audit program for the auditor under common law or the securities acts. 15-28 (Objective 15-7) The following is a partial au
the most of the problems came from the reporting of contamination cases in the Bagan plant. For accounts with small balances and only minimal potential for material misstatements, such as many supplies and prepaid expense accounts are reasonably
stated. Procedures require recording of cash on a daily basis (C7). In the example, the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from a population of sales invoices numbered from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items from 3689 to 9452. If the auditor wants 50 sample items 
Data from AICPA Audit Sampling Audit Guide, March 1, 2014 (www.aicpa.org). Analyze the year-to-year change in account balance for at least five financial statement line items. are eliminated to avoid stating anything that might lead readers to believe that other parts of the financial statements were audited and therefore might be fairly stated. For
 example, when performing tests of controls and substantive tests of sales transactions, the auditor generally defines the population as all recorded sales invoices for the year. This level of assurance is usually sufficient to meet the information needs of financial statement users. 6-13 (Objectives 6-7, 6-8) Distinguish between PCAOB assertions and
international and AICPA assertions. In addition, the PCAOB has publicly disclosed quality control deficiencies for all four of the large international audit firms. A wide variety of analytical procedures allow auditors to compare client data with similar data from one or more prior periods. Our audit of internal control over financial reporting included
 obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 94 Part 1 / THE AUDITING PROFESSION multiple choice questions from cpa examinations 3-20 (Objectives 3-1, 3-1).
2, 3-3, 3-4, 3-8) The following questions concern unmodified opinion audit reports. Personnel responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of those originally responsible for performing internal verification procedures must be independent of the performing internal verification procedures are also as a second or a
nature of the services to be performed by the CPA. Auditing standards require the auditor to consider the potential for management bias when 352 Part 2 / The Audit Process reviewing current-year estimates. The auditor must (1) plan the sample; (2) select the sample and perform the audit procedures; and (3) evaluate tabLe 15-1 Objective 15-5 Use
nonstatistical sampling in tests of controls and substantive tests of transactions, Part 2 / The Audit Objectives applied to Inventory Management assertions about account Balance-related audit Objectives Specific Balance-related audit Objectives applied to Inventory Management assertions about account Balance-related audit Objectives Specific Balance-related audit Objective Specific Balance-related audit Objective Specific Balance-related audit O
For less serious, and probably unintentional, violations, the division limits the discipline to a requirement of remedial or corrective action. Inspection Count—A determination of assets on hand at a given time. A firm having a peer review can further benefit if the review improves the firm's practice, thereby enhancing its reputation and effectiveness
Information Often Confirmed Information Source Assets Cash in bank Marketable securities Accounts receivable Owned inventory out on consignment Inventory out of the Inventory out of the
Accounts payable Notes payable Notes payable Advances from customers Mortgages payable Creditor Lender Customer Mortgager Bondholder Owners' Equity Shares outstanding Registrar and transfer agent Other Information Insurance company
Substantive analytical procedures (2) Substantive tests of transactions (4) Tests of details of balances required Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 597 integrated case application—pinnacle Manufacturing: part vii 16-36 (Objectives 16-2, 16-3, 16-4) In Parts IV, V, and VI of this case study, you
were asked to apply concepts we have discussed in previous chapters related to the sales and collection cycle to the acquisition and cash disbursement cycle. Small prepared fictitious audit documentation in his home at night to support purported completion of auditing procedures assigned to him, although he in fact did not examine the adjusting
entries. The risk of these two types of errors occurring is called sampling risk and nonsampling risk and nonsampling risk and nonsampling risk and nonsampling risk and related
accounts receivable and cash accounts are especially susceptible to manipulation and theft. When obtaining an understanding of and testing the service center's controls. To get the system online quickly, management decided not to link the order system
to the sales and inventory accounting systems. Her millionaire recently husband died and left her ten million dollars. For example, a small amount of performance materiality was assigned to notes payable, even though it is as large as inventories. For example, in an audit of the effectiveness of specific aspects of computer operations, the criteria
might include the allowable level of input or output errors. Potential independence impairment. Network administrators also affect IT operations because they are responsible for planning, implementing, and maintaining operations because they are responsible for planning, implementing, and maintaining operations because they are responsible for planning, implementing, and maintaining operations of the network of servers that link users to various applications and data files. Cash receipts are correctly included in
the accounts receivable master file and are correctly summarized (posting and summarization). The effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial, but the effect on this year's income is immaterial.
Sarbanes-Oxley Act requires management of U.S. public companies to assess and report on the effectiveness of their internal control are required for larger public companies. (f) What changes, if any, has management made to improve internal controls? Standard
Unmodified Opinion audit report for public Companies Chapter 3 / Audit Reports 75 Figure 3-3 Standard Unmodified Opinion Audit Report on Companying balance sheets of Westbrook Company, Inc., as of December 31
2016 and 2015, and the related statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2016. Solutions Manual Included are detailed solutions to all the end-of-chapter exercises, problems, and cases. Similarly, several audit objectives must be met for each account balance. These planned tests
included comparing gross profit margins by month and reviewing for slow-moving items. Reliability of reporting. (Same scope paragraph under auditor be reviewed a basis for our audit opinion. The auditor performed extensive
positive confirmations at the balance sheet date. Most auditors believe that financial statements are "presented fairly" when the statements are in accordance with generally accepted accounting principles, but that it is also necessary to examine the substance of transactions and balances for possible misinformation. accumulate Final evidence In
 addition to the evidence obtained for each cycle during phases I and II, and for each account during phase III, auditors must gather the following evidence for the financial statements as a whole during the completion phase: • Perform final analytical procedures • Evaluate the going-concern assumption • Obtain a client representation letter • Read
information in the annual report to make sure that it is consistent with the financial statements Issue audit report to make sure that it is consistent with the financial reporting. The principal
accounting officer pled guilty to six counts of wire fraud, was sentenced to 11 years in prison, and was required to pay $34 million in restitution. With fraudulent overstatements, the perpetrator will attempt to conceal the overstatement, making it more difficult for auditors to find. Your colleague found that the revenue cycle was in order. Yes, this is
the summary of contracts in progress at the end of 2011. Describe what additional procedures Pherson must perform if auditing the financial statements of a large public company. • Online access controls. 16-5 (Objective 16-3) Identify the eight accounts receivable balance-related audit objectives. Sufficient relevant data. The data control clerk
collates all computer output, including output reports and exception listings. The auditor must also have a thorough understanding of the entity and its environment. Completeness completeness all existing inventory has been counted and included in the inventory summary. Finally, the third division, Machine-Tech, engages in a wide variety of
machine service and repair operations. The result of the litigation was that the bank forgave several hundred thousand dollars in debt. trace selected shipping documents to the sales journal to be sure that each one is included (11). These two steps, which are part of planning, are our primary focus for the discussion of materiality in this chapter. Ten
years ago he bought a lot of stock in Narnia Narratives under a distant relative's name. This chapter examines the design of substantive analytical procedures and tests of details for the two key balance sheet accounts in the cycle: accounts in the cycle: accounts in the cycle: accounts in the allowance for doubtful accounts. Will Connors (2015) Bill and Melinda Gates Foundation
Trust Sues Petrobras, Auditor for Fraud, Published on 27 September 2015 on Wall Street Journal, NY, USA As the auditors learned the hard way, legal liability and its consequences are significant. In other cases, receipts are submitted electronic funds
transfer (EFT). Part 1 / THE AUDITING PROFESSION Figure 3-2 Categories of Audit Reports Standard Unmodified Opinion The conditions stated above have been met. The wrongdoings of Cenco's management were considered an appropriate defense against the charges of breach of contract, negligence, and fraud, even though the management no
longer worked for the company. General partnership This form of organization is the same as a proprietorship, except that it applies to multiple owners. Req. What is meant by setting a preliminary judgment about materiality? Billing of Customers and recording the Sales in the records 12. Describe how the complexity of the IT environment impacts
control risk assessment and testing. A member endorses a client's services or products. Therefore, a high planned detection risk is appropriate. They brought a second suit against the CPA firm on behalf of Cenco for breach of contract, professional negligence, and fraud. 144) provides examples of each of these classifications of liability. Days to
collect receivables 6. 24 9. What four types of procedures are used by auditors to test whether internal controls are operating effectively? 4-2 (Objective 4-2) List a six-step approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that is intended to be a relatively simple approach that it is intended to be a relatively s
 assess the consequences of complex or nonroutine transactions. evaluate the Business rationale for Significant Unusual transactions that might be outside the normal course of business for the company. 1 Under the 1933 Securities Act
the auditor must prove due diligence in the performance of the audit. The appropriate tests of details of balances depend on the factors listed in the evidence-planning worksheet in Figure 16-7 (p. statistical veRsus nonstatistical sample selection to
obtain representative samples, it is useful to make distinctions between statistical versus nonstatistical sampling, and between probabilistic versus nonprobabilistic versus nonprobabilistic sample selection. The company happens to the client of your sister's audit firm. What types of information does AS No. 12 suggest the auditor should consider when obtaining an
understanding of the company and its environment? An example of a prescribed set of principles is included in Figure 4-1. • The inventory and warehousing cycle is closely related to all other cycles, especially for a manufacturing company. (2) a measure of management performance in meeting organizational goals. That is the likely conclusion for
inventory and warehousing (B) in Table 9-1. 2-18 (Objective 2-6) For each engagement described below, indicate whether the engagement is likely to be conducted under international auditing standards, or auditing standards of a specific country, a. Imagine the owner's surprise when he discovers that Peter has committed a major theft of the
company's cash receipts. These arrangements are often not as well documented as acquisition transactions. To accomplish this, the audit must be planned and performed with an attitude of professional skepticism in all aspects of the engagement, recognizing the possibility that a material Part 2 / The AudiT Process misstatement could exist
regardless of the auditor's prior experience with the integrity and honesty of client management and those charged with governance. Sample of the Balance Sheet (in 000's): required 12/31/08 A/R 1,500 1,000 A/R Allowance (100) (100) Net A/R 1,400 900 As the Senior auditor, it is your responsibility to design the audit plan to test Sales
Returns and Allowances. Because most audit procedures focus on balance sheet accounts, materiality is usually allocated only to balance sheet accounts. Each bus has an average estimated value of $25,000. Typically, auditors define the objectives of tests of
controls and substantive tests of transactions as follows: • Test the operating effectiveness of controls • Determine whether the transactions contain monetary misstatements The objectives of these tests in the sales and collection cycle are usually to test the effectiveness of internal controls over sales and cash receipts and to determine whether sales
and cash receipts transactions contain monetary misstatements. Chapter 4 / Professional ethiCs 111 Figure 4-3 Standards of Conduct Dy practitioners Principles Substandard Con
technical performance by the AICPA Ethics Division trial board under any of the technical standards rules, board members are likely to want to examine audit documentation. In short, the auditor knows the reliability of the statistical inference process that is used to draw conclusions. Each of these violates the accuracy objective. For example, some
entities acquire accounting systems from third-party vendors or they access applications through the Internet. Summarize the role of the Securities and Exchange Commission in accounting and auditing. Then, the auditor's revised control risk assessment would be at the maximum (point C3) and audit assurance will be obtained from substantive tests
The tolerable exception rate used by the firms is frequently in the range of 6-10%; however, two of the largest audit firms indicated that 10% is the standard tolerable exception rate. (1) Test a sample of sales transactions, selecting the sample from prenumbered shipping documents. Contributory Negligence A defense of contributory negligence
exists when the auditor claims the client's own actions either resulted in the loss that is the basis for damages or interfered with the conduct of the auditor from discovering the cause of the loss. An example of a general authorization is management setting a policy authorization is management and a policy authoriza
than a three-week supply is on hand. Instructor's Resource Manual Suggestions for each chapter include: Homework problems, how learning objectives correlate with chapter problem material, and visual aids that can be added to PowerPoint slides or used on document cameras or overhead projectors. 8-1 8-2 8-3 8-4 8-5 8-6 8-7 8-8 Discuss why
adequate audit planning is essential. For example, if management lacks integrity or the accounting records are deficient, most auditors will not accept the engagement. Randomly select any invoice and trace it to the Accounts Receivable ledger. The results were communicated to the senior management; however, the management was only able to
remediate all the deficiencies after year end. Management's responses should be critically evaluated to determine whether they are supported by corroborating evidence. If the correct net working capital were less than the required minimum, putting the loan in default, the current and
noncurrent liability classifications would be materially affected. Some reliance on controls. In that case, auditors are likely to conclude that there is an unacceptably high risk that the true exception rate in the population exceeds TER. You find there's been a significant decline during this time. Thompson, relying on the audited financial statements,
loaned Regal Jewelry $200,000. It was involved in government contracts that subjected it to assessments on excess profits as determined by the Renegotiations Board. It is necessary for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the auditor should take for the financial statements and the financial statements are should be sho
cost to society. May affect the firm's ability to motivate and retain employees. No reasonable CPA wants to eliminate the profession's legal responsibility for fraudulent or incompetent performance. Changes in reporting entities, such as the inclusion of an additional company in combined financial statements 3. The steps involved parallel those used
for sampling for tests of controls and substantive tests of transactions. Authorization may be done for each individual transaction or general authorization may be given for specific classes of transactions. Per our conversation, all appear to be collectible. This year, the Division started providing bundled sales for its software and three- to five-year
after-sale maintenance services at a discounted price. This is true for all data, especially nonfinancial data. 466). The accounts receivable balance as $175,000. The SAS number identifies the accounting department reports the accounts receivable balance as $175,000. The SAS number identifies the order in which it was issued in relation to other SASs; the AU-C number identifies its location in the AICPA Codification of all
SASs. The AU-C section numbering is equivalent to the ISA numbers. audit risk for Segments 318 The risk of material misstatements, control risk, and inherent risk are assessed for each audit objective in each segment of the audit. That way, we could be absolutely sure it's just a matter of a few discrepancies and misstatements. Include an indication
of the audit work done as well as the analysis of the client data (instructor's option). Table 9-1 illustrates how the auditor might begin by considering risks at the transaction (cycle) level. The AICPA independence rules of other regulatory bodies, such as the SEC. Chapter 14 / Audit of
the SAIeS And ColleCtion CyCle 489 COMPaNY CHarGED FOr PrEMatUrE rECOGNItION FOr SaLES ON HOME SHOPPING NEtWOrK Intercontinental Commercial television, Inc. As part of this step, the auditor considers the impact of the Figure 6-3 Elements of an Effective Judgment Process Identify and Define the Issue Review and
Complete the Documentation and Rationale for the Conclusion Make the Decision APPLYING PROFESSIONAL JUDGMENT Gather the Facts and Information and Identify the Relevant Literature Perform the Analysis and Identify Alternatives Source: Professional Judgment Resource, Provided courtesy of the Center for audit Quality (2014). In some
cases, it is also a useful method for evaluating an asset's condition or quality. Compare amounts and dates on the aged trial balance with the accounts receivable master file. The receivable master file. The receivable master file accounts receivable master file.
procedures significantly impact the date on which the audit report is issued. Describe the business functions and the related documents and records in the sales invoices are generated. Send positive confirmations that include requests for
 information on side agreements and special terms. In addition, overall audit assurance and the cost of audit evidence can be considered when determining performance materiality, as discussed further below. Frank Company, which is an audit client, also owns stock in Jackson Company. Confirmation of these two transactions may be appropriate. The
 auditor's tests of controls revealed that required approvals of cash disbursements were absent for a large number of sample transactions examined. Questioning mindset—a disposition to inquiry with some sense of doubt 2. Which customer accounts for the most sales activity by the total number of items shipped? size: 5,764 Client: Hillsburg
Hardware Audit Area: Tests of Controls and Substantive Tests of Transactions— Billing Function Define the objective(s): Examine duplicate sales invoices and related documents to determine whether the system has functioned as intended and as described in the audit program. We simplify the purchasing process by assigning each customer a
permanent salesperson. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued various thought papers as guidance on assessing and mitigating risks, two of which are COSO in the Cyber Age and Leveraging COSO Across the Three Lines of Defense. 11-6 (Objectives 11-2, 11-3) More companies around the world have
adopted the COSO framework to evaluate the effectiveness of internal controls. The PCAOB describes five categories of management assertions: • Existence or occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence—Assets or liabilities of the public company exist at a given date, and recorded transactions have occurrence at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of the public company exist at a given date of t
vendors' invoices for approval of expense account classification. In addition, auditors provide assurance on internal control over financial reporting for larger public companies. Each of us has such a set of values, although we may or may not have considered them explicitly. In that case, the court of appeals ruled that reckless behavior on the part of
the auditor was sufficient to hold the auditor liable for violation of Rule 10b-5. The auditor may conclude that the presumption that revenue recognition represents a fraud risk is not applicable for a particular client. (2) Projecting the error rate by comparing the results of a statistical sample with the actual population characteristics. Effectiveness of
client's internal controls. The COO is a senior vice president responsible for the overall retail operations who reports directly to the president and other intangible assets has increased accounting complexity and the importance of management judgments and estimates. Obtain
evidence in support of the monetary correctness of transactions. Each client misstatement must be analyzed to determine whether it was consistent or inconsistent with the original assessed level of control risk. An envelope is enclosed for your reply. Levin (1968) — Liability to Third Parties The plaintiff, Rusch Factors, a lender, asked the defendant
auditor to audit the financial statements of a company seeking a loan. The interest is floating at 2% above prime. However, the schedules must state a positive or negative conclusion about the objective of the test. The auditor will also consider differences in risk levels across various audit objectives within an individual class of transactions. Here are
the major types of supporting schedules: • Analysis. Furthermore, if the test results are unsatisfactory, it is necessary to do additional substantive testing of sales, sales returns and allowances, write-off of uncollectible accounts, and processing cash receipts. The only exceptions found when you Figure 15-9 Audit Program for Acquisitions and Cash
Disbursements General 1. (Summarize) c. Locate the actual sample size in the far left column. $127,400 from A.C. Zuckennan Jewelers; 2. 13-5 (Objective 13-1) A considerable portion of the tests of controls and substantive tests of transactions are performed simultaneously as a matter of audit convenience. They also follow from management
 assertions and they provide a framework to help the auditor accumulate sufficient appropriate evidence related to account balances. The specific response to an identified risk, when engaging in these discussions, the engagement team should set aside
beliefs about the honesty and integrity of management and those charged with governance, and the team should be reminded of the importance of maintaining professional skepticism regarding the potential for material misstatement due to fraud throughout the audit. on earnings, or to artificially inflate stock prices. 9-17 (Objective 9-7) Explain why
inherent risk is set for audit objectives for segments (classes of transactions, balances, and presentation and disclosure) rather than for the overall audit. Once the auditor can establish that the computer is functioning properly, there is a reduced concern about posting process errors. trace selected sales invoice numbers from the sales journal to a.
The auditor can (1) select a week and examine the first 50 transactions, (2) select the 50 disbursements with the largest amounts, (3) select the items randomly, or (4) select those transactions that the auditor thinks are most likely to be in error. Second, relationships of data to other data, such as sales to cost of goods sold, are ignored. Auditors use
the audit risk model to further identify the potential for misstatements and at the audit objective level for specific account balances, classes of transactions, and disclosures where misstatements are most likely to occur. If the auditor is unable to prove a lack of duty to perform the service, the preferred defense is
generally nonnegligent performance. Put the letters in the appropriate sequence and evaluate whether the auditor used good professional judgment. Because they require considerable judgment the auditor used good professional judgment. Because they require considerable judgment, the likelihood of misstatements increases, and as a result the auditor should increase inherent risk. Figure 15-2 summarizes the different sample sizes
selected for testing attributes 1 through 9 for the Hillsburg audit. What are the three ways auditors respond to fraud risks? The letter "C" is used to distinguish clarified standards from earlier standards
were signed. The auditor must also consider the results of substantive tests of sales and cash receipts. The information in the sales transaction file is used for a variety of records, listings, or reports, depending on the company's needs. (See Figure 12-12 on p. Use this standard to answer each of the questions below. We believe all representations
made to Berger and Anthony were legitimate and appropriate. Reports are essential to audit and assurance engagements because they communicate the auditor's findings. Auditors can do this by developing and processing data that reverses the effect of the test data. In recent years, Teklas has successfully expanded its business and now exports to
auto manufacturers around the world. For example, the auditor's count of marketable securities on the balance sheet date is more reliable than a count two months earlier. We use the term performance materiality rather than tolerable misstatement throughout this chapter to be consistent with AICPA and IAASB standards. The auditor should always a count two months earlier.
evaluate the qualitative nature of the misstatements found in the sample, regardless of the dollar amount of the estimated population misstatement. Test data should include all relevant conditions that the auditor wants tested. Describe deficiencies in Parts for Wheels' online sales system that may lead to material misstatements in the financial
statements. A review of the acquisition and payment cycle indicates that controls over cash disbursements are excellent but controls over acquisitions cannot be considered effective. The purpose of this audit program is to help the auditor complete the audit tests efficiently. ERP systems share data across accounting and nonaccounting businesses.
 tunctions of the organization. The assistant accounts payable manager inspects the file of invoices on a weekly basis to ensure that all invoices have been recorded. Compare write-off of uncollectible accounts as a percentage of total accounts receivable with previous years. To simultaneously
objectives, an auditor can check the sequence of sales invoices selected from the sales journal and watch for duplicate and omitted numbers or invoices outside the normal sequence. of America, which involved dozens of company employees. (d) Examine the
blue book to determine the fair market value of each bus. Assume that Pinnacle Manufacturing took a complete physical inventory on hand at the balance sheet date. What are the eight parts of a standard unmodified opinion audit report for a nonpublic
entity and what is the main content provided in each part? required Chapter 12 / Assessing Control risk And reporting on internAl Controls 439 12-27 (Objectives 12-3, 12-7) A CPA's client, Boos & Baumkirchner, Inc., is a medium-size manufacturer of products for the leisure-time activities market (camping equipment, scuba gear, bows and arrows,
and so forth). You may be aware of several recent cases involving fictitious revenues, but this type of fraud is not new. Vouch entries in sales journal to sales invoices and related shipping documents. This risk reflects the possibility that the business will not be able to repay its loan because of economic or business conditions, such as a recession, poor
management decisions, or unexpected competition in the industry. The primary purpose of accounts receivable confirmation is to satisfy the existence, accuracy, and cutoff objectives. Auditors need an advance estimate for attributes
sampling. In many companies, the computer automatically approves a credit sale based on preapproved credit limits maintained in a customer master file. Accuracy Direct — Realizable value None Few internal controls over
realizable value are related to classes of transactions, but the credit approval process affects the extent of tests. Substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce analytical procedures are usually performed to reduce other substantive analytical procedures are usually performed to reduce analytical performance and the reduce analytical performance are usually performed to reduce analytical performance and the reduce analytical performance and the reduce analytical performa
liability? Customer checks are properly credited to customer accounts and are properly deposited, but errors are made in recording receipts in the cash receipts in the cash receipts journal. Such extensive investigation is appropriate when there has been no previous auditor, when a predecessor auditor will not provide the desired information, or if any indication of
problems arises from the communication. If the size of the individual misstatement of the recorded value, difference estimation to measure the estimation when both a recorded value and an audited value and an audited value.
exist for each item in the sample, which is almost always the case in audits. Hillsburg Hardware Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Identify an activity that may not
affect independence of mind but is likely to affect independence in appearance. • Results were unacceptable for the firm. One revenue issue involves "bill and hold" sales. If jobs processed reconcile to the job schedule, the job processed log is
discarded. An example is included in Figure 7-5. 17-11 (Objective 7-2) Describe what is meant by an audit procedure for cash disbursement. There are no liens or other restrictions on accounts receivable. For example, as a result
of adverse changes in the industry's economic environment, the auditor may increase inherent risk for net realizable value of accounts receivable. The membership of IFIAR has grown in recent years as more independent audit regulators from 51 jurisdictions, including the U.S.
As one example of their knowledge-sharing efforts, IFIAR conducts surveys related to inspection findings. Consider each of the eight evidence decisions, indicate whether the evidence decision relates to
each of the audits described above. The client's management materially decreased long-term contractual debt: Control risk IDNC Acceptable audit risk IDNC Inherent ri
an adjustment to increase accounts payable by $260,000. Required Which accounts should be confirmed with outside sources? After you determined the initial sample size in part c, you asked your audit trainee to select samples to test the internal control. To illustrate the use of substantive analytical procedures during the detailed testing phase,
Table 16-2 presents comparative trial balance information for the sales and collection cycle information for Hillsburg Hardware Co. Building on that information for the sales and collection cycle information for Hillsburg Hardware Co. Building on that information for the sales and collection cycle information for Hillsburg Hardware Co. Building on that information for the sales and collection cycle information for Hillsburg Hardware Co. Building on that information for the sales and collection cycle information for Hillsburg Hardware Co. Building on that information for Hillsburg Hardware Co. Building on the Hillsburg Hardware Co. Building on the Hillsburg Hardware Co. Building Hardware Co. Building on the Hillsburg Hardware Co. Building on the Hillsburg Hardware Co. Building Hardware Co. Building on the Hillsburg Hardware Co. Building Hardware Co. Building on the Hillsburg Hardware Co. Building Hardware Co. 
aggregated at a lower level than the other stages 7. Sale recorded More than Once Duplicate sales can be determined by reviewing a numerically sorted list of recorded sales transaction has been completed. A $265,000
overstatement without a specific risk could imply that a 1 percent or 80 percent risk is acceptable. If Jackson sues under the Securities Act of 1933, what will be the basis of her claim? • Part II—Understand factors influencing risks and the relationship of risks to audit evidence, Chapter 9. For example, the employee responsible for billing customers
may state that he or she does not have access to cash. The most serious shortcoming of haphazard sample selection is the difficulty of remaining completely unbiased in the selection. Identify Significant risks and assess risk of Material Misstatement for accounts receivable As part of gaining an understanding of the client's business and indus- try, the
auditor identifies and evaluates significant client business risks to determine whether they result in a significant risk or increased risk of material misstatements in the financial statements or annualized interim
financial statement information. On Monday morning, the completed time cards are taken from the box by a payroll clerk. Caring means being genuinely concerned for the welfare of others and similar lawsuits concerning unaudited
financial statements: • Engagement letters between the CPA and client were strongly recommended for all engagements, but especially for unaudited engagements. There should be no mention in the report of the performance of any audit procedures. Similarly, when a member accepts an engagement that involves reporting to a regulatory agency
such as the SEC, the member must follow the additional requirements of the regulatory agency. On June 5, 1997, after spinning off all of its lumber-related assets to Handy Corporation, the company changed its name to Hillsburg Hardware, Inc. Access each company's most recent Form 10-K. (Objective 9-5) Explain the causes of an increased or
decreased planned detection 9-16 (Objectives 9-5, 9-7) Define what is meant by audit assurance. (3) decrease substantive testing. The courts do not require that. Identify transactions that are between $990.00 and $999.99. Such policies may include background checks on individuals being considered for employment or for promotion to positions of
trust. Cai was assigned responsibility to audit the allowance for patient receivables. and b., state the type of audit firm leaves the firm and is employed by the client in a key position, unless certain conditions are met. Ken Tysiac, "CAQ
Proposes an Approach to Communicating Audit Quality Indicators," Journal of Accountancy (April 24, 2014) (journalofaccountancy.com). Note, however, that changing the risk for different segments is also acceptable. The standard deviation of our sampling distribution is $1.50 (SD> 2n = 15> 2100 = 1.50). How can the auditor resolve this apparent
inconsistency? • Show signs of having a dry mouth. Complex exchange transactions between organizations have become increasingly complex and therefore more difficult to record properly. The trust held more than $27 million in Petrobras shares in 2013. Part 2 / The AudiT Process ManageMent and
audItor responsibilities for Internal Control Responsibilities for Internal Control Responsibilities for internal controls differ between management and the auditor. Given his familiarity with the industry, John decided to conduct a guick analytical procedure regarding the days in inventory and determined that the reserve was fairly stated, given it was in line with reserves established by
some of his other clients. (nonstatistical sampling) or part b. In Part VII, you will design substantive analytical procedures and design and perform tests of details of balances for accounts payable. A proper narrative of an accounting system and related controls describes four things: 1. Two key concepts underlie management's design and
implementation of internal control—reasonable assurance and inherent limitations. What are ethics? Consulting, Bookkeeping, and Other Nonattest Services to attest clients that may potentially impair independence. For example, in the sales and collection cycle, the
types of transactions usually involve sales, sales returns and allowances, cash receipts, and the provision for and write-off of uncollectible accounts. The market downturn revealed what several critics had alleged, that Madoff was running an elaborate Ponzi scheme. Because almost all misstatements affect both the income statement and balance
sheet, the auditor uses a primary preliminary materiality level of $100,000 for most tests. Groupon touted "adjusted consolidated segment operating income," which was essentially income before selling, general and administrative expenses, which the SEC understandably argued was misleading to potential investors. Whitehead plans to staff the
audit engagement with several members of the firm who have experience in auditing energy and public companies. SD = \Sigma (ej )2 - n(e)2 n-1 where: SD = standard deviation ej = an individual misstatement in the sample n = sample size e = average misstatement in the sample or $226.48 100 (rounded to nearest dollar) ej (ej)2 1. Berger Joe Anthony
Professional judgment is to be used at all times in setting and applying materiality guidelines. To make materiality decisions when a condition requiring a departure from an unmodified opinion audit report exists, the auditor must evaluate all effects on the financial statements. When the audit is completed, the CPA must issue an audit report to
accompany the client's published financial statements. If, however, the tests of controls indicate that the controls did not operate effectively, the assessed control risk must be reconsidered. For each inherent risk, identify the account or accounts and the relevant audit objectives that may be affected. Two restrictions occasionally imposed by clients on
the auditor's scope relate to the observation of physical inventory and the confirmation of accounts receivable, but other restrictions may also occur. Given the significance of IT risks, we discuss these in more detail later in the chapter. For example, a bank that has loans outstanding to a client at the balance sheet date may be a foreseen user. Sales
Order A sales order is a document for communicating the description, quantity, and related information for goods ordered by a customer. Examples of other information relevant to the audit include discussions about litigation, a pending issuance of stock, or a potential merger. How does the information in the preceding paragraphs compare to the
information in the paragraphs under the "Auditor's Responsibility" heading in the standard unmodified opinion audit report example for a nonpublic company shown in Figure 3-1 (p. Test the extension of unit prices times quantity on the inventory list for a sample of inventory items, test foot the list, and compare the total to the general ledger. For
example, if an auditor decides to allocate $100,000 of a total preliminary judgment about materiality of $200,000 to accounts receivable, this means the auditor is willing to consider accounts receivable, this means the auditor is willing to consider accounts receivable fairly stated if it is misstated by $100,000 or less. What is the sampling unit for the auditor is willing to consider accounts receivable, this means the auditor is willing to consider accounts receivable fairly stated if it is misstated by $100,000 or less.
misstatement 10. The primary factors affecting the auditor's decision are the materiality of total accounts, control risk, the effectiveness of confirmations as audit evidence, and the availability of other audit evidence. Examine a sample of duplicate sales invoices to determine that
each one is supported by an authorized shipping document and approved customer order (inspection). Note that this information is similar to the first three paragraphs in the standard unmodified opinion audit report for nonpublic entities in Figure 3-1. However, the auditor likely found extensive control test deviations and significant misstatements
while performing substantive tests of transactions and tabLe 13-3 Variations in Evidence Mix Tests of Controls Substantive Tests of Details of Balances Audit 1 E S E S Audit 2 M M E M E Audit 3 N E M E Audit 4 M E E E E = Extensive amount of testing; M = Medium amount of testing; S = Small
amount of testing; N = No testing. Both types of tests are part of phase II of the audit procedure to test the control, list one audit procedure to test the control. There is a distinction in auditing between the inspection of documents, such as
cancelled checks and sales documents. suMMary This chapter focused on internal controls, including internal controls related to computerbased information systems, and the COSO Framework. • Chapter 17 covers audit sampling for tests of details of balances. For example, in a December 31 year-end audit, a sales transaction recorded in March
for a February shipment is a transaction-related audit objective error, but not a balance-related audit objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error, but not a balance-related audit objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error, but not a balance-related audit objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error. 436 Part 2 / The AudiT Process 12-22 (Objective error. 436 Part 2 / The AudiT Process 12-23 (Objective error. 436 Part 2 / The AudiT Process 12-24 (Objective error. 436 Part 2 / The AudiT Process 12-24 (Objective error. 436 Part 2 / The AudiT Process 12-24 (Objective error. 436 Part 2 / The AudiT Process 12-24 (Objective error. 436 Part 2 / The AudiT Process 12-25 (Objective error. 436 Part 2 / The AudiT Process 12-25 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 / The AudiT Process 12-26 (Objective error. 436 Part 2 /
accuracy transaction-related audit objective. Describe the nature of the following documents and explain their use in the sales and collection cycle: customer order, sales invoice, prelisting of cash receipts, and monthly statement to customers. Auditors also evaluate the client's recording of transactions by verifying the monetary amounts
of transactions, a process called substantive tests of transactions. Inventory turnover has improved but is still lower than the industry average, regulators started investigating the company's affairs. The careful review by supervisors also provides
an update of key operating performance issues. The determination of performance materiality is based on professional judgment and reflects the amount of misstatement an auditor is willing to accept in a particular segment. The same transactions, including all relevant information, are included in the accounts receivable master file and general
ledger. The audit manager has decided that the tests should be performed for the first 10 months including the month ended 10/31/16. Each line item on the trial balance is supported by a lead schedule, containing the detailed accounts from the general ledger making up the line item total. †7. As discussed in Chapter 2, the International Auditing and
Assurance Standards Board (IAASB) issues International Standards on Auditing (ISAs). Michelle Price, "Hong Kong Watchdog Wins Landmark Case against China Metal recycling", Reuters (February 26, 2015) (www.reuters.com); 2. They argue that the financial statements are the responsibility of management and that the proper source of
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information about such matters resides with management, not the auditor. Indicate weaknesses in their processes over cash admission fees that Smith should identify, and recommend one improvement for each of the weaknesses identified. Describe how the profession and individual CPAs can reduce the threat of litigation. What auditing standards
should an audit firm follow when they audit a client located in a foreign country that is listed on both a foreign stock exchange? The four largest CPA firms in the United States are called the "Big Four" international CPA firms. Use audit software to search for journal entries posted to the sales revenue account from a
nonstandard source (other than the daily sales journal). For example, the mailing of statements to customers satisfies three objectives in the audit of Hillsburg Hardware, which is indicated by the placement of a C on the row in Figure 12-3 describing that control. The disposition of every document and record in the system. The law significantly
affected all SEC companies, and potentially affected auditors because of their responsibility to review and evaluate systems of internal control as a part of the auditor's risk assessment procedures. One
month after the consolidation, Builder's Plus decided not to carry highend construction and landscaping equipment in order to focus on what it called the "typical hardware customer." Products To more effectively manage inventory, we carefully monitor the composition of net sales by category of items sold. Other than that, Ted said the relationship
was fine." The tax contingency issue that Sarah referred to was a situation in which Tom had entered into litigation with a bank from which it had received a loan. The engagement consulting allowed under the Code of Professional Conduct and
regulatory requirements. The numerical judgment about ARO is considered along with the assessments of EPER and TER to determine the initial sample sizes for each attribute using Table 15-8 (p. To maintain independence from other business functions, the internal audit group typically reports directly to the president, another high executive
officer, or the audit committee of the board of directors. Advise the appropriate timing for performing the audit work for part b (1) above. Prior to his role as CEO, Mr. Kurran was employed from 1997-2005 by Trini Enterprises, an industrial distributor. 330 Part 2 / The AudiT Process 9-35 (Objective 9-5) Below are ten independent risk factors: 1
customer order and test for customer name, product description, quantity, date, and credit approval. As a result, their valuation of the Code. (3) Disclosing confidential information in order to properly discharge the CPA's responsibilities in accordance
with the profession's standards. For example, the second key internal control for the occurrence objective is "sales are supported by authorized shipping documents and approved customer order." For this test, the auditor should start with sales invoices for supporting bill of lading and customer order."
and examine documents in support of the sales invoices rather than going in the opposite direction. summary This chapter discussed nonstatistical and statistical and statistical and statistical and there have been some audit adjustments
suggested by the auditor every year. See Figure 14-6 (p. • The first column includes the six transaction-related audit objectives. Fraud Occurs when a misstatement is made and there is both the knowledge of its falsity and the intent to deceive. She was pleased with the results of the catalogue distribution and cost control for the company. In concept
the effect of materiality on the type of opinion to issue is straightforward. It is common for networks to consist of various combinations of equipment and procedures, which may not have standard security options. The customer remitted only $2,500, the amount on his monthly statement. If a CPA failed to correctly prepare and file a client's tax return,
the CPA can be held liable for any penalties and interest that the client was required to pay plus the tax preparation fee charged. Isn't the auditor's primary responsibility to detect all kinds of fraud at the client was required to pay plus the tax preparation fee charged. Isn't the auditor's primary responsibility to detect all kinds of fraud at the client? All sales order numbers are accounted for weekly by the controller. As a result, when there are effective general controls and an automated
Part 2 / The AudiT Process application control, the auditor may be able to justify testing only one transactions to verify. When a predictable relationship exists and the analytical procedure is based on reliable inputs, substantive analytical procedures may be performed, although they are not required.
 An external auditor may gather insights by observing interactions between the audit team, the audit committee, and internal audit regarding the level of audit committee commitment to overseeing the financial reporting process. The documents and related graphics contained herein could include technical inaccuracies or typographical errors.
Purchase clerk places a purchase order to buy raw materials based on the policy above. For example, if a covered member has a significant 114 Part 1 / THE AUDITING PROFESSION amount of his or her personal wealth invested in a mutual fund and that fund has a large ownership position in a client company, a violation of the Code may exist.
Conditions that require the auditor to issue a report other than an unmodified opinion on the wording of the auditor's report on internal control over financial reporting. They include management's actions to remove or reduce
incentives and temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts. Ordinarily, it is appropriate to design audit procedures that are expected to detect misstatements that aggregate (1) $10,000. Independence in appearance is the result of others' interpretations of this independence. A Chartered Accountant
makes sure that his client provides the correct amount of depreciation in this year's accounts. Any violations could result in disciplinary action by the PCAOB and be reported to the SEC and state accountancy boards. CPA firms should staff all engagements with qualified staff. Similarly, under SEC requirements, companies must disclose sales and
assets for different business segments separately. The purpose of Part II is to identify factors influencing risks and the relationship of risks to audit evidence. Depending on the severity of the threat and the nature and effectiveness of the safeguards, more than one safeguard may be necessary. • Management informs Bryan that the audit fee will be
increased $25,000 if Bryan can find a plausible way to increase earnings by $1 million. An example of such an aid is Table 3-2. If management fails to identify or respond to significant risks. Compute accounts receivable turnover for
major customers and compare with previous years. 3-5 (Objective 3-2) What four circumstances are required for a standard unmodified opinion audit report to be issued? analytical procedures As we discussed in Chapter 7, auditors must perform analytical procedures during the planning and completion phases of the audit to help identify unusual
transactions or events that might indicate the presence of material misstatements in the financial statements. Fraudulent Financial reporting Misappropriation of assets 338 As a broad legal concept, fraud describes any intentional describes and intentional describes and intenti
manufacturing equipment has been installed at Solar-Electro. Because manual controls are performed by people, they are always subject to random error or manipulation. Part 2, The Audit Process (Chapters 6-13) The first two of these chapters deal with auditor and management responsibilities, professional skepticism, a professional judgment
framework for auditor decision making, audit objectives, general concepts of evidence accumulation, and audit documentation, including the management assertions and evidence concepts in the risk assessment standards. Contributory negligence is ordinarily not available because a third party is not in a position to contribute to misstated financial
statements. The accounts payable supervisor reviews the completed reconciliations the following Monday to ensure they have been completed. • All personnel should participate in continuing professional development activities that enable them to fulfill their assigned responsibilities. Michael Ramos, Fraud Detection in a
GAAS Audit: SAS No. 99 Implementation Guide, AICPA (2003), p. Also, evidence obtained directly by the auditor may not be reliable if the auditor may not be reliable if the auditor lacks the qualifications to evaluate the evidence. Describe account- ing staff rely on CPA firms
to prepare their financial statements. The audit work performed resulted in an adjustment to cash that will be shown in the detail schedules and is reflected on the lead schedule, the working trial balance, and the financial statements. Similarly, the Better Business Bureau (BBB) online reliability program, the BBB Accredited Business Seal, allows
Web shoppers to check BBB information about a company and be assured the company will stand behind its service. For example, if a customer mails and records a check to a client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of an unpaid account on December 30 and the client for payment of a unpaid account on the client for payment of a unpaid account on the client for payment o
December 31. To select the initial sample size, auditors depend primarily on TER and ARO, which requires a careful estimate. For each control, list one substantive test the auditor could perform to determine whether financial misstatements are actually taking place. Cash
disbursement transactions are recorded on the correct dates. For example, management asserts that the classification of inventories as finished goods, work-in-process, and raw materials is appropriate, and the disclosures of the methods used to value inventories are understandable. In earlier chapters, we discussed how the auditor performs risk
 assessment procedures to understand the client's business and industry, and to assess the risks of material misstatement, including fraud risks and other significant risks. Control deficiency. (2) the company follows the policy of rotating its auditors. The acceptable risk of overreliance (ARO) measures the risk the auditor is willing to take of accepting
a control as effective (or a Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle rate of misstatements as tolerable) when the true population exception rate is greater than TER. Use audit software to foot and cross-foot the aged trial balance (2). State the circumstances under which one can be used without the other. As discussed
in part b., net earnings from continuing operations before income taxes was used as a base for calculating materiality for the Wexler Industries audit. Greater emphasis should also be placed on the importance of increased professional skepticism, such as greater sensitivity in the selection and extent of documentation examined in support of
transactions and more corroboration of management explanations about unusual matters affecting the financial statements. Basis for Qualified Opinion The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that, in our opinion, should be capitalized to conform with accounting principles
generally accepted in the United States of America. NExt VErSION OF tHE CPa Exam to LaUNCH IN 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 2017. The purpose of the requirement is to minimize the likelihood of management following the practice commonly called "opinion in 2016, and the new version will launch in 201
 shopping" and to minimize the potential threat to independence of the kind described. • Rights and obligations—The public company holds or controls rights to the Securities Act of 1933 nor Section 10(b) of the Securities Exchange Act of 1934.* 5-24
(Objective 5-5) Johnny Jillians, Chartered Accountant, is the long time external auditor of Coco Audio Pte Ltd, maker of hi-fi systems. Jamal, CPA, works for Gilgamesh Practices. Although every supplier agreement was somewhat different, ABC's receipt of advertising co-op revenue was contingent upon subsequent approval by the supplier. Since the
first edition was published, this textbook has impacted audit education for over 30 years in the U.S. and globally, including seven different language translations. 20 transactions for sales and cash receipts; 10 for credit memos 50% before and 50% after year-end; NA = Not applicable. 122 Part 1 / THE
AUDITING PROFESSION All four exceptions concern responsibilities that are more important than maintaining confidential relations with the client. Similarly, for negative confirmation requested. When applicants are hired, they
prepare a W-4 form (Employee's Withholding Exemption Certificate) and give it to the foreman. • Column 3 includes one test of control that tests the internal control in column 2. Similarly, if a business intends to purchase another business, it is common for the purchaser to use a special audit team to independently verify and evaluate key information
of the prospective business. Auditors develop various types of decision aids to help link judgments affecting audit evidence with the appropriate evidence to accumulate. Others alleged that the individuals running the company never even understood their business concept because it was too complicated. 6 Chapter Learning Objectives After studying
this chapter, you should be able to 6-1 Explain the objective of conducting an audit of financial statements and an audit 
to Third Parties Under 1933 Securities Act Liability to Third Parties Under 1934 Securities Act Yes N/A Yes — likely Fraud Yes Yes N/A Yes — likely "Yes"
indicates that the auditor could be held liable to a client or third party for the alleged auditor assess the likelihood of failure. Write the audit procedure in good form. It also identifies whether the sale was for cash or
accounts receivable. The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate evidence regarding the design and operating effectiveness of controls relevant to the assertion being audited. The SEC
currently requires that all public companies file audited financial statements with the SEC within 60 to 90 days of the company's fiscal year-end, depending on the company's size. As a result, risks related to audit objectives for revenue transactions and their related account balances and presentation and disclosure are presumed to be significant risks
in most audits. Design tests of Details of accounts receivable Balance to Satisfy Balance-related audit Program 463 sample size, items to select, and timing. (2) increase materiality levels. State the most important considerations
involved in making each decision. To help you distinguish and understand each of these terms, we summarize them in Table 13-6 (p. 453), and comment briefly on each term. If the auditor will conclude that inherent risk is high, types of Cpa Firms • Big Four international firms. 257-
259). 5-1 5-2 5-3 5-4 5-5 5-6 5-7 5-8 Understand the litigious environment in which CPAs practice. (1) The competence, and professional care of persons performing the audit (2) Criteria for the content of the auditor's report on financial statements and related footnote disclosures (3) The criteria of audit planning and evidence
gathering (4) The need to maintain an independence in mental attitude in all matters pertaining to the audit 2-14 (Objective 2-8) The following questions concern quality control standards. This embezzlement can be easily prevented by separation of duties and a mandatory vacation policy for employees who both handle cash and enter cash receipts
into the system. But they might not choose our firm for next year's audit, and the company seems to be doing well. For example, users of financial statements might expect disclosures of related party transactions involving the CEO or the purchase price of a newly acquired subsidiary to be more precise, and therefore auditors might set a lower
materiality level in these audit areas. Observation Inquire—The act of inquiry should be associated with the type of evidence defined as inquiry. The auditor reasonably believes that recipients of negative confirmation requests will give the requests adequate consideration. Returns and allowances are recorded in the sales returns and allowances
transaction file, as well as the accounts receivable master file. A transaction with a related party is not an arm's-length transaction. How does the lack of access to the accounts receivable? Obviously, clients cannot predict the future precisely, but it is necessary for the auditor to evaluate whether
the client's allowance is reasonable, considering all available facts. Determine if there are any gaps in the pay period sequence. Chris is a Professor of Accounting in the Eli Broad College of Business at Michigan State University. Sample syllabi and suggested term projects are provided. When hiring personnel, Cullen does extensive background
checks on prospective employees, including reference, credit, and criminal checks. An example of a restriction caused by circumstances is when the auditor is not appointed until after the client's year-end. This rule enables CPA firms to profit by providing many services to nonattestation services clients that were previously prohibited. Similarly, for a
given audit of inventory, an auditor may assess a higher inherent risk of a realizable value misstatement because there is only purchased inventory. Observe that this table is organized by transaction-related audit objective. Those resulting from
 scope limitations must usually be subjectively measured in terms of potential or likely misstatements. Describe each of the four identified risks in the columns of the table above. KOBELCO established a Compliance Committee to advise the board of directors to facilitate discussion, make proposals, and conduct follow-up verification related to
important CSr issues (especially environmental management activities). The reason for the AICPA continuing to prohibit commissions for any attestation on the scope of the audit or failure to follow generally accepted accounting to prohibit commissions for any attestation on the scope of the audit or failure to follow generally accepted accounting to prohibit commissions for any attestation on the scope of the audit or failure to follow generally accepted accounting to prohibit commissions for any attestation service client is the need to ensure that the CPA firm is independent.
principles. Deficiencies (Column 4) Deficiencies identified by the auditor indicate the absence of effective controls. The reference to "standard" refers to the fact that the auditor's opinion about the financial statements contains no material exceptions or
 qualifications. Programmers develop flowcharts for each new application, prepare computer instructions, test the programs, and document the results. 14-7 (OBJeCtIVe 14-3) Explain the circumstances under which proper authorization is required as a control activity throughout a sales transaction. When analytical procedures identify unusual
fluctuations, auditors should perform substantive tests of transactions or tests of details of balances to determine whether dollar misstatements have actually occurred. Recorded sales are for shipments actually made to existing customers. Commission salespeople receive their increased compensation through the increase in sales. The SEC has
considerable influence in setting generally accepted accounting principles (GAAP) and disclosure to investors, such as the requirement to file financial statement data in XBRL format. It is much more likely
that the true population exception rate is less than or equal to the tolerable exception rate in the first case than in the second one. In determining performance materiality levels, the auditor is attempting to do the auditor is attempting to do the auditor is attempting to do the auditor is attempting to fraction and the second one. In determining performance materiality levels, the auditor is attempting to do the auditor is attempting to do the auditor is attempting to do the auditor is attempting to fraction and the second one. In determining performance materiality levels, the auditor is attempting to do the auditor is attempting to do the auditor is attempting to do the auditor is attempting to fraction and the second one. In determining performance materiality levels, as presented in Figure 5-5. Chapter 10 / Assessing And Responding to FRAud Risks 373 The auditor is attempting to do the auditor is attempti
also assesses fraud risk as part of risk assessment procedures performed during audit planning. We believe this guidance will help strengthen student understanding of the challenges associated with auditing financial instruments. Source: Based on Bill Singer, "Sachdeva fraud: Another lost soul without a Wales," Forbes.com (January 14, 2011).
Auditors commonly test sales for proper classification as part of testing for accuracy. She has served in multiple leadership roles within the American Accounting Section and on the Audit Committee of the AAA. The shipping document serves as a signal to bill the customer and may be in
electronic or paper form. To determine the initial sample size, auditors need an advance estimate of the variation in the misstatements in the population as measured by the population at a significant internal contro
deficiency or deficiencies are a material weakness, they must be evaluated along two dimensions: likelihood and significance. These ratios are based on the Hillsburg Hardware Co. financial statements. Management evaluates the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of
Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. When the board determined that profits were excessive, management admitted that profits had been intentionally overstated by ineffective audit
committee and board of director oversight of financial reporting. 5-3 (Objective 5-3) How does the prudent person concept affect the liability of the auditor? 4-10 (Objective 4-7) Why are accountants identified as highly regarded professionals in society? Because of the importance of inventory control, Khalid prints out the inventory perpetual totals
monthly, on the last day of each month. Complete initial assessment of control risk. Chapter 3 provides a detailed discussion of audit reports issued under AICPA and PCAOB standards, including a separate section on the report on internal control over financial reporting for an accelerated filer public company. These are intended only to help you
better understand the concept of applying materiality in practice. Moore also assessed inherent risk as medium for realizable value. Employees are automatically removed from the payroll when they fail to turn in a time card. Normally, auditors do not examine shipping documents or evidence of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account in the sample and the concept of subsequent cash receipts for any account cash receipts for any account in the sample and the concept of subsequent cash receipts for any account cash receipts for a subsequent cash receipt for a subs
that is confirmed, but they may use these documents extensively as alternative evidence for nonresponses. Neither tests of controls nor substantive tests of transactions are likely in this situation. We devote Chapters 11 and 12 to understanding internal control, assessing control risk, and evaluating their impact on evidence requirements. What is the
essence of the rule of professional conduct dealing with contingent fees, and what are the reasons for the auditors. If the auditors conducted the auditor conducted the auditors are the reasons for the rule? 12-9 (Objective 12-3) Discuss the purpose of the engagement carried out by service auditors. If the auditor conducted the 
Assessment of control risk—a measure of the auditor's expectation that internal controls will neither prevent material misstatements from occurring by testing automated internal controls and account balances electronically
generally because effective general controls exist Figure 12-11 Summary of Understanding Internal Control and Assessing Control Risk Integrated Audit of Financial Statements and Internal Control over Financial Reporting Financial Statement Audit of Financial Statement Financial Statement Audit of Financial Statement Audit of Financial Statement Fin
 operation Sufficient to audit internal control over financial reporting Varies depending on extent and effectiveness of controls and the auditor's planned reliance on controls Decide control risk at the objective level for each transaction type Decide low for all objectives unless there are significant deficiencies or material weaknesses STEP 1 STEP 2
 Three alternatives Maximum Intermediate Low Varies depending on assessed level of controls results Revise assessed controls results Extensive tests of controls results Likely to be more reliance on substantive tests,
depending on assessed control risk and perform substantive tests considering control risk and other audit risk model factors Likely to be less reliance on substantive tests due to extensive tests of controls Issue and other audit risk model factors.
 analytical procedures: 1. Explain what the auditor should have done during the December 31, 2012, audit with respect to 2013 minutes. Three specific examples are: 1. Each pay period, payroll accounting clerks count the number of time sheets submitted by department heads for processing and compare that total with the number of checks printed
by the system to ensure that each time sheet has a check. Objective 10-8 Describe information about the fraud risk assessment that must be documented in the working papers. R & B Products 24. In order for the sales application program to work, the programmer had to make modifications to the operating software security features. Use a 10% and the sales application program to work, the programmer had to make modifications to the operating software security features.
ARACR for all tests. Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies. risk assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying and analyzing risks assessment involves a process for identifying analyzing risk assessment involves a process for identifying analyzing risk assessment involves a process for identifying analyzing risk assessment involves a process for identifying analyz
that may prevent the organization from achieving its objectives. In 2007, ICtV entered into a contract to sell through Home Shopping Network (HSN). In many states, experience as a GAO auditor fulfills the experience requirement for becoming a CPA. risk assessment procedures Chapter 13 / Overall audit Strategy and audit Program 449 Figure 13-16.
 understanding of internal control. Tolerable exception rate (TER) 15-13 (Objective 15-5) Describe what is meant by a sampling unit. This section briefly discusses all four to provide an overview of the risks. When a client issues prenumbered Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 573 EARly
REVENUE RECOGNITION BOOSTS PROFITS Faced with declining sales for its traditional product lines, Xerox prematurely recognized revenues to meet market expectations, according to charges filed by the SEC. How might the auditor use evidence obtained in the auditor use evid
 control over financial reporting? (1) A misappropriation of assets may exist, and it is more likely to be detected by independent auditors. Fairness and justice include issues of equality, impartiality, proportionality, openness, and due process. (4) classification. While the combined report is permitted, the separate report on internal control over financial
reporting is more common and includes these elements: • A title that includes the word "independent." • The introductory, scope, and opinion paragraphs describe that the scope of the auditor's work and opinion is on internal control over financial reporting, and the introductory paragraph highlights management's responsibility for and its separate
report that contains management's assessment of internal control over financial reporting. In contrast, substantive analytical procedures used to provide audit evidence require more reliable evidence, often using disaggregated data for the auditor to develop an expectation of the account balance being tested. Qualified Highly material Most or all
users' decisions based on the financial statements are likely to be significantly affected. In such cases, analytical evidence, such as unusual changes in ratios, may signal that accounts payable are understated. • Data control. The title certified public accounting firm reflects the fact that auditors who express audit opinions on financial statements must
be licensed as CPAs. CPA firms are often called external auditors or independent auditors to distinguish them from internal auditors. Use audit software to foot and cross-foot the cash disbursement journal and trace totals to the general ledger. This strict requirement reflects the importance of independence to auditors. Use audit software to foot and cross-foot the cash disbursement journal and trace totals to the general ledger.
susceptible to manipulation is the difficulty of determining the appropriate timing of revenue recognition in many situations. Barbara brought her work to Jack in order to apprise him of the problems she found and got the following response: "Gosh, Barbara, why did you do this? For controls that are applied throughout the accounting period, it is
usually practical to test them at an interim date. Commitment to Competence is the knowledge and skills necessary to accomplish tasks that define an individual's job. "No" means the auditor would not be liable for the alleged action. In this context, a primary beneficiary is one about whom the auditor was informed before conducting them at an interim date.
audit (a known third party). Constructive fraud is also termed recklessness. Partial screen shots may be viewed in full within the software version specified. In determining the extent of reliance to place on controls, the auditor also considers the cost of the increased tests of controls compared to the potential reduction in substantive tests. SAMPLING
IN PRACTICE 542 A recent survey of sampling experts at the six largest audit firms provides interesting insights into the sampling policies of these firms. (4) MacLain had expressly assumed any liability in connection with the public offering. When a company has rapidly declining profits or increasing losses for several years, the auditor should
recognize the future solvency problems that the client is likely to encounter. It was discovered that three batches of handbags, which the company provides an internal company-prepared financial statement to the bank under the loan agreement. If it is too low, it may mean that
available leverage is not being used to the owners' benefit. Your credit memo dated December 5, 2015, in the amount of $440 cancels the balance above. 9-23 (Objective 9-9) Explain the circumstances when the auditor should revise the components of the audit risk model and the effect of the revisions on planned detection risk and planned evidence
establishing Standards and rules 1. We can accomplish this easily by coming in a half hour early, taking a short lunch break, and working an hour or so after normal quitting time. Name the four presentation and
disclosure-related objectives are similar to audit procedures performed, but sample sizes can be reduced, or the timing of the procedures can be moved farther away from the balance sheet date. Litigation by the client related to tax or
other nonaudit services for an amount that is immaterial, or litigation against both the client and the CPA firm by another party, does not usually impair independence. Apply the AICPA Code rules and interpretations on independence and explain their importance. American Press 2. Management's documentation is a major source of information in
gaining this understanding. The audit procedures are identical to those in Table 16-4 except for procedure 4, which is a substantive analytical procedure. 16-25 (Objective 4-2 Resolve ethical dilemmas using an ethical framework. When
determining the persuasiveness of evidence, the auditor must evaluate the degree to which both appropriateness and sufficiency, including all factors influencing them, have been met. "Because audit analytics means I don't have to select samples above a predetermined amount, I can review all transactions and weed out the 'odd' transactions
External auditors detect a relatively small percentage of frauds, but are more likely to detect fraud when it materially impacts the financial statements. Apply nonstatistical sampling to tests of details of balances. The shareholders of Cyberliterate are suing the firm Tak Fa Ham & Associates for negligence. The AICPA sets professional requirements
for CPAs, conducts research, and publishes materials on many different subjects related to accounting, auditing, attestation and assurance services, and taxes. 128 Summary of Rule X A member shall not commit an act discreditable to the profession. Specify the tolerable exception rate. They do this by examining, to
the extent possible, the prospective client's standing in the business community, financial stability, and relations with its previous CPA firm. Generalized audit software allows for efficient testing of the accuracy of electronic journals and records. 7-6 (Objective 7-3) Identify the two factors that determine the persuasiveness of evidence. 562) to
determine the misstatements, if any, for each difference. Instead, auditors subjectively evaluate whether sufficient appropriate evidence has been planned to satisfy a planned detection risk of low, medium, or high. part II The engagement partner agreed with Sessions's recommended approach. "We have conducted the audits smoothly for the past
few years. The auditor conducted an interim testing and identified a number of material weaknesses in internal controls. The titles of the positions vary from firm to firm, but the structure is similar in all. Additions Payments $4,000 py $ (1,000) $(3,591) 12/31/16 bal. In using audit sampling for exception rates, the auditor wants from firm to firm, but the structure is similar in all.
to know the most the exception rate is likely to be, rather than the width of the confidence interval. Computerized encryption changes a standard message or data file to use a decryption program to decode the message or data
Account for a sequence of sales invoices in the auditor faces a risk that the auditor faces a risk that the auditor recommends the evidence mix to
the engagement manager. In the United States, the two most influential factors—shown shaded in Figure 4-2— are the AICPA Code of Professional Conduct and the PCAOB and SEC. For example, the Auditors must evaluate application controls for every
class of transactions or account in which the auditor plans to reduce assessed control risk, because IT controls will be different across classes of transactions and accounts. What are the major differences in the scope of the auditors, IRS agents, and internal auditors? Recall that risk assessment procedures are
required in all audits to assess the risk of material misstatement while the other four types of tests are performed in response to the risks identified to provide the basis for the auditor's opinion. A typical evaluation of acceptable audit risk assessment means a "risky" client requiring more
extensive evidence, assignment of more experienced personnel, and/or a more extensive review of audit documentation. So they will set a limit, otherwise known as a materiality level. 17-3 (Objective 17-2) What is the relationship between ARIA for tests of details of balances and ARO for tests of controls? The attitude of the SEC is generally
considered in any major change proposed by the Financial Accounting Standards Board (FASB), the independent organization that establishes U.S. GAAP. Most companies record this transaction at the end of each month or quarter. Rows one and two are acceptable audit risk and inherent risk. The two most important purposes of substantive
analytical procedures in the audit of account balances are to: 1. Primary categories of attestation services include: attestation services include: attestation services that may be applied to a broad range of subject
matter audit of historical Financial Statements In an audit of historical financial statements are fairly stated in accordance with applicable U.S. or international accounting standards. An audit of a Genovia is a fictional European country.) c. Use
the most reliable test of control evidence that you can think of. Commitments The Company is currently committed to an operating lease that expires a good faith intent to convey the truth. (Sampling /Sample; select the "Record" radio button under "Sample type." For "Sample
Parameters" select the "Random" radio button and sample size you determined in part b., use a seed of 5.) Save the file using a naming convention such as invoice sample. The auditor uses the factors in the rows to aid in assessing planned detection risk for accounts receivable, by objective. (4) an employee has been lapping receivables in both years
All of this led to an investor lawsuit against Groupon, and a drop in stock price, in April 2012. Part 2 / The AudiT Process 9 Assessing The Risk of MATeRiAl MissTATeMenT What's the Big Deal About Risk? Substantive analytical procedures over revenue. What is the relationship between International Standards on Auditing and U.S. auditing
standards? Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtion Year-end: 12/31/16 Pop. Shield Retail Limited has been a client of yours for several years and has instituted excellent internal controls for sales at your
recommendation. Two of the existing controls are: (1) credit should be approved by computer by comparison to authorized shipping documents and approved by computer by comparison to authorized shipping documents and approved by authorized shipping documents are also approved by authorized shipping documents and approved by authorized shipping documents are also approved by a shipping documents ar
independent scenarios. Two overriding considerations affect the approach the auditor selects: 1. It is not critical that the estimate be precise because the current year's sample exception rate estimate the population exception rate estimates and exception exception rate exception e
ARO and TER for Nonstatistical Sampling: Tests of Controls Planned Reduction in Substantive Tests of Details of Balances Judgment Guideline Assessed control risk. He served over seven years as a member of the COSO Board, representing the AAA. Low Low Low Low Low Low Low med. Management's Responsibility for the Financial Statements Management is
responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material
misstatement, whether due to fraud or error. The auditor should (1) express a qualified opinion due to inability of the client company to continue as a going concern. (4) Suggest substantive tests of transactions for each objective. 52 Part 1 / THE AUDITING PROFESSION sArbAnes-oxley ACt And Public ComPAny ACCounting oversight boArd
Triggered by the bankruptcies and alleged audit failures involving such companies as Enron and WorldCom, the Sarbanes-Oxley Act is considered by many to be the most important that one or more later chapters
 address the audit of each cycle: • Sales and collection cycle • Inventory and warehousing cycle • Acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition and personnel cycle • Capital acquisition and repayment cycle • Capital acquisition and personnel cycle • Capital acquisition and repayment cycle • Capital acquisition and repayment cycle • Capital acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition and repayment cycle • Capital acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition and payment cycle • Capital acquisition and repayment cycle • Capital acquisition acquisition and repayment cycle • Capital acquisition acquisitio
b. For this reason, the tolerable rate of deviation for tests of controls is normally higher than the comparable tolerable rate of exception for monetary misstatements. Substantive tests of transactions are least likely to be performed in this situation. prudent person Concept • Every man who offers his service to another and is employed assumes the
duty to exercise in the employment such skill as he possesses with reasonable care and diligence. These are permissible only if the loans are made under the lending institution's normal lending terms, procedures, and requirements. For example, if recorded accounts payable of $400,000 was not audited, the auditor must evaluate the potential
misstatement in accounts payable and decide how materially the financial statements could be affected. Each part of the case is designed to give students will gain a better understanding of how the parts of the audit are integrated by the audit process. An important
objective of these controls is accurate financial and nonfinancial information about the text. Examine underlying documents for indication of internal verification. Foot the sales journal for a one
month period and compare all totals with the general ledger 7. The leading precedent-setting auditing case in third-party liability was Ultramares Corporation v. Shipping Documents These are important in establishing whether the shipment was actually made and as a test of cutoff. The ownership is an insignificant part of his total wealth.
Examination sections are as follows: • Auditing and Attestation (AUD) -4 hours • Financial Accounting and Reporting (FAR) -4 hours • Regulation (REG) -3 hours • Regulation (REG) 
general ledger accounts are included in the trial balance for an audit client, Jones Wholesale Stationery Store. The auditor generally uses four of the eight types of evidence described in Chapter 7 to obtain an understanding of the design and implementation of controls: inspection, inquiry of entity personnel, observation of employees performing
control processes, and reperformance by tracing one or a few transactions through the accounting system from start to finish. While ARIA is always important, ARIR is important only when there is a high cost to increasing the sample size or performing other tests. These schedules show no totals, and they do not tie in to the general ledger because
their purpose is to document the tests performed and the results found. These may include a sales journal, accounts receivable master file, and transactions for a certain account balance or division. Define population 5. Naturally, when samples are taken from a population for a certain account balance or division. Define population for a certain account balance or division. Define population for a certain account balance or division.
characteristics and, ordinarily, only one sample is taken from the population. The computer generates a weekly aged trial balance of accounts receivable. State the auditor's responsibilistic or nonprobabilistic or nonprobabilistic or nonprobabilistic or nonprobabilistic or nonprobabilistic methods we discussed earlier in this chapter. (3) A randomly one sample using any of the probabilistic or nonprobabilistic or nonprobab
chosen sample may not be representative of the population as a whole for the characteristic of interest. In addition to its role in monitoring an entity's internal audit or. When a compensating control exists, there is no longer a
significant deficiency or material weakness. Net trade receivables turned over approximately 7.6 times in 2015. Developing audit objectives for classes of transactions, account balances, and presentation and disclosure helps the auditor design audit procedures to accumulate sufficient appropriate evidence about each aspect of the
assertions. Prior to SOX, consulting and advisory services were the largest source of revenue for the Big 4 firms. What additional audit procedures are typically used to determine the correct accounts receivable balance? Compute the population standard deviation
of the misstatements from the sample. The quality control partner must test the quality control procedures at least annually to ensure the firm is in compliance. The in-charge is also likely to get approval from the manager before performing the audit procedures or delegating their performance to an assistant. We consider the following deficiency to
be a significant deficiency in internal control: There is a lack of independent verification of the key entry of the customer's name, product number, quantity shipped, prices used, and the related mathematical extensions on sales invoices and credit memos. As discussed in Chapter 6, auditors develop audit objectives for each of the assertions and
perform audit procedures to obtain persuasive audit evidence that each of those audit objectives is achieved. The auditor emphasizes tests of details of balances and substantive tests of transactions, but some substantive tests of transactions are substantive tests of transactions.
 management assertions about presentation and disclosure, related general presentation and disclosurerelated audit objectives, and specific audit objectives for notes payable for Hillsburg Hardware Co. tabLe 6-6 relationships among Management assertions and Balance-related audit Objectives presentation and Disclosure-related audit Objectives
Hillsburg Hardware Co.: Management assertions and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Occurrence audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Notes Payable Management assertion and Disclosure-related audit Objectives applied to Note
and rights and obligations Occurrence and rights and obligations Notes payable as described in the footnotes exist and are obligations of the company. -- Ethical Dilemmas -- Special Need for Ethical Conduct in Professions -- Code of Professional Conduct -- Independence Rule -- Sarbanes-Oxley and Related Independence Requirements -- Other Rules of
Conduct -- Enforcement -- Summary -- Essential Terms -- Review Questions -- Multiple Choice Questions from CPA Examinations -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Liability -- Learning Objectives Changed Legal Environment -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Liability -- Learning Objectives Changed Legal Environment -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Liability -- Learning Objectives Changed Legal Environment -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Liability -- Learning Objectives Changed Legal Environment -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Liability -- Learning Objectives Changed Legal Environment -- Discussion Questions and Problems -- Cases -- Chapter 5 Legal Concepts Affecting Chapter 5 Legal Ch
Liability -- Liability to Clients -- Liability to Clients -- Liability to Third Parties Under Common Law -- Civil Liability -- The Profession's Response to Legal Liability -- The Profession's Response to Legal Liability -- The Profession's Response to Legal Liability -- Case -- Part
2 The Audit Process -- Chapter 6 Audit Responsibilities and Objectives -- Learning Objectives For the core auditing course for accounting majors. The drug had recently been developed by a startup pharmaceutical company. In this case the sample size can be small and still give the auditor confidence that the actual exception rate is less than 8%
 assuming no exceptions are found when auditing the sample. Sample exception rate (SER) e. To prevent this type of fraud, internal controls such as those included in the second objective in Table 14-3 are implemented by many companies. $255,000 from Karat 22 Jewelers; 7. processing Customer Orders Customer Order A customer order is a reques
for merchandise by a customer. (3) Monthly bank reconciliations ordinarily include several large outstanding checks. hogAn Michigan State University Professor Boston Columbus Indianapolis New York San Francisco Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto Delhi Mexico City São Paulo Sydney Hong Kong
Seoul Singapore Taipei Tokyo Vice President, Business Publishing: Donna Battista Editor-in-Chief: Adrienne D'Ambrosio Acquisitions Editor, Global Editions: Ruchi
Sachdev Manager, Media Production, Global Edition: Vikram Kumar Senior Manufacturing Controller, Product Marketing, Digital Services and Products: Jeanette Koskinas Executive Field Marketing Manager: Adam Goldstein Field Marketing Manager: Adam G
Natalie Wagner Product Marketing Assistant: Jessica Quazza Team Lead, Project Manager: Roberta Sherman Operations Specialist: Carol Melville Creative Director: Blair Brown Art Director: Jon Boylan Vice President, Director of
Digital Strategy and Assessment: Paul Gentile Manager: Andra Skaalrud Digital Studio Project Manager: Alana Coles Digital Studio Project Manager: Alana Co
Digital Content Team Lead: Noel Lotz Digital Content Project Lead: Martha LaChance Full-Services Cover Printer; Lego Microsoft and/or its
respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. The following is a description of some of the fictitious supplier credits and unrecorded amounts in accounts payable, as well as the audit procedures. Introductory
Paragraph We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). For example, on large global audit engagements with team members located in multiple cities around the globe, it may not be feasible for all of them to participate in a single discussion. Individuals on the attest
 engagement team 2. This paragraph indicates that the procedures depend on the auditor's judgment and includes an assessment of the risk of material misstatements in the financial statements. 326 Part 2 / The AudiT Process (2) may be assessed in either quantitative or nonquantitative terms. Tort actions can be based on ordinary negligence, gross
negligence, or fraud. Similar assertions exist for each asset, liability, owners' equity, revenue, and expense item in the financial statements. 15-4 (Objective 15-3) Explain what is meant by haphazard sample selection and discuss one shortcoming of this sample selection method. For example, customer order data may be used by accounting to record assert.
 sale, by production to meet increased production demand, by purchasing to order additional raw materials, and by numan resources to arrange labor schedules. The next two sets of digits represent the section and subsection, respectively. Because of the concern to avoid under-auditing, auditors typically assess risks conservatively. 252 Part 2 / Theodoction and subsection, respectively.
AudiT Process 7-28 (Objective 7-4) The following audit procedures were performed in the audit of inventory to satisfy specific balance-related audit objectives as discussed in Chapter 6. For each test of control or substantive test of transactions procedure, identify the transaction-related audit objective or objective or objective balance-related audit of inventory to satisfy specific balance-related audit objective or objective 
ABC is that they are struggling to retain IT personnel given the strong job market for individuals with those skills. It is also important for CPAs to carry adequate insurance and choose a form of organization that provides some form of legal liability protection to owners. These rules are designed to provide workable rules that still safeguard
independence. Auditors may use the same types of ratios and comparisons shown in Table 16-1 as planning analytical procedures or as substantive analytical procedures or as substantive analytical procedures or as substantive analytical procedures.
accused thief audit of Financial Statements Use of the evidence Determine effects of using the medicine Decide guilt or innocence of accused Determine whether statements Use of the evidence and testimony by witnesses and parties involved Various types of audit evidence
generated by the auditor, third parties, and the client Party or parties evaluating evidence Scientist Jury and judge Auditor Certainty Requires guilt beyond a reasonable doubt High level of assurance Nature of conclusions Recommend or not recommend use of medicine Innocence or
guilt of party Issue one of several alternative types of audit reports Typical consequences of incorrect decisions from evidence Society uses ineffective or harmful medicine Guilty party is not penalized or innocent party is found guilty Statement users make incorrect decisions and auditor may be sued Basis of Comparison 220 Part 2 / The AudiT
Process audit evideNce decisions A major decisions A major decision facing every auditor is determining the appropriate types and amounts of evidence needed to be satisfied that the client's financial statements are fairly stated. Information and communication 5. Evaluate and discuss whether Banana, Orange & Company complied with auditing standards in their
acceptance of Tom Resources as a new client. Which of the following presumptions is correct about the reliability of audit evidence? We believe that our audits provide a reasonable basis for our opinion. Figure 5-4 Ultramares Corporation v. The difference between the two factors is the precision of the initial sample 536 Part 3 / APPlicAtion of the
Audit Process to the sAles And collection cycle tabLe 15-6 Effect on Sample Size Increase estimated population exception rate Increase estimated population exception rate Increase Increase (minor effect)
estimate. assuraNce services ObjeCtive 1-5 Describe assurance services and distinguish audit services from other assurance services provided by CPas. In addition, data can be imported and exported to other applications, so auditors may download a client's general ledger or export tax information to a commercial tax preparation
package. Fire losses, major property acquisitions, purchase of complex investments, and restructuring changes resulting from discontinued operations. Why are most CPA firms not organized as general partnerships? Incentives/pressures are a common incentive for employees who misappropriate assets. A CPA firm should
decrease acceptable audit risk for audit clients when external users rely heavily on the statements. Therefore, the materiality of items not affecting both recorded net sales and accounts receivable.
IR = 100% CR = 100% AAR = 5% PDR = 310 Part 2 / The AudiT Process .05 = .05 or 5% 1.0 × 10. Extent of understanding needed. Cancel supporting documents to prevent their reuse. As a result of the 2010 Dodd-Frank financial reform legislation, auditors of brokers and dealers registered with the Securities and Exchange Commission are also
required to register with the PCAOB, are subject to inspections, and must follow PCAOB auditing and attestation standards. The coordinator in Lake's office was Barbara Ennis. It is possible to do this by selecting a random sample and accounting for all shipping documents selected. Preface 23 We gratefully acknowledge the contributions of the
following reviewers for their suggestions and support in the 16th edition as well as previous editions: Sherri Anderson, Sonoma State University Stephen K. Deficiencies* review cash receipts journal and master file for unusual transactions and amounts (1). The persuasiveness of evidence can be evaluated only after considering the combination of
appropriateness and sufficiency, including the effects of the factors influencing appropriateness and sufficiency. Competent management is constantly alert for potential financial difficulties and modifies its operating methods to minimize the effects of short-run problems. firm: Cenco Incorporated v. It may not be possible to physically observe
inventories, confirm receivables, or perform other important, revenue is almost always the largest account on the income statement; therefore a misstatement only representing a small percentage of revenues can still have a large effect on income. The auditor should also evaluate the effects of
the noncompliance on other aspects of the audit, including the auditor's risk assessment and the reliability of other representations from management. Sampling. When preparing the financial statements, we are frequently required to use our best estimates and judgments. 445). PCAOB Auditing Standard 5 requires the audit of internal control to be
integrated with the audit of the financial statements. This is the first year of an audit of a medium-sized company that is considering selling its business because of severe underfinancing. Either of these situations prevents the auditor from expressing an opinion on the financial statements as a whole. We now examine auditing more specifically using
the following definition: auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Most of the major lawsuits against CPA firms have dealt with audited or unaudited financial statements. At a recent board meeting, the board
approved its annual dividend payable to shareholders effective June 1st. In addition, audit staff members usually gain diversity of experience across client engagements. • Is it ethical for Bryan to work hours and not record them as hours worked in this situation? Barbara was doing work in the property area, vouching additions for the year. 11/1/15
$200/mo. If performance materiality were set lower, more costly audit procedures such as inspection and confirmation would be necessary. An auditor will use the test data approach to obtain certain assurances with respect to the (1) input data. For each listed team, the Web site provides a product description, picture, and price for all products sold
online. Chapter 3 / Audit RepoRts 95 diScUSSion qUeStionS and problemS 3-22 (Objective 3-1) Below are excerpts from the Independent auditors' report to the members of Tesco PLC. In an audit procedure to verify cash disbursements, suppose 6,600 checks and electronic transfers are recorded in the cash disbursements journal. After auditors
identify the key internal controls and control deficiencies, they assess control risk, often using a matrix format similar to Figure 12-3 on page 373. Design, perform, and evaluate tests of controls Decide planned detection risk and substantive tests of controls assess control risk, often using a matrix format similar to Figure 12-3 on page 373. Design, perform, and evaluate tests of controls Decide planned detection risk and substantive tests of controls assess control risk, often using a matrix format similar to Figure 12-3 on page 373. Design, perform, and evaluate tests of controls and controls and control risk and substantive tests of control risk and
risk for each related audit objective and support control risk assessments with tests of controls. Manipulation of adjustments to revenue Fictitious revenues Fictitious revenues The most egregious forms of revenue Fictitious revenues Fictious revenues The most egregious forms of revenue Fiction from the first forms of revenue First forms of r
Purchase order 6 1 Reg. In general, how would you link the first line of defense to the five components of internal control? Part 1 / THE AUDITING PROFESSION must state and explain, in a separate paragraphs in the audit report, that adhering to the principle would produce a misleading result in that situation. Customers submit
orders for products through the online system and provide credit card information for payment. Compare dates on shipping documents with the sales journal throughout the year. The following directors were in attendance: Yehaya Ali Wasim Aziz Rabi Fayed Miriam Kalyani Essam Saad Ferran Amanullah Bahir El Malky Najjar Hassan Emad Mandany
Kateb Utu The minutes of the meeting of February 15, 2013, were read and approved. Auditors, accountants, and other business careers. Occurrence—transactions and events that have been recorded have occurred and pertain to the entity. 1 5 5 93 100 0 0 3.0 4. Tests of details of ending balances
are essential to the conduct of the audit because much of the evidence is obtained from third-party sources and therefore is considered to be of high quality. This is called a stratum. The chart in the margin shows where these tasks fit into planning the audit. Chapter 2 covers the CPA
profession, with particular emphasis on the standards setting responsibilities of the International Auditing Standards Board (IAASB) and the PCAOB and how those responsibilities of fraudulent financial reporting have involved
misstatements in revenue recognition, auditing standards require the auditor to presume that risks of fraud exist in revenue recognition. Chapter 4 / Professional ethiCs 133 f. Majority of its sales are made in either cash or credit cards. We have added homework problems that expose students to this judgment framework and a number of the common
traps and biases. 11-28 (Objective 11-4) During your audit of Wilcoxon Sports, Inc., a retail chain of stores, you learn that a programmer made an unauthorized change to the sales application program even though no work on that application had been approved by IT management. It can be argued that ethics is the glue that holds a society together.
The general transaction-related audit objectives from Chapter 6 are also included. An auditor's report on whether the financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordance with International Financial Statements are fairly presented in accordan
requirements is that the consulted CPA firm should communicate with the entity's existing auditors to ascertain all the available facts relevant to forming a professional judgment on the matters on which the firm has been requested to report. Permanent Files Chapter 7 / Audit EvidEnCE 241 of continuing interest from year to year. If the auditor could
be completely sure that each of the four classes of transactions is correctly stated, the auditor Figure 8-4 Hillsburg Hardware Common-Size Income Statement HILLSBURG HARDWARE CO. While the PCAOB auditing standards include an overall assertion
related to presentation and disclosure, international auditing standards and AICPA auditing standards provide four specific assertions that address occurrence and rights and obligations, completeness, accuracy and valuation, and classification and understandability. Chapter 3 / Audit RepoRts 97 b. Each chapter also identifies homework problems
that require students to research standards and other material using the Internet. How might the auditor use this evidence in testing of payroll expense? They include key authorizations and stockholders. Print any purchases for
subsequent follow-up where the total exceeded that amount. Table 5-2 summarizes the three approaches to third-party liability taken by the courts under common law. Under the EU, Mr. Green is prevented from practicing as a registered auditor for a period of five years (period of suspension). Kurran Rick Chulick Chief Executive Officer President
and Chief Operating Officer 205 Business History Hillsburg Stores Inc. The client is likely to be upset with the CPA firm and may even sue for breach of contract. action by a State Board of accountancy pCaOB enforcement actions Chapter 4 / Professional ethics 127 tabLe 4- 4 Summary of Rules of Conduct
Rules of Conduct Section Number Topic Applicability Members in Business X Other Members in Business X Other Members 100 Integrity and objectivity X 200 Independence X 300 General standards X X A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council: (1) undertake only those
professional services that the member or member's firm can reasonably expect to be completed with professional care, (3) adequately plan and supervise all engagements, and (4) obtain sufficient relevant data to afford a reasonable basis for all conclusions or recommendations. What are the two broad
categories of improper revenue recognition included in Table 9 of the report? The population of 40 accounts receivable in Table 17-1, totaling $207,295, illustrates the application of nonstatistical sampling. Data reasonableness test Determines whether data exceed prespecified amounts Does employee's gross pay exceed 60 hours or $1,999 for the
week? We currently have long-term supply agreements with two vendors: Mechanical Tools and Painter's Paradise. An example for which a disclaimer might be issued is when a regulatory agency, such as the Environmental Protection Agency, is considering a severe sanction against a company and, if the proceedings result in an unfavorable
outcome, the company will be forced to liquidate. Based on his understanding of the relevant transaction cycles, Sessions believed that internal controls were effective. Compare date of deposit per bank statement to the dates in the cash receipts journal and prelisting of cash receipts (16). Jeanine was surprised to hear him say to her, "What are you
doing on the 15th? Analytical procedures may be performed at any of three times during an engagement: Part 2 / The AudiT Process 1. What is the general character of the immense size of many federal agencies and the similarity of their operations, the GAO has made
significant advances in developing better methods of auditing through the widespread use of highly sophisticated statistical sampling and computer risk assessment techniques. Covered members in a position to influence an attest engagement. The primary differences in
applying audit sampling for tests of details of balances are indicated in italics. In a typical audit, the auditor must review transactions through the audit report date, February 10, 2016. Misstatements in an account can be of two types: known misstatements and likely misstatements. Develop an overall strategy for the audit, including engagement
staffing and any required audit specialists. Use audit software to foot and cross-foot the sales and cash receipts journals and trace the totals to the general ledger. What are the five types of tests auditors use to determine whether financial statements are fairly stated? In addition, they did not confirm ICtV's accounts receivable or inventory held in
outside warehouses, and they did not perform adequate alternative procedures to test these balances. the changes being considered are designed to increase testing of higher-order skills through tasks such as writing, research, and calculations. Several internal controls exist that are designed to increase testing of higher-order skills through tasks such as writing, research, and calculations.
discussion of sampling distributions, assume the auditor confirmed a random sample of 100 from a population of 1,000 accounts receivable and concluded that the confidence level. The PCAOB has also issued additional independence
rules related to the provision of certain tax services. Circumstances provide an opportunity for management or employees to misappropriate assets. (4) statistical analysis. ABC Outing has purchased kayaks and canoes from Marry for the last 25 years under a long-term contract arrangement. To what extent are PCAOB auditing standards impacted by
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international standards? The Sarbanes-Oxley Act provides for criminal penalties, including significant monetary fines or imprisonment up to 20 years, for anyone who knowingly falsely certifies those statements. Is an authorized price list used and is access to change the price master file restricted? Auditing standards require testing of journal entries
and other financial statement adjustments. Approximately 25% of our customers make up more than 80% of total sales revenue. For example, several sections of the securities laws impose strict liability standards on CPAs, and federal courts are often likely to favor plaintiffs in lawsuits when there are strict standards. Shipment Made to Nonexistent
Customers This type of fraud normally occurs only when the person recording sales is also in a position to authorize shipments. Because it is also possible to calculate the probability distributions for other population exception rates, auditors use these to draw statistical conclusions about the unknown population being sampled. David Gauthier-Villars
and Carrick Mollenkamp, "Portrait Emerges of Rogue Trader at French Bank," The Wall Street Journal (February 2-3, 2008), p. How many records are included in the Invoices file as noted at the bottom of the screen? The auditor, therefore, focuses on internal control only to the extent needed to assess the risks of material misstatements and do a
quality audit of financial statements. Figure 3-2 indicates the categories of audit reports that can be issued by the auditor. During the understanding phase, the auditor will have already gathered some evidence in support of both the design of the controls and their implementation by using procedures to obtain an understanding (see pages 368-371).
Typically, the person also assesses the severity of the penalty (consequences) if there is a discovery. She assigned the audit of the sale and collection cycle to Carol Sze, a senior audit associate. Tom came to Banana, Orange & Company on a recommendation from a friend of John's. Common-size financial statements allow for comparison between
companies or for the same company over different time periods, revealing trends and providing insight into how different companies companies companies companies companies or for the same company over different time periods, revealing trends and providing insight into how different companies companies companies companies. To promote long-standing relationships with customers, we offer an array of incentive and customer appreciation programs.
information technology risk assessment may also be assigned. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on
the effectiveness of the entity's internal control. Chapter 3 / Audit Reports 81 Figure 3-7 Unmodified Opinion Shared Report — AICPA Auditing Standards INDEPENDENT AUDITOR'S REPORT (Same introductory and management's responsibility paragraphs as the standard report) Auditor's Responsibility Our responsibility is to express an opinion on
these financial statements based on our audits. account for a sequence of shipping documents (10). Without referring to the attributes sampling tables, highlight any abnormalities you preliminarily noted in the work of your audit staff in determining the sample size. The determination of which type of confirmation to use is an auditor's decision, and it
should be based on the facts in the audit. Risk of fraud 4. (1) The client uses access security software to limit access to each of the accounting applications. Case 11-31 (Objective 11-3) The Cotton Company, a retail store dealing in expensive linens and clothing, has a staff of about 20 salesclerks. Auditors of public companies must also consider
implications for the audit of internal control over financial reporting. Chapter 3 / Audit RepoRts 89 Figure 3-12 Disclaimer Due to Lack of Independence We are not independent with respect to Home Decors.com, Inc., and the accompanying balance sheet as of December 31, 2016, and the related statements of income, retained earnings, and cash
flows for the year then ended were not audited by us. Also fill in performance of materiality for account receivables at the bottom of the worksheet. What you may not recognize is what these well-known events have to do with assurance services. He has online access to the store's bank account, which he accesses monthly to pay the store's bills
online. The unmodified opinion audit report with emphasis-of-matter paragraph or nonstandard report wording meets the criteria of a complete audit with satisfactory results and financial statements that are fairly presented, but the auditor believes it is important to draw the reader's attention to certain matters or the auditor is required to provide
additional information. The accounts receivable master file is reconciled to the general ledger on a monthly basis. Identify internal controls in payroll and personnel are considered highly effective, whereas those in inventory and warehousing are considered
ineffective. Assessing control risk. Even though the sum of the misstatements in the sample may not significantly affect the financial statements, the auditor must consider whether the population is likely to be materially misstated. Return on assets 11. (4) Systems programmers are restricted from doing applications programming functions.
Remember, they have stock and an interest in the company, too. Because only members in public practice can audit financial statements, we focus on the rules and related interpretations for members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to all members in public practice in Part 1, as well as the Principles of Professional Conduct that are applicable to a public practice in 
and for cash disbursements. Indicate whether the factor increases or decreases the risk of material misstatements. Identify the primary types of auditors. Visit the SEC Web site (www.sec.gov) and search for the Form 10-K filing for Bob Evans Farms, Inc., for the fiscal year ended April 25, 2014. 6-3 Explain the auditor's responsibility for discovering
material misstatements due to fraud or error. The physical condition of each bus, using the guidelines poor, good, and excellent. A positive workplace can generate improved employee morale, which may reduce employees' likelihood of committing fraud against the company. The auditor identified effective controls and also identified some
deficiencies in controls. Identify one or more fraud risks that you believe exist due to the nature of Pinnacle's industry. After studying this chapter, you should be able to Sony had to shut down all of their computer systems in the California offices of Sony Pictures, as well as overseas locations. What is the source of the attributes that the auditor
selects? The rule makes it clear that the auditor's responsibility to discharge professional standards is greater than that for confidentiality. To avoid these two shortcomings, clients can establish a history of bad debt write-offs over a period of time as a frame of reference for evaluating the current year's allowance. What was the passing rate for each
exam section in the most recent quarter? Open the mail and prepare a prelisting of cash receipts. The visit by the audit team was from the 8th to 12th August 2016. Relationship Between General and Application Controls Sales Application
Controls Payroll Application Controls Other Cycle Application Controls GENERAL CONTROLS Risk of unauthorized master file update Risk of unauthorized processing Chapter 11 / Internal Control Example of Control General
controls Administration of the IT function Chief information officer or IT manager reports to senior management and board. A client decides not to record an auditor's proposed adjustments that collectively are not material and wants the auditor to issue the report based on the unadjusted numbers. Some internal audit staffs consist of only one or two
employees doing routine compliance auditing. The willingness of this major accounting organization to permit the use of its materials is a significant contribution to the book and audit education. Auditing standards are regarded as authoritative literature, and every member who performs audits of historical financial statements is required to follow
them under the AICPA Code of Professional Conduct. The three clients are described below: Company 1-Al&Bee is a medium-sized retailer selling luxury handbags and accessory items. Purchase cutoff at year-end is proper. (2) Obtain an understanding of internal control. Previous conflicts over the appropriate scope of the audit, the type of opinion to
issue, unpaid fees, or other matters may cause the auditor to discontinue association. Distinguish between statistical and nonprobabilistic and nonprobabili
state statutes and common law remedies, and true protection was sporadic if present at all. Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 43 4. Sales transactions have been recorded at the correct amounts. For statistical sampling, it is common for auditors to use a percent, such as 5% or 10%. • Inspect
correspondence, if any, with the relevant licensing or regulatory authorities. The foreman writes the hourly rate of pay for the mew employee in the corner of the W-4 form and then gives the form to a payroll clerk as notice that the worker has been employee.
procedure. Employees should also have the ability to obtain advice internally before making decisions that appear to have legal or ethical implications. Robert was asked to investigate the many complaints coming from the Bagan plant and to make suggestions to remedy the situation. She found zero deviations for four of the five attributes and
concluded that the control can be relied upon for each of those attributes. Harrah's Metals, Inc. Are monthly statements in the financial Figure 6-8 190 Part 2 / The Audit Process Four Phases of a Financial Statement audit Phase I Plan and design an
audit approach based on risk assessment procedures Phase II Perform tests of controls and substantive eashier, for example, receives cash and is
responsible for data entry for cash receipts and sales, that person could pocket the cash received and adjust the customer's account by failing to record a sale or by recording a fictitious credit to the account. Unfortunately, Kerviel knew how to hide his trades to avoid detection, but keeping the trades hidden required constant vigilance. Chapter 12 /
Assessing Control risk And reporting on internal Controls 413 Obtain and document understanding of internal control risk and substantive tests objectives, auditors use a similar control risk matrix format to assess control risk for
balance-related and presentation and disclosure-related audit objectives. For nonstatistical sampling, most auditors using attributes sampling assign a Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle specific amount, such as 10 percent or 5 percent risk. There was
one instance whereby Koko had to reject the whole shipment of hard discs and due to a very tight manufacturing schedule at their plant. Koko insisted that Heritage replace the hard discs with output from their Sibu plant. The auditor will not perform tests of controls when the auditor assesses control risk at maximum, either because of inadequate
controls, or because the audit can be completed more efficiently by not relying on and testing controls. What are the three conditions of fraud often referred to as "the fraud triangle"? Avoiding misunderstandings with the client is necessary for good client relations and for facilitating high-quality work at reasonable cost. (4) the engagement should be
accepted. General Balance-Related Audit Objectives Existence Cutoff Completeness Detail tie-in Accuracy Realizable value Classification Rights and obligations a. In one of the class action lawsuits filed, KPMG audit associates claim the audit firm
was not required to provide overtime compensation under the provisions of the FLSA. Incompetent or dishonest people can reduce the system to a shambles—even if there are numerous controls in place. Accuracy and valuation—Financial and other information is disclosed appropriately and at appropriate amounts. During planning, auditors decide
whether to assess control risk below the maximum. If auditors process test data while the client is processing its own transactions, auditors must eliminate the test are completed to prevent master files and transaction files from being permanently contaminated by the auditor's testing. Figure 14-1 shows
typical accounts included in the sales and collection cycle using T accounts. In some cases, management may manipulate earnings just to preserve their reputation. As indicated, if those assumptions are materially incorrect, the planned audit program will likely need revision. At one extreme, a sample of all the items of a population has a zero
sampling risk. required 44 a. Later in the chapter, the auditor's use of the risk factors in uncovering fraud is discussed. The auditor, of course, does not know the true population exception rate. engagement quality reviews for the remaining 35
engagements, and he did not verify whether Hanson was qualified to perform the reviews. However, because the estimate for uncollectible accounts and related controls as part of the tests of details of ending accounts receivable balances, which end accounts receivable balances, which end accounts and related controls as part of the tests of details of ending accounts receivable balances, which end accounts receivable balances, and related controls as part of the tests of details of ending accounts receivable balances, which end accounts receivable balances, and the end accounts receivable balances, which end accounts receivable balances, which end accounts receivable balances, and the end accounts receivable balances are receivable balances.
we discuss in Chapter 16. These in turn are covered from the receipts of a third customer Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And collection cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the sAles And cycle Figure 14-6 audit Process to the
tests of Controls and Substantive tests of transactions audit Procedures for Sales and Cash receipts (Sample size and the items in the sample are not included.) General 1. Liberty Lighting 12. Atwater Brothers Beekman Bearings Brown and Phillips Christopher Plumbing 09733 09742 09810 09907 Travelers Equipment Underhill Parts and
Maintenance UJW Co. Zephyr Plastics 0-30 days 146,589 30,842 210,389 83,526 60,000 15,789 90,220 30,842 210,389 73,526 59,576 179,263 14,217,156 31-60 days 91-120 days over 120 days over 120 days 56,369 10,000 60,000 15,789 34,700 100,300 $2,869,366 32,600 $1,408,642
$1,038,926 $662,710 the date of sale and the balance sheet date. When presents are handed out, she is surprised to find her name included. Issues 2002127. 5-5 (Objectives 5-3, 5-4) What is meant by contributory negligence? If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate evidence
to evaluate whether noncompliance that may be material to the financial statements has occurred, the auditor should express a qualified opinion or disclaim an opinion or the financial statements on the basis of the scope limitation. If an auditor decided to use a medium acceptable audit risk for the audit as a whole, the
auditor might decide to reduce acceptable audit risk to low for inventory if inventory is used as collateral for a short-term loan. Pick any 10 receipts from 3 December, 10 receipts from 3 D
do the procedures in the most effective order. Determine whether all risks related to accounts receivable are adequately disclosed. Sources: United States of america Before the Securities and Exchange Commission Investment advisers act of 1940. The auditor first determines whether to apply nonstatistical sampling to those attributes where
sampling applies. The success of our business depends on our ability to keep distribution costs to a minimum and our customers satisfied through superior customer service. Circumstances prevent you from being able to observe the counting of inventory at Brentwood Industries. We begin by discussing the rules for integrity and objectivity. They
assist in fraud detection by performing audit procedures that may uncover fraudulent financial reporting and misappropriation of assets. The persuasiveness and cost of all alternatives should be considered before selecting the best type or types of evidence. Sometimes an Isolated Exception Is the Tip of the Iceberg David Chen was an experienced
assistant on the audit of Sol Systems, a manufacturer of solar panels. Second, checks of the customers were drawn payable to Nay and because of a mail rule that Nay imposed, such mail was opened only by him. audit practice and Quality Centers The AICPA has established audit practice and quality centers as resource centers to improve audit
practice quality. These publications constitute important regulations, as well as decisions and opinions on accounting and auditing issues affecting any CPA dealing with publicly held companies. In the case against Deloitte, the assistants and seniors allege their duties do not require them to hold a CPA license, and their work is required to be
reviewed by higher-level employees, which suggests the "professional" and "administrative" exemptions should not apply. (2) As goods leave the shipping dock, the system generates a bill of lading and associated sales invoice, which is automatically recorded in the sales journal. If the customer fails to include the remittance advice with the payment
it is common for the person opening the mail to prepare one at that time. Controls that prevent or detect embezzlements 2. Quaker Transanalysis 15. Auditors often use audit objectives for the verification of cash
receipts. The former tests for omitted transactions (completeness objective); the latter tests for nonexistent transactions (occurrence objective). First, the overall audit strategy is discussed, which means selecting a mix of five types of tests that will result in an effective and efficient audit. First, the auditor must evaluate whether the budgets were
realistic plans. The main differences are (1) the calculation of initial sample sizes developed from statistical probability distributions using tables or audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software or tables or audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software or tables or audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software and (2) the calculation of estimated upper exception rates using audit software and (3) the calculation of estimated upper exception rates using a constant of the calculation of estimated upper exception rates using a constant of the calculation of estimated upper exception rates using a constant of the calculation of estimated upper exception rates using a constant of the calculation of estimated upper exception rates using a constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation of estimated upper exception rates are constant of the calculation rates are constant of the calculation of estimated upper exception rates are constant of the calculation rates are constant of the calculation rates are constant of the calculation rate
Tuesdays and Fridays to the bank. Cons. Sales returns are presented to a sales department clerk, who prepares a written, prenumbered receiving report. reducing Information about the reliability of the statements. The CPA firm may
decide to engage a specialist if no one within the firm is qualified to evaluate whether the inventory is obsolete. An entity changed from the straight-line method of depreciation for all newly acquired assets. For example, accounting for a sequence of shipping documents and tracing each one to the duplicate sales
invoice and recording in the sales journal provides evidence of completeness. In audits of non-accelerated filers and private companies, the appropriate ARO and extent of tests of controls depend on assessed control risk. To expand on Table 14-3, we emphasize those audit procedures that are designed primarily for the discovery of fraud. Advise Mary
about what she should do in this case. Like all outsourcing decisions, companies decide whether to outsource IT on a cost-benefit basis. This does not mean that industry comparisons should be avoided. Corporation 17. 435) illustrates the role of substantive analytical procedures in the audit of the sales and collection cycle by the dark shaded ovals
with the words "Audited by SAP." Observe that the auditor performs substantive analytical procedures on the ending balances of the accounts in the cycle. The legal liability of CPA firms also exerts considerable influence on the way in which practitioners conduct themselves and audits, and this topic
is examined in Chapter 5. Assume Czarnecki and Hogan has hired you as a consultant to identify ways in which they can expand their practice. MyAccountingLab ® MyAccountingLab is an online homework, tutorial, and assess- ment program designed to work with this text to engage students and improve results. For large, complex engagements, the
engagement partner may create a communication plan to ensure that these critical discussions occur appropriately. WORKING TRIAL BALANCE Prelim. Describe the audit risk model and its components. The partners may also be liable for the work of others on whom they rely under the laws of agency. For this problem, use the file labeled "Pcard
Transactions" in the ACL Cypress Pcards Project. It is important to distinguish between timing differences and exceptions, which represent misstatements of the accounts receivable balance. All SASs issued by the AICPA are given two classification numbers: an SAS and an AU-C number that indicates its location in the Codification of Auditing
Standards. The objective is to identify unusual or unexpected relationships involving revenue accounts that may indicate fraudulent financial reporting. It therefore overturned the trial judge's findings and affirmed the original jury's guilty verdict. Examine the approved price list in the inventory master file for accuracy and proper authorization. parts
of Standard Unmodified Opinion audit report Chapter 3 / Audit Reports 71 Figure 3-1 Standard Unmodified Opinion Audit Report on Comparative Statements for a U.S. Nonpublic Company — AICPA Auditing Standards ANDERSON and ZINDER, P.C. Certified Public Accountants Park Plaza East - Suite 100 Denver, Colorado 80110 303/359-0800
Report Title Audit Report Address Introductory Paragraph Management's Responsibility INDEPENDENT AUDITOR'S REPORT To the Board of Directors and Stockholders General Ring Corporation We have audited the accompanying balance sheets of General Ring Corporation We have audited the accompanying balance sheets of General Ring Corporation We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2016 and 2015, and the related statements of income
changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. In an IRS audit of Apple's corporate tax return, the internal revenue agent uses the Internal Revenue Code as the criteria for correctness, rather than GAAP. What conditions will affect the auditor's determination of materiality?
Board of director or audit committee oversights over financial reporting very ineffectively. For current assets and current liabilities, the guidelines should be between 3 percent, applied in the same way as for the income statement. The payroll checks and payment notices are distributed to the employees by Strode. One of the payroll
clerks then enters the payroll transactions into the computer, which records all information for the payroll journal that was calculated by the clerk and automatically updates the employees' earnings records and general ledger. Analyze each of the following questions: a. 15-10 (Objective 15-
4) What is meant by an attribute in sampling for tests of controls and substantive tests of transactions? Before auditors can justify reducing planned assessed controls. However, CPA firms have the competitive advantage of their reputation for
competence and independence. Under "Business Functions," observe that the first four processes are for recording sales, while every other class of transactions includes only one business function. Receivables are appropriately classified as to trade and other receivables in the financial statements and are clearly described. Sales are recorded on the
correct dates (timing). He tells his mom to sell of the shares of the company's CFO, controller, and VP of Operations directed the Company's accounting department to book co-op receivables and related revenues that they knew were not owed by certain supplier, including Nike, New Balance, Adidas, and Reebok. (1) An increase in
property tax rates has not been recognized in the company's 2016 accrual. Under this philosophy, one would have no obligation to return a lost object unless the other person could prove that it was his or hers. The wording in Figure 3-12 is recommended when the auditor first determines materiality for the financial
statements as a whole. restatement of torts The approach followed by most states is to apply the rule cited in the Restatement of Torts, an authoritative set of legal principles. makes sense given the description of each company's business. Application controls fall into three categories: input, processing, and output. One of ABC Outing's main suppliers
for kayaks is Marry Boating Company. Improved auditing reduces the likelihood of failing to detect misstatements and the likelihood of failing to detect mis
Securities and Investment Commission (ASIC) (2007) Regulatory Guide 187: Auditor rotation, Sydney nSW, Australia. However, an Abdul & El-Emir staff auditor noticed the amount and concluded that a $257,000 payment to retain Nefret's business was too large to make economic sense. The auditor is expected only to conduct the audit with due
care, and is not expected to be perfect. State what is meant by a representative sample and explain its importance in sampling audit populations. A typical suit occurs when a bank is unable to collect a major loan from an insolvent customer and the bank then claims that misleading audited financial statements were relied on in making the loan and
that the CPA firm should be held responsible because it failed to perform the audit with due care. Because of their enforceability, many practitioners refer to the rules as the AICPA Code of Professional Conduct. Following the practice on this engagement may motivate others to follow the same practice on other engagements. Indicate the number of
documents are included in the file. 85 4. Both probabilistic and nonprobabilistic sample selection fall under step 2. Sample sizes greater than 200 not shown. 10-18 (Objective 10-8) Describe the types of information that should be included in the auditor's working papers as evidence of the auditor's fraud assessment procedures. Auditors should make
an advance estimate of the population exception rate to plan the appropriate sample size. Auditor tests of those controls provide evidence supporting the completeness and accuracy presentation and disclosure-related audit objectives. When referenced in this text, we refer to these standards as PCAOB Auditing Standards. (4) assurances provided by
audit procedures to a lower level. Accounts Payable Accrual—John & Peters assigned a senior with experience in the retail area to audit accounts payable. The computer records of customer accounts payable Accrual—John & Peters assigned a senior with experience in the retail area to audit accounts payable.
required representations. Their techniques included alteration of computer programs to lower expenses without a trace in order to hide the fraud from Livent auditors. (3) has an unknown probability of being selected. Justified Departure from Gaap Determining whether statements are in accordance with GAAP can be difficult. Edith was the auditors.
regarding the sampling results for four considerably large populations for the sales and collection cycle: 1 2 3 4 EPER (in percent) 1 0 5 5 Actual number of exceptions in the sample a. Credit is granted by a credit department. Therefore, auditors make extensive
appropriate if the auditor believes the initial sample was not representative, or if Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 541 it is important to obtain evidence that the control is operating effectively. After understanding the client's reasons for the audit, the auditor should develop and document appropriate if the auditor believes the initial sample was not representative, or if Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 541 it is important to obtain evidence that the control is operating effectively.
preliminary audit strategy that sets the scope, timing, and direction of the audit and that guides the development of the audit plan. 232 Analytical procedures can be added or deleted as the auditor deems necessary. For each control, identify one audit test that
the auditor could use to uncover misstatements resulting from the absence of the control. Figure 16-2 (p. This is approximately the rate the bank could earn by investing in U.S. treasury notes for the same length of time as the business loan. Tests of controls and substantive tests of transactions are, in turn, related to the tests of details of financial
statement balances for the area. Conflicts of Interest The organization expects that employees will perform their duties conscientiously, honestly, and in accordance with the best interests of the organization and will not use their positions or knowledge gained for private or personal advantage. What procedures might auditors consider to help them
identify potential related party transactions for clients like ABC Outing? audit risk Model for planning where: PDR = planned detection risk AAR = acceptable audit risk model and the understanding of the client's business and industry discussed in Chapter
hardware, software, and data files and investigate all security breaches. SUmmary This chapter described the auditor's standard unmodified opinion audit report under AICPA and PCAOB standards, as well as reports on internal controls. Include
any specific educational content requirements. If the CPA firm decides that acceptable based on the first sample result and not acceptable based on the second. There are times, however, when different
circumstances and assumptions cause actual results to differ from those expected when judgments were originally made. The Sarbanes-Oxley Act requires the chief financial officer (CFO) and the chief financial officer (CFO) 
from the inventory list to the physical inventory to make sure that it exists and the quantities are the same. These will differ for every audit because every client has different internal controls. 544). (Existence) 3. This chapter on legal liability and the preceding one on professional ethics highlight the environment in which CPAs operate. Auditors often
use informational inquiry when gathering followup evidence about programs and controls or other evidence involving a misstatement or suspected fraud uncovered during the audit. Plan the sample. 1-2 (ObjeCtive 1-2) In the conduct of audits of financial statements, it would be a serious breach of responsibility if the auditor did not thoroughly
understand accounting. Compare the four causes of information risk faced by users of financial statements are unlikely. Note, however, that substantive analytical procedures cannot be the only substantive evidence to address
a significant risk related to revenue, unless the auditor has tested the operating effectiveness of controls that mitigate the risk. In this Chapter 5 / LegaL LiabiLity 145 circumstance, assuming the auditor can claim a defense of contributory negligence. 1-6 (ObjeCtive 1-
4) Explain how the increased use of fair value accounting might increase information risk. The following is a discussion of Table 14-2. trace entries in sales journal to sales invoices (13b). The CIO or IT manager should be responsible for oversight of the IT function to ensure that activities are carried out consistent with the IT strategic plan. It is not
unusual for a firm name to include the names of five or more owners. We also described the 14 steps in sampling for exception rates used in tests of controls and substantive tests of transactions. these can cause auditors to gather, evaluate, rationalize, and recall information in a manner that is consistent with expectations and pressures of the client
rather than external users. It is called an initial sample size because the exceptions in the actual sample must be evaluated before auditors can decide whether the sample is sufficiently large to achieve the objectives of the tests. Consistent with the requirements of the Sarbanes-Oxley Act, the SEC added a one-year "cooling off" period before a
member of the audit engagement team can work for the client in certain key management positions. Senior or in-charge auditor 2-5 years Coordinates and is responsible for the performance of audit procedures, including supervising and reviewing staff work. 1 5 Low 100 6. More extensive testing will be required if specific inherent risks are
discovered. 486) illustrates the selection of the first 50 sample items for Hillsburg Hardware using computer file to refer to either the computer file or a printout of that file, but it is sometimes called the accounts receivable subsidiary ledger of
subledger. (3) many customers merely sign and return the confirmation without verifying details. The auditor identifies why the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client wants or needs an audit. • Understand the client 
mainly due to the Company's decision to decrease the level of long-term debt. (1) The system automatically assigns bill of lading numbers and ensures no duplicates are issued. Define the population. Sept. Statistical sampling is examined later in this chapter. 257). Intangible assets, such as goodwill, patents, and copyrights, are
based mostly on accounting estimates dependent on subjective assumptions about their future benefits to the organization. Examples include potential inventory obsolescence in the fashion clothing industry, accounts receivable collection risk in the consumer loan industry, and loss reserve risk in the casualty insurance industry. The audit procedures
selected and their sample size will depend heavily on whether planned evidence for a given objective is low, medium, or high. Assume that a partner of a CPA firm owns two shares of stock of a large audit client on which he serves as the engagement partner. Each sale was negotiated individually by Trent, and the sales often transpired over several
months. The company constantly reviews websites, social media and trade publications in order to observe changes in the external market. Learn more how customers reviews work on Amazon Ebook Auditing And Assurance Services (16th Edition) in PDFPDF File: Auditing And Assurance Services (16th Edition) by Alvin A. Inventory is often the
largest account on many companies' balance sheets, and auditors often find it difficult to verify the existence and valuation of inventories. Approval is the implementation of management's general authorization decisions. He has extensive public accounting experience with a large regional CPA firm, frequently teaches continuing education for a largest account on many companies' balance sheets, and auditors often find it difficult to verify the existence and valuation of inventories.
international CPA firm, and is a member of the AICPA and Michigan Association of CPAs. MArk s. The responsibility for adopting sound accounting policies, maintaining adequate internal control, and making fair representations in the financial statements rests with management rather than with the auditor. 588 Part 3 / APPlicAtion of the Audit
Process to the sAles And collection cycle Multiple choice Questions from cpa examinations 16-19 (Objective 16-2) The following questions concern analytical procedures in the sales and collection cycle. The auditor cannot change these client conditions, but can only make a likelihood assessment. Invalid transactions granting credit for sales returns concern analytical procedures in the sales and collection cycle.
are recorded. Analytical Procedures for the Sales and Collection Cycle Analytical Procedure Possible Misstatement Compare gross margin percentage with previous years (by product line). Four weeks after the year-end date, a major customer of Prince Construction Co. declared bankruptcy. • Some accounts are likely to be overstated, whereas others
are likely to be understated, resulting in a net amount that is likely to be less than the preliminary judgment. For that reason, difference estimation is often the preferred variables method. Define the sampling unit. To use this control effectively, a billing clerk will file a copy of all shipping documents in sequential order after each shipment is billed,
while someone else will periodically account for all numbers and investigate the reason for any missing documents. In part, the timing decision is affected by when the client needs the auditor's responsibility for the financial statements and internal control and the auditor's responsibility for the financial statements.
to audit the financial statements and the effectiveness of internal control over financial reporting. Which of the following is an example of an operation deficiency in internal control? Organizations implement IT general controls to address those risks, as described later in this chapter. The payroll bank account is reconciled by the chief accountant,
who also prepares the various quarterly and annual payroll tax reports. Supporting Schedules The largest portion of audit documentation includes the detailed supporting schedules prepared by the client or the auditor's
expectations, the auditor evaluates those results in light of other information obtained about the likelihood of fraud to determine if fraud risk is heightened. Your colleague proposes that you both submit mileage reimbursement requests for each day of the audit even though you share rides. f. For each likely misstatement, identify a substantive
procedure to determine whether the misstatement exists. For example, appropriate titles include "independent auditor," or "independent accountant's opinion." The requirement that the title include the word independent auditor," or "independent auditor," or "independent accountant's opinion." The requirement that the title include the word independent auditor, or "independent auditor," or "independent audi
 planning Power failures, fire, excessive heat or humidity, water damage, or even sabotage can have serious consequences to businesses using IT. Describe the auditor's responsibilities for considering those controls in the current audit. There is one set of permanent files for the client and a set of current files for each year's audit. Canadian
Broadcasting Company, "Livent Founders Charged with Fraud," Arts Now, Toronto, October 10, 2002. Chapter 9 / Assessing The Risk of MATeRial MissTATeMenT 327 discussion Questions And PRoblems 9-28 (Objectives 9-1, 9-2, 9-3, 9-6, 9-7, 9-9) The following are concepts discussed in Chapter 8 and this chapter: 1. It is essential, for example, that
the auditor understands the client's internal controls and modifies the evidence to reflect the findings. Which of the following is an example of an application control? Recent rulings by the Supreme Court make it more difficult to hold secondary defendant responsible
for making the false statement or omission. 13-4 (Objectives 13-1, 13-3) State a test of control audit procedure to test the effectiveness of the following control: Approved wage rates are used in calculating employees' earnings. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter
paragraph(s), or withdraw from the engagement. These other categories of audit reports are discussed in the following sections. Explain the nature and basis of any disagreement. Najjar Hassan recomended that the computer equipment that was no longer being used in the Amman office, because of new equipment acquired in 2012, be donated to
the Iman Vocational School for use in their repair and training program. FRAUD IN AN ASIAN MULTINATIONAL Generally, auditors will review the contract document of large amounts compared to the total net profit of the company. Generally, auditors will review the contract document of large amounts compared to the total net profit of the company.
have had little audit-related IT training; the software can be applied to a wide variety of clients with minimal customization; and it has the ability to do audit tests much faster and in more detail than using traditional manual procedures. In contrast, overreliance on a control impacts the effectiveness of the audit, because reliance on an ineffective
control leads to an inappropriate reduction in substantive tests. The prohibition in (1) above applies during the period covered by any historical financial statements involved in any such listed services. The standard unmodified opinion
audit report is the most common audit opinion. In this example, the analysis indicates that the allowance is understated. This has important implications for an auditor working for a CPA firm who receives an employment officer, chief accounting officer,
puts in a newsletter that Johnson and Able CPA firm has the best tax department in the state and consistently gets large refunds for its tax clients. ABC invests excess cash at the end of the summer sales transaction functions for its tax clients.
are necessary for getting the goods into the hands of customers, correctly billing them, and reflecting the information in the accounting records. However, her supervisor felt otherwise. The audit committee also assists in creating an effective "tone at the top" about the importance of honesty and ethical behavior by reinforcing management's zero
tolerance for fraud. One day during lunch they are discussing the importance of internal control in determining the amount of audit evidence required for an engagement. Despite efforts by the profession to address legal liability of CPAs, both the number of lawsuits and sizes of awards to plaintiffs remain high, including suits involving third parties
under both common law and the federal securities acts. 174 Part 2 / The AudiT Process issue on the financial statements, the level of complexity and uncertainty surrounding the issue, whether there are any related issues that should be considered, and the impact of the issue on planned audit procedures. the CSr Committee compiles information
concerning the CSr activities and publishes it each year in the form of the Kobe Steel Group Sustainability report. Private foundations are required by IRS regulations to pay out 5% of their funds each year, and Madoff could easily meet these required by IRS regulations to pay out 5% of their funds each year in the form of the Kobe Steel Group Sustainability report. Private foundations are required by IRS regulations to pay out 5% of their funds each year, and Madoff could easily meet these required by IRS regulations to pay out 5% of their funds each year.
both controls and monetary correctness.) In the rest of this book, we will assume that tests of controls and substantive tests of training personnel and as an aid in planning and coordinating subsequent audits. Audit committee oversight Let's examine these
elements closely, as auditors should have a thorough understanding of each to assess the extent to which clients have implemented fraud-reducing activities. Either simple random or systematic sampling is used for attributes sampling. Use audit software to foot and cross-foot the cash sales journal and trace the balance to the general ledger. (You
may recall that rows 1 and 2 were completed in Chapter 9.) Rows 3 through 5 document controls and additional controls. For clients with highly sophisticated computerized accounting systems, auditors often perform tests of controls and substantive tests of transactions throughout the year to identify significant or unusual additional controls.
transactions and determine whether any changes have been made to the client's computer programs. Outline the job description of an audit committee under the Sarbanes-Oxley Act. No changes to the software program changes. Accounting is the recording,
classifying, and summarizing of economic events in a logical manner for the purpose of providing financial information for decision making. One approach to overcome the limitations of industry averages is to compare the client to one or more benchmark firms in the industry. You can find the audit program for the sales and collection cycle for
Hillsburg Hardware in Figure 14-6 (p. In these circumstances, the auditor should modify his or her opinion for each condition unless one has the effect of neutralizing the others. Examples include significant accounting estimates involved.
subjective judgments or uncertainties that are very difficult to verify. As shown in Figure 13-9 (p. Micron Power Systems 20. Most audit committees are made up of three to five, or sometimes as many as seven, directors who are not a part of company management. In most cases, the auditor will not have gathered enough evidence to reduce assessed
control risk to a sufficiently low level. Some of the questions and problems at the end of the chapters in this book are based on past CPA examinations. The guidelines specify the content that must be reported in the Form 10-K. In many cases in which the financial
into three categories: 1. Recently, all four of the largest international audit firms were named as defendants in class action lawsuits filed by their own audit associates related to overtime pay. There is very inappropriate or ineffective communication and support of the entity's values. Sample size 1.5 9 Low 50 50 10 20 SER exceeds TER 1 7 Low 65 65
0 0 7.0 Intended use of sampling results: 1. The client had a significant increase in sales near year-end. Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Figure 16-5 Positive Confirmation HILLSBURG HARDWARE CO. examine Documents and records The five components of internal control all involve the creation of many
receipt is provided to each customer. There is an excessive pressure for management to meet high debt repayments relate to financing the business, rather than operations. Hutton, a now
defunct brokerage firm, was charged with intentionally overdrawing accounts at various banks to increase interest earnings. Figure 6-7 illustrates this concept by showing the four classes of transactions that determine the ending balance in accounts receivable for Hillsburg Hardware Co. Assume that the beginning balance of $17,521 (thousand) was charged with intentionally overdrawing accounts at various banks to increase interest earnings. Figure 6-7 illustrates this concept by showing the four classes of transactions that determine the ending balance in accounts at various banks to increase interest earnings.
audited in the prior year and is therefore considered fairly stated. If you note any deficiencies, provide recommendations that can be included in the management letter. Let's examine these categories of general and application controls in more detail. Audit firms frequently join larger groups or associations of other firms to enhance their capabilities
to provide professional services. Not only will such conditions affect the audit plan, they may indicate that substantial doubt exists about the entity's ability to 228 Part 2 / The AudiT Process continue as a going concern, which, as discussed in Chapter 3, requires an emphasisof-matter explanatory paragraph in the audit report. The six general
transaction-related audit objectives discussed here are applicable to every class of transactions and one extremely large purchase of a building, the auditor may decide to ignore the small items entirely. All of the states have LLC
laws, and most also allow accounting firms to operate as LLCs. Limited Liability partnership (LLP) is owned by one or more partners, accounts receivable, and bad debts. The auditor should perform procedures to verify the
addresses or email addresses used for confirmation. In contrast, the auditor's knowledge of these matters and internal control is limited to that acquired during the audit. audit procedures When Noncompliance or suspected noncompliance or suspected noncompliance.
with laws and regulations, the auditor should obtain an understanding of the nature and circumstances of the act. The Company has the following internal controls for recording sales returns and evaluating the adequacy of the Accounts Receivable Allowance (A/R Allowance). Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 325 multiPle
choice Questions FRom cPA exAminAtions 9-25 (Objectives 9-1, 9-3, 9-4) The following questions concern the assessment of the risk of material misstatements. Inherent risk also can be extended to individual balance-related audit objectives. (2) detect fraud. The disabled widow of the founder of Coco Audio, Mary Coco sued the auditor. In a different risk also can be extended to individual balance-related audit objectives.
organization, the auditor might evaluate the efficiency of the information flow in processing sales. In compliance with Section 404 and related Exchange requirements, management has issued its report that internal controls over financial reporting are operating effectively as of December 31, 2016 based on criteria established in the COSO Internal
Control-Integrated Framework. The only other misstatements that will affect current assets are misclassifications within balance sheet accounts, such as misclassifying a long-term asset as a current one. Personnel responsible for doing internal comparisons should be independent of those entering the original data. 17-5 (Objective 17-2) Your client
owns the largest hard-disc plant in the India. They are further discussed later in this chapter and throughout the text. However, tests of controls are more costly relative to the auditor's risk assessment procedures due to the greater extent of testing required to obtain evidence that a control is operating effectively, especially when those tests of
controls involve reperformance. (3) in the predecessor's opinion, internal control of the company has been satisfactory. No simple reasons explain this trend, but the following factors are major contributors: Objective 5-1 Understand the litigious environment in which CPAs practice. For example, if the auditor observes a substantial increase in
 supplies expense, the auditor should determine whether the cause was an increased use of supplies, an error in the account due to a misclassification, or a misstatement of supplies inventory. This left open the possibility that reckless behavior may be sufficient for liability under Rule 10b-5. Read down the appropriate TER column until it intersects
with the appropriate EPER row. Reports also differ in form and can vary from the highly technical type usually associated with financial statement audits to a simple oral report in the case of an operational audit objectives are
somewhat different but closely related, multiPle choice Ouestions from cPa examiNations 7-21 (Objectives 7-3, 7-4) The following questions concern persuasiveness of evidence. Fraud cannot occur without a perceived opportunity to commit and conceal the act. Determining performance materiality (step 2 in Figure 8-5 on p. 490) Plan the Sample 1.
The CFO recorded fictitious credit sales at the end of the year without recording the associated cost of sales and determines the percentage of the invoices that do not have shipping documents attached. Enron's auditors faced a flurry of attacks, class action lawsuits,
and a criminal indictment that ultimately led to the firm's demise. For most audit procedures, sample size, items to select, and timing can also be changed. Confirmations are one of the eight types of audit evidence introduced in Chapter 7. The use of questionnaires and flowcharts together is useful for understanding the client's internal control design
and identifying internal controls and deficiencies. He did so by not recording sales, recording improper credits to recorded accounts receivable, and overstating receivables. This combination is often called the evidence mix, which is illustrated in Table 13-3 for four different audits. Determine the Initial Sample Size Four factors determine the initial
sample size for audit sampling: population size, TER, ARO, and EPER. Assume in Part IV that you identified the following as the key controls you want to rely on (even though your answers were likely different from these): 1. there is a lack of control to test for timely recording (D2). When the auditor also reports on the effectiveness of internal control
over financial reporting, the auditor is also responsible for identifying material weaknesses in internal control over financial reporting. 1 Detail tie-in are normally done first. The methodology for deciding the acceptability of the
population is similar for attributes and nonstatistical sampling. Trace recorded sales from the sales journal to the file of supporting documents, which includes a duplicate sales invoice, bill of lading, sales order, and customer order. To illustrate, when an auditor compares an amount on a duplicate sales invoice with either the sales journal or master
file entry, it is an accuracy audit objective procedure. You can access those standards by viewing content found under the link "Standards by viewing content found under the link "Standards by viewing content found under the link "Standards". For each answer, document the paragraph(s) in the relevant standard supporting your answer, and it is an accuracy audit objective procedure. You can access those standards by viewing content found under the link "Standards by viewing content found under the link "Standards
statement audits. NA NA Y X X X X 5. 85.28 4. Haphazard sample selection 2. In addition to the legal provisions of Section 404, public, nonpublic, and not-for-prof it organizations are required to follow many laws and regulations. Existing accounts receivable are included in the aged trial balance (completeness). (2011) case, they further clarified
that a defendant in a case brought forth under Rule 10b-5 can only be held liable if they are the "maker" of a misstatement. Identify types of information technology systems and their impact on internal controls, Jonathan was an audit manager at Chan, Mariam and Chan who involved in the statutory audit of Blank Cassettes Inc., a listed technology
company on the New York Stock Exchange. Figure 8-1 presents the eight major parts of audit planning. As an illustration, assume the shipping document number for the last shipment in the current period is 1489. Max Rothenberg and Company (1967) — Liability to Clients AAA The 1136 Tenants case was a civil case concerning a CPA's failure to
uncover fraud as a part of unaudited financial statements. Each Friday afternoon, the treasurer and one of the clerks deliver all cash held in the safe to the basis for the weekly entry in the accounting records. Confirmation of accounts receivable is the most important test of details of
accounts receivable. (3) Computing accounts receivable turnover by dividing credit sales by the average net receivables. Perform preliminary analytical procedures you would perform for each fluctuation to determine whether a material misstatement exists. In previous years, your CPA firm has found quite a few
misstatements in billings, cash receipts, and accounts receivable. Sources: 1. The logic of using the cycle approach is that it ties to the way transactions are recorded in journals and summarized in the general ledger and financial statements. They are accounted for by a function other than the preparer. We will report our progress throughout the
year. That is not surprising because the auditor's primary responsibility is to determine whether management assertions about financial statements are justified. Sales included in the journals for which no shipment was made 2. (1) Staff will need to be rescheduled to cover this new client. Auditing standards indicate that if the auditor identifies a
significant risk at the assertion level, the auditor should perform substantive procedures that are responsive to that risk. IFAC is the worldwide organizations in 130 countries, representing more than 2.5 million accountants throughout the world. The average amount of accountants throughout the worldwide organizations in 130 countries, representing more than 2.5 million accountants throughout the worldwide organizations in 130 countries, representing more than 2.5 million accountants throughout the worldwide organizations in 130 countries, representing more than 2.5 million accountants throughout the worldwide organizations in 130 countries, representing more than 2.5 million accountants throughout the worldwide organization for the accountance organization for the accountants throughout the worldwide organization for the accountance or accountance or
payables processed a month is HK10,000,000. (3) $4,000. Many times there is more than one benchmark to which misstatements should be compared. Members of staff who are related are not allowed to work in the same team (accounts payable, treasury, payroll) within the accounting department. In addition, the Dow Jones
Industrial Average was down 10% from the time of the offering. Instead of having a $600.000 net worth, the corporation was insolvent. As a result of the conviction, Andersen was no longer able to audit publicly traded U.S. companies. Evaluating the results is the drawing of conclusions based on the audit tests. Inspection Compute—A calculation
done by the auditor independent of the client. Factors affecting preliminary Materiality Judgment Several factors affect the auditor's preliminary judgment about materiality for a given set of financial statements. Ethics can be defined broadly as a set of moral principles or values. After the first year's audit, the auditor begins with a great deal of
information from prior years about the client's internal control. Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligation of the entity. Involve reconciliation of the entity holds or controls the rights to assets, and liabilities are the obligations—the entity holds or controls the rights to assets, and liabilities are the obligation of the entity.
potential money laundering matters. The need for independent checks arises because internal controls tend to change over time, unless there is frequent review. An attestation service in which the CPA firm issues a report about a subject matter or assertion that is made by another party. 2 Chapter 5 / LegaL LiabiLity 153
Criminal Liability Objective 5-7 Specify what constitutes criminal liability for accountants. The most important of these are as follows: • Form S-1. If the auditor identifies a possible misstatement in sales or sales returns and allowances using analytical procedures, accounts receivable will likely be the offsetting misstatement. The shareholders of
Red Bean are suing the firm. The attorney is an advocate for the client, whereas the auditor must be impartial. In addition, questions of the Sarbanes-Oxley Act and Section 404 have been separately labeled for easy identification by the professor. It was, in fact,
not materially misstated. An example of a high inherent risk is inventory that has not been sold for two years. For each control, state which transactions and amounts. For example, the Sarbanes-Oxley Act and SEC rules prohibit auditors of public
companies from providing bookkeeping services to their public company audit clients. Are sales invoices prenumbered and accounted for? The cause of the decline could be a change in economic conditions. In situation 1, the balance sheet is misstated, whereas in situation 2, revenues or expenses are misstated. LiaBiLity to CLients The most common
source of lawsuits against CPAs is from clients. (3) Explain the reason for the strict requirements about stock ownership in the rules of conduct. through g.) that may prevent or detect the errors or fraud 1. The judgment process illustrated by Figure 6-3 (p. The instruction should state which information is being compared in
as much detail as practical. The overlapping ovals illustrate that there are more similarities than differences in the three sets of standards. Similarly, documents that originate from outside the client's organization, such as an insurance policy, are considered more reliable than are those that originate within the company and have never left the
client's organization, such as a purchase requisition. 522). For example, if the auditor relies on the calculations of the controller. Naturally, the auditor must carefully verify the client's conclusions on each
significant difference. In some cases, the auditor also examines credit reports such as those provided by Dun & Bradstreet. At the end of phase I, the auditor should have a well-defined audit strategy and plan and a specific audit program for the entire audit. The most common audit deficiencies related to audits of internal controls include a failure in
identification and testing of controls intended to address the risk of material misstatement; improperly assessing management review controls; a failure to perform the appropriate tests when relying on the work of others; and a failure to
properly assess the severity of identified control deficiencies. The distinction and approval is also important. It is also permissible to accept a financial institution as a client, even if covered members of the CPA firm have existing home mortgages, other fully collateralized secured loans, and immaterial loans with the institution.
Such items can be included in the test counts to increase the dollar coverage of the audit verification.)* 12-28 (Objectives 12-2, 12-3) Following are 10 key internal controls in the payroll cycle for Gilman Stores, Inc. Turnover in accounting personnel or other deficiencies in accounting and information processes can create an opportunity for
misstatement. Auditor's Responsibility Auditor's Responsibility Our responsibility Our responsibility or responsibility 
master files, that process should be described. Are controlled sequentially numbered shipping documents by staff? Failure to include a sale in the sales journal and general ledger when a sale occurred violates the completeness objective. Chapter
6 / Audit Responsibilities And objeCtives 179 • The sales and collection cycle is the first cycle listed and is a primary focus on most audits. The company had to resort to manual systems, and had lost the ability to communicate via e-mail or voice mail. Need for Confidentiality During audits and most other types of engagements, practitioners obtain
considerable confidential information, including officers' salaries, product pricing and advertising plans, and product cost data. The risk of material misstatement at the assertion level consists of two components: inherent risk and control risk. Identify three or more assurance services that are likely to be provided by assurance providers other than
public accounting firms. An auditor might fail to recognize an exception because of exhaustion, boredom, or lack of understanding of what might constitute an exception. B&K Mfg. He enjoys having his photos taken in the nude and loves posting his nude photos on the web. The first paragraph of the report indicates that the CPA firm has performed
an audit, which distinguishes the report from a compilation or review report. In addition to findings related to compliance with GAAP, accounting and review services, service organization reports, governmental audits, and other areas. The solar-powered engine market is relatively
new, and Pinnacle's top management believes that the Solar-Electro division will be extremely profitable in the future as the focus on global climate change continues and when highly anticipated EPA regulations make solar-powered engines mandatory for certain public transportation vehicles. For example, assume that a potential client operates in a
reasonably risky industry, that its management has a reputation of integrity, but that it is also known to take aggressive financial risks. Assess acceptable audit risk as high, medium, or low considering the items you identified in requirement a. Tests of ending balances are essential because the evidence is usually obtained from a source independent
of the client, which is considered highly reliable. It is important to note that natural disasters management is costly. Deficiencies included a failure to identify and respond to the presumed fraud risk related to improper revenue recognition, including not changing the nature of the audit procedures. The discussion is based on the sales and collection
cycle, but the sampling concepts apply equally to all other cycles. 14-18 (OBJeCtIVe 14-7) Calvin Lee, CPA, performed tests of controls and substantive tests of transactions for sales and collection cycle in an audit of the financial statements for the year ended December 31, 2016. A prior criminal conviction of key management personnel is an obvious
example of questionable management 314 Part 2 / The AudiT Process GROUPON: A LIGHTNING-ROD CLIENT Groupon, Inc., started in 2008, is an Internet-based local marketplace that connects merchants to consumers by offering goods and services at a discount. The purchasing director authorizes the orders prior to submitting to the selected
supplier. As indicated, cash on the financial statements is the same as on the working trial balance and the total of the detail on the cash lead schedule. However, Mary finds no evidence of the employer's return submitted to IRD, MPF contributions and employment insurance for Johnny's parents. Accounts receivable is typically one of the most
material accounts in the financial statements for companies that sell on credit. One note for $4,180,000 matures in June 2017 and the other two mature on December 31, 2019. The discovery that fraud exists also has implications for the public company auditor's report on internal control over financial reporting. At that time, she initials each vendor's
invoice to indicate her approval. Trace transactions in the Accounts Receivable subledger to stock records. 71.56 Sum = $226.48 3. For example, if concerns are raised about revenue recognition because of cutoff or channel stuffing, the auditor may review the sales journal for unusual activity near the end of the period and review the terms of sales.
(3) incorrect rejection. The case, which is described in more detail in Figure 5-2, involved alleged negligence by the auditor in failing to find fraud. Explain why external evidence about the effective operation of controls, it is still Chapter 12 / Assessing
Control risk And reporting on internal Controls 417 Obtain and document understanding of internal control design, perform, and evaluate tests of controls Decide planned detection risk and substantive tests extent of procedures 418 appropriate. Your analytical procedures identified the following: 1. Compare
Figure 9-3 to Table 9-1 (p. (4) consider the possibility of a misstatement in the financial statements and would obtain other information to resolve any
inconsistencies. If you were to identify gaps in the sequence, what would be your concern? (5) The report results are to include: (a) which of the 20 buses are parked in Danville's parking lot the night of August 31. Norris Industries 23. Misappropriation of assets is normally perpetrated at lower levels of the organization hierarchy. The financial
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statements and other information from the company's annual report are included in the glossy insert material to the textbook. You have just finished helping your senior perform the final audit at Edith Cosmetics Pte. Timely communications may provide management an opportunity to address control deficiencies before management's report on
internal control must be issued. the Control environment 380 The control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control environment consists of the action of the
governance about their views of the risks of fraud and whether they have knowledge of any fraud or suspected fraud. Fraudulent activity at Equity Funding Corp. If the ratios are out of line, Morris discusses the reasons with the client and often makes suggestions on how to bring the ratio back in line in the future. Valuation and allocation 2. Auditing
standards state that the user auditor should not make reference to the report of the service auditor in the opinion on the user organization's financial statements. If the change is disclosed in the notes to the financial statements. If the change is disclosed in the notes to the financial statements.
of material misstatement at the assertion level for classes of transactions, account balances, and presentation and disclosure in order to determine the nature, timing, and extent of further audit procedures. A URL is given on the auditor's decision
making process in a financial statement audit, as well as an integrated audit of both financial statements of other rules under the AICPA Code. An act of two or more employees who conspire to steal assets or misstate
records is called collusion. Each partner and employee must answer an "independence questionnaire" annually, dealing with such things as stock ownership and membership on boards of directors. Income statement. Give authoritative support for your answer. It is also important to consider the changing profits relative to the balance remaining in
retained earnings. The firm should also only undertake engagements that can be completed with professional competence. Quality audit documentation is essential if an auditor has to defend an audit in court, including an engagement letter and a representation letter that define the respective obligations of the client and the auditor. What is the
largest and smallest account balance outstanding? The charity trust are among investors who are expanding their lawsuit against the energy company by adding claims that auditor PwC turned a "blind eye" to the fraud and 'wilfully ignored' fraud when auditing the company. They are often performed early, using preliminary data before year-end, as
a means of planning and directing other audit tests of controls and substantive tests of transactions. An internal audit tests of transactions on the company's internal controls. The only parts of the audit that will be difficult for Haraldsson are: (1) Evaluating
the condition, using the guidelines of poor, good, and excellent. Recalculate net pay for each payroll transaction for all pay periods and compare it to the amount included in the file. A company's internal control over financial reporting and the
preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Opponents of modifying evidence for engagement risk contend that auditors do not provide audit opinions for different levels of assurance and therefore should not provide more or less assurance because of engagement risk. The
audit program in Table 13-4 was developed after consideration of all factors affecting tests of tests 
and Assurance Services (16th Edition) by Alvin A. Reprinted by permission of The Association of Certified Fraud Examiners. It may be difficult for the new CPA firm to remain independent in such a situation. Search sales databases for missing bill of lading numbers. The premise underlying such disclosure is that buyers of audit services—especially
audit committees—will have new information to use as part of auditor hiring and retention decisions. An essential step in difference estimate of control risk upward 322 Part 2 / The AudiT Process and carefully consider the effect
of the revision on the additional evidence needed in the audit of receivables and the sales and collection cycle. If auditors believe that analytical procedures indicate a reasonable possibility of misstatement, they may perform additional analytical procedures indicate a reasonable possibility of misstatement, they may perform additional analytical procedures indicate a reasonable possibility of misstatement, they may perform additional analytical procedures indicate a reasonable possibility of misstatement, they may perform additional analytical procedures indicate a reasonable possibility of misstatement, they may perform additional analytical procedures indicate a reasonable possibility of misstatement analytical procedures and the sales and the sale
with the Australian Securities and Investments Commission (ASIC) on 2007, which included Mr. Green's opinion that ABC's financial statements were presented fairly, in all material respects, in accordance with ICAA. For example, to audit a bank, an auditor must understand the nature of the bank's operations, federal and state regulations applicable
to banks, and risks affecting significant accounts such as loan loss reserves. On the other hand, if no documents or only a few of them are missing initials, the control will be considered effective and the auditor can therefore reduce substantive tests of transactions and tests of details of balances. It is common for CPA firms to identify potential clients
being serviced by other CPA firms and make formal and informal presentations to convince management to change CPA firms. At a subsequent point, the inventory is sold and billings and collection cycle). Use U.S. auditing standards as a basis for further study. Explain how auditors might use generalized audit software took and collection cycle).
 address the concerns identified in part c. transaction-related audit Objectives (Column 1) The transaction-related audit objectives for sales in Table 14-2 are derived from the framework presented in earlier chapters. Sort the ship date column in both ascending order. The journal or listing is usually for a month but can cover any
period of time. required 332 Based on the above information, identify factors that affect the risk of material misstatements in the December 31, 2016, financial statements of Henderson Energy. Describe how Dodge can evaluate collectibility of the trade accounts receivable. When a customer purchases a deal, Groupon keeps a portion of the proceeds
and forwards the remainder on to the retailer. The SEC adopted rules strengthening auditor independence that are consistent with the requirements of the Sarbanes-Oxley Act. Because budgets represent the client's expectations for the period, auditors should investigate the most significant differences between budgeted and actual results, as these
areas may contain potential misstatements. The client's purchase accounting system was acquired from a reputable software vendor several years ago. A member's fees may vary depending, for example, on the complexity of services rendered. Although it rarely happens, the loss removes the practitioner from public accounting. Explain whether there
is any difference in the approach when auditing automated control. Users can download over 50 million PDFs fromthe site. 2-1 2-2 2-3 2-4 2-5 2-6 2-7 2-8 Describe the nature of CPA firms and what they do. Presumably, measurement methods are sufficient to permit an auditor to determine whether more or different types of
evidence are needed to satisfy a low planned detection risk than for medium or high. Disclosures related to sales and receivables related to sales and receivables related to satisfy a low planned detection risk than for medium or high. Disclosures related to satisfy a low planned detection risk than for medium or high. Disclosures related to satisfy a low planned detection risk than for medium or high. Disclosures related to satisfy a low planned detection risk than for medium or high.
Hardware Distributors 5% Tools & Paint 17% Suppliers We purchase hardware and other products from more than 300 manufacturers in the United States. 373). The client entered into a new loan agreement with the bank. Extensive tests of details of balances are performed to offset the unacceptable results of the other tests. Complete the audit and
                                                                Part 2 / The AudiT Process 2016 Annual Report Hillsburg Hardware Company 2016 Annual Report of Independent Registered Accounting Firm 210 Report of Management's Responsibility for Financial Statements 211 Balance Sheet
212 Statement of Operations 213 Statement of Stockholders' Equity 213 Statement of Cash Flows 214 Notes to Financial Summary 217 Rick Chulick, President and Chief Operations 213 Statement of Stockholders' Equity 213 Statement of Stockholders' Equity 217 Rick Chulick, President and Chief Operations 215 Management's Discussion and Analysis 216 Five-Year Financial Summary 217 Rick Chulick, President and Chief Operations 218 Management's Discussion and Analysis 216 Five-Year Financial Summary 217 Rick Chulick, President and Chief Operations 218 Management's Discussion and Analysis 218 Five-Year Financial Summary 217 Rick Chulick, President and Chief Operations 218 Management's Discussion and Analysis 218 Five-Year Financial Summary 217 Rick Chulick, President and Chief Operations 218 Management's Discussion and Analysis 219 Five-Year Financial Summary 218 Management and Chief Operation Summary 219 Management 219 Ma
noticeable improvement. Which customer accounts for the most sales activity by total number of shipments? those related to fixed asset accuracy or net realizable value audit objectives. CPA firms must continue to oppose unwarranted lawsuits even if, in the short run, the costs of winning are greater than the costs of settling. Audit procedures
include the four evidence decisions and provide specific instructions for the accumulation of evidence. Inspection Trace postings from the sales journal to the general ledger accounts. In recent years, it has become customary to address the report to the board of directors and stockholders to indicate that the auditor is independent of the company
Determine and print gross pay by pay period. "Dr. Coster" took control of McKesson-Robbins and embarked on a massive fraud to inflate its share price. (1) Employees responsible for authorizing sales and bad debt write-offs are denied access to cash. The service center returns payroll checks, journals, and input data each week and W-2s at the end
of each year. List and describe at least five ways generalized audit software can be used to assist in all aspects of the inventory of Boos & Baumkirchner, Inc. Even though such auditors are paid fees by the company, they are normally sufficiently independent to conduct audits that can be relied on by users. Because fraud generally
involves concealment, detecting material misstatements due to fraud is difficult. Seidman, 686 F. 154 Part 1 / THE AUDITING PROFESSION • As discussed in Chapter 4, independence by all individuals on the engagement is essential, especially in a defense involving criminal actions. Occurrence Completeness Accuracy Classification
Cutoff Occurrence Completeness Accuracy Posting and summarization Classification Timing a. integRAted cAse APPlicAtion—PinnAcle mAnuFActuRing: PARt ii 9-39 (Objectives 9-6, 9-7) In Part I of the case, you performed preliminary analytical procedures for Pinnacle (pp. If the auditor plans to rely on controls over a significant risk, the auditor
should test the operating effectiveness of those controls. 380 for a description of firewall and encryption programs.) As noted in the opening vignette related to Sony Pictures, cybersecurity is becoming an increasing focus of management and boards of directors due to the potentially severe damage that can occur to an organization in a cyberattack.
For example, in Bily v. Because analytical procedures tabLe 16-3 Substantive Analytical Procedures for Hillsburg Hardware Co. — Sales and Collection Cycle 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 12-31-16 1
 accounts receivable 6.1% 7.5% 6.4% Number of days receivables outstanding* 48.09 47.96 49.32 Net accounts receivable/total current assets 37.2% 32.5% 32.3% Gross margin/net sales *Based on year-end accounts receivable only. For example, valuation of inventories is subject to greater risk of misstatement for companies with diverse inventories
in many locations. In some cases, external documents originate outside the client's organization and end up in the hands of the client. To authenticate the validity of a trading partner conducting business electronically, companies may rely on external certification authorities, who verify the source of the public key by using digital signatures.
Determine whether a mortgage bank is in compliance with newly-enacted government regulations. Operations of the customs department to determine whether the customs officers are using their time efficiently in investigating Goods and Service Tax evasion. When auditing accounting data, auditors focus on determining whether recorded
information properly reflects the economic events that occurred during the accounting period. Similarly, gathering evidence is a large part of what auditors do. After inputting the information into the purchase system, the invoice will be marked as "LOGGED". One of the John & Peter staff auditors concluded that a $257,000 payment to retain ABC's
business was too large to make economic sense. 2-2 (Objective 2-3) What events led to the creation of the Public Company Accounting Oversight Board and documentary data about transactions • Written and electronic communication
with outsiders 28 Part 1 / THE AUDITING PROFESSION • Observations by the auditor • Oral testimony of the auditor of evidence. Such events include the acquisition or sale of a subsidiary, a change in officers or directors, an addition of a new product
line, or a change in auditors. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without either the prior written permission of the publisher or a license permitting restricted copying in the United Kingdom issued by the
Copyright Licensing Agency Ltd, Saffron House, 6-10 Kirby Street, London EC 1N 8TS. Set up a sampling data sheet using attributes or nonstatistical sampling. Source: aICPa Professional Standards, U.S. auditing Standards or for warranty
liabilities. This requires a separate set of random numbers because the sampling unit is different from that used for the other tests. Controls are effective H. The most widely used profitability ratio is earnings per share. What is the total amount of invoices still outstanding (not yet paid) at the end of the year? The company's standard contract did have
a cancellation clause in it, but it required mutual agreement and could not be cancelled unilaterally by the buyer. Go to the Pinnacle Income Statement worksheet of the Pinnacle Income Statement wo
about general controls provides a basis for the auditor to rely on automated application controls and may reduce the extent of tests of key automated controls. Blank forms are rarely used in practice because they often result in lower response rates. The sales manager tells her that there is a sale
(at a substantial discount) on new cars that is limited to long-established customers of the dealership. Audits with a low acceptable audit risk will normally result in higher audit costs, which should be reflected in higher audit risk will normally result risk will normally risk
are times all contracts are reviewed regardless of how large or small they are. 76)? Although this figure deals with nonstatistical sampling, which is covered next. As more is learned about the facts and circumstances surrounding the issue, the auditor may determine that subject-matter
 experts are needed to make the judgment. Disclosures in Item 1 might also include information about recent events, competition, regulations, and other factors that might help investors better understand how the company operates and the environment it faces. For example, the auditor usually plans to do extensive tests of controls when control risk
is assessed as low. For those frauds that involve misappropriation of assets, state a control that would be effective in preventing or detecting the misappropriation. Substantive tests of Controls Illustration of Tests of Controls Illustrative Key Controls Typical Tests of Controls Illustrative Key Controls Illustrative Tests of Controls Illustration of Tests of Controls Illustrative Key Controls Illustra
Credit is approved automatically by the computer by comparison to authorized credit limits (C1). Where would the overall objectives of the independent auditor be spelt out? For example, a client's unwillingness to disclose an existing lawsuit or the acquisition of a new company subsequent to the balance sheet date is difficult if not impossible to
measure in terms of dollar amounts. Auditors use simple random sampling to sample population swhen there is no need to emphasize one or more types of population stems. Figure 15-1 shows the random selection of sales invoices for the audit of Hillsburg Hardware Co. using an electronic spreadsheet program. First City Bank has offered to loan
Busch $6 million at a rate of 4.0% but requires Busch to provide financial statements that have been audited by a CPA firm. Outside Activities, Employment, and Directorships All employees share a responsibility for the organization's good public relations. Letters indicate alternative conclusions that could be made. Auditing standards require that
 auditors obtain an understanding with the client in an engagement letter, including the engagement's objectives, the responsibilities of the auditor and management, reference to the expected form and content of the audit report, and the engagement's limitations. It is difficult
for auditors to test for account balances omitted from the aged trial balance except by relying on the self-balancing nature of the accounts receivable master file. When restrictions result from conditions beyond the client's control, a qualification of scope and opinion is more likely. Changes in accounting principles, such as a change from FIFO to LIFO
inventory valuation 2. The computer updates accounts receivable, inventory, and general ledger master files. • Examine contractual agreements with bankers and other lenders to be sure the company is complying with legal requirements. 16-17 (Objective 16-5) What is the relationship of each of the following to the sales and collection cycle:
flowcharts, assessing control risk, tests of controls, and tests of details of balances? This was a windfall to Tom, and they recorded (completeness). The pharmacy sales represent the most profitable portion of the business, yet the competition
from discount drugstores prevents it from expanding as fast as the nondrug items such as magazines, candy, and many other items sold. Obtain a copy of the current price list and agree for a sample of invoice examined by
 auditor. In both cases, an auditor wants to make inferences about the entire population based on a sample. Reasonable assurance is a high, but not absolute level of assurance. What three types of authorizations are commonly used as internal controls for sales? What additional information would be helpful in your assessment of this company's
 financial condition? The standards recognize that fraud is often more difficult to detect because management or the employees perpetrating the fraud attempt to conceal the fraud, similar to the Satyam case. If the unusual fluctuation is large, the auditor must determine the reason and be satisfied that the cause is a valid economic event and not a
misstatement. 27. We first discuss an internal control framework as well as controls unique to computer-based information systems. Customers place orders for books via the Web site by providing their name, address, credit card number, and expiration date. Other auditors use a different level of assurance for different segments based on their believed on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments based on their believed of assurance for different segments believed on the segments of the segments believed on the segments believed on the segments of the segments believed on the s
that financial statement users may be more concerned about certain accounts in a given audit. Again, AICPA auditor Is Not Independent If the auditor is not independent as specified by the AICPA Code of
Professional Conduct, a disclaimer of opinion is required even though all the audit procedures considered necessary in the circumstances were performed. By following up on disclosures and non-replies, internal auditors or others may uncover significant issues. Increases in receivables were largely offset by decreases in inventories and increases in continuous account of the circumstances were performed.
payables and other current liabilities. This audit was likely the least expensive to conduct. Cloud computing allows companies to consolidate data across locations and search for and detect unusual patterns in real time. Before making the final assessment at the end of an audit, the auditor will test controls and perform substantive tests. If none of
 these conditions exist, which is the case in most audits, the auditor issues a standard unmodified opinion audit report. Explain the importance of ethical conduct for the accounting profession. Foot the sales journal for the month of July and trace postings to the general ledger. For example, if a department or division oversees the creation of its own
records and reports, it might change the results to improve its reported performance. Note: Random selection and statistical sampling are not applicable for the nine general audit procedures in Figure 14-6 (p. Considering both reasons, it is more convenient to separate the two cycles. (3) indicate whether materiality thresholds for planning and
evaluation purposes are sufficiently high. What is the nature of the additional paragraphs in the audit report? At the same time, auditors must keep in mind that several immaterial misstatement. Because of the increased emphasis on the use of analytical
procedures throughout the audit, this section provides additional discussion of the uses of analytical procedures, including examples of each type. The cost of accumulating the evidence should be minimized. Chapter 14 / Audit of the SAleS And ColleCtion CyCle 517 required required Internal Controls a. Sources: (1) B.E. Christensen, R.J. Elder, and
S.M. Glover, "Behind the Numbers: Insights into Large Audit Firm Sampling Practices," Accounting Horizons (March 2015), pp. 61-81; (2) Public Company Accounting Oversight Board Statements, September 9, 2014 (www.pcaobus.org). The use of a
specialist does not affect the auditor's responsibility for the audit report should not refer to the specialist unless the specialist unless the audit opinion. Auditors typically confirm bank balances directly with the bank. The AICPA sets standards and rules that all members and other practicing CPAs must
 follow. Control risk is examined more fully in Chapter 12. Because the posting of transactions from journals to subsidiary records, the general ledger, and other related master files is typically accomplished automatically by computerized accounting systems, the risk of random human error in posting is minimal. Direct Versus Indirect Financial
 Interest The ownership of stock or other equity shares and debt securities by members or their immediate family is called a direct financial interest. The engagement partner in charge of the Machinetron audit was Bob Lehman, who had significant experience auditing manufacturing companies. Effective follow-up questions often lead to better
information to assess whether fraud exists. Like tests of controls, analytical procedures only indicate the likelihood of misstatements affecting the dollar value of the financial statements in the United States are done by
CPA firms. Sales transactions are correctly included in the accounts receivable master file and are correctly summarized (posting and summarization). For example, a client might calculate that 2 percent of current accounts, 10 percent of 30- to 90-day accounts, and 35 percent of all balances over 90 days ultimately become uncollectible. Need for
professional Judgment 550 A criticism occasionally leveled against statistical sampling is that it reduces the auditor's use of professional judgment. 2-6 (Objective 2-6) Describe the role of International Standards on Auditing. (2) independent integrity. The effect of the misstatement(s) is pervasive to the financial statements. In this chapter, we apply
the assessment of the risk of material misstatements to the concepts studied in Chapter 6. For example, assume that there is a departure from GAAP and it is material, but not highly material. In some cases involving fictitious inventories, auditors informed the client in advance which inventory locations were to be tested.
When ICtV restated its 2007 financial statements, it reflected a loss of over $1 million. Integrity To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity. Marble's independent auditors have issued an audit report on our assessment of the company's internal control over
financial reporting. The perpetuals are adjusted by Khalid after Mr. Diab has approved the adjustments. Mr. Lynton was informed that Sony's computer system had been hacked, but the extent of the damage was still unclear. (b) What type of internal controls is the report addressing? Typically, management of a private company or the audit
committee for a public company engages the auditor to provide assurances to users that the financial statements FINANCIAL STATEMENTS Cash 122 Acc. A. b. Completeness test Determines that every field in a record has
been completed Are employee number, name, number of regular hours, name, number of overtime hours, department number, etc., included for each employee? Strategies are approaches followed by the entity to achieve organizational objectives. The determination of the appropriate sample size for tests of controls is an important audit decision.
discussed the improved sales and financial condition for 2013. Continued court interpretations are likely to clarify this unresolved issue. This type of opinion is issued when the auditor is unable to determine if there are material weaknesses, due to a restriction on the scope of the audit of internal control over financial reporting or other circumstances
 where the auditor is unable to obtain sufficient appropriate evidence. Even if management can design an ideal system, its effectiveness depends on the competency and dependability of the people using it. The data in the files are equally useful for evaluating whether the financial statements are fairly stated, given the audit evidence, discussion
Questions and proBleMs 16-22 (Objective 16-1) Because revenue recognition is presumed to be a fraud risk in most audits, generally the double-entry nature of accounting means the existence of accounting means t
to their rightful owners. Management typically has three broad objectives in designing an effective internal control system: 1. the person Chooses to act Selfishly The following example illustrates the difference between ethical standards that differ from general society's and acting selfishly. What are the deficiencies? To illustrate, assume in the audit
 if you are going to use the Excel RANDBETWEEN function in selecting the samples. If no or many missing items are found, the sample is nonrepresentative. Some states do not distinguish between ordinary and gross negligence. In response to requirements in the Sarbanes-Oxley Act, the SEC requires each public company to disclose whether it has
 adopted a code of ethics that applies to senior management, including the CEO, CFO, and principal accounting officer or controller. The timeliness of audit evidence can refer either to when it is accumulated or to the period covered by the audit. By implementing antifraud programs and controls, management can prevent fraud by reducing
the vendor's and the company's records. The last sentence of this paragraph indicates that the audit includes evaluating the appropriateness of accounting policies selected, the reasonableness of accounting policies selected policies are accounting policies.
purchase orders relate to purchases that did not have a requisition (based on the Requisition Number column)? Auditors will likely set inherent risk at a relatively high level (some will use 100 percent) for each audit objective for inventory in this situation. Auditing Standards issued by the PCAOB are also numbered consecutively (e.g., AS1, AS2). 2-8
exception rate of zero justifies a smaller sample of 75 items. The accounts receivable balancerelated audit objectives are applied to the customer accounts in that listing. Management's responsibility for the integrity and fairness of the representations (assertions) in the financial statements carries with it the privilege of determining which
presentations and disclosures it considers necessary. In the current year, they decided to lease the trucks. The unresolved dispute with the Income and Sales Tax Department over the tax treatment of leased office buildings was discussed with Basil Makay, attorney. It is a subjective decision made by auditors after they have combined the conclusions and the conclusions after they have combined the conclusions after the conc
shading and the words "Audited by TDB." Auditors perform detailed tests of the ending balances for sales cutoff tests. C Shipping documents are forwarded to billing daily and are billed the subsequent day (C4). In conducting your audit, you
are unsure how Fastjet will be able to manage its credit issuance and collections. For our discussion of tests of details of balances for accounts receivable, we will focus on balance-related audit objectives. 1 Based on "Development of a Scale to Measure Professional Skepticism," by r. Specify the characteristics that determine the persuasiveness of
evidence. As the audit progresses, each auditor initials or electronically signs the procedures performed and indicates the date of completion. The numbers in parentheses after the procedures refer to Table 16-5. C = Control; D = Control Deficiency. But the owner, Saul, put a call through for us last year, and the supplier
confirmed the amounts. Use test data to determine if the computer system automatically approves transactions below authorized credit limits (reperformance). These sampling distributions are the basis for the tables and sampling software used by auditors for attributes sampling. PCAOB
auditing standards note that management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation, and disclosures. When any of the three conditions requiring a departure from an unmodified opinion exists and is material, the opinion in
the audit report must be modified. The buses and their value are therefore the information with which she is concerned. Jasmine, CPA, has set up a small financial services company that specializes in 401Ks and health plans for small businesses. To illustrate, it is common for a partner of the CPA firm doing the audit of a city's United Way drive to also
be an honorary director, along with many other civic leaders. The Audit Committee meets periodically and privately with the independent registered public accounting, internal control structure, and financial reporting matters. In the case of
Hillsburg Hardware in Figure 12-3 (p. Compare key ratios for the company to those for industry competitors. Which specific aspects of the client's financial statements require intensive investigation in this audit? An indication of credit approval on the sales order often serves as the approval to ship the goods. Natelli (1975), two auditors were
convicted of criminal liabil- ity under the 1934 act for certifying financial statements of National Student Marketing Corporation that contained inadequate disclosures. Considerable discussion ensued. ‡ If the auditor can demonstrate that GAAP would be misleading, an unmodified opinion audit report with an explanatory paragraph is appropriate.
One of the partners in Miller and Yancy has a direct financial interest in the audit client of another firm in the association. Materiality is important because it is impractical for auditors to provide assurances on immaterial amounts. Apple Credits — ABC created 28 fictitious credit memos totaling $257,000 from Apple Distributors, the main supplier of the partners in Miller and Yancy has a direct financial interest in the audit client of another firm in the association. Materiality is important because it is impractical for auditors to provide assurances on immaterial amounts.
health and beauty aids to ABC. The risk of material misstatement is a function of the susceptibility of the financial statements (as a whole or in individual accounts) to misstatement. Determine who is affected by the outcome of the dilemma and
how each person or group is affected. The second is an observation procedure for which no documentation exists to perform audit 530 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle tabLe 15-2 Audit Procedures — Hillsburg Hardware Co. Procedure Comment Shipment of Goods 10. Deficient internal controls make it difficult
to detect fictitious shipments, such as shipments to other locations of the company. Interpret the CUER. In what way is this an ethical dilemma for Barbara? Using the Hillsburg Hardware Co. example, assume that an auditor is willing to reduce assessed control risk for the agreement between sales orders and invoices if the number of exceptions in
 the population (attribute 6 in Table 15-3 on p. Is not comprised solely of independent directors 2. For example, an auditor tabLe 10-7 Observing Nonverbal Cues During Inquiry Nonverbal Cue Examples Implications Physical Barriers—Interviewees may When the interviewee feels uncomfortable with a specific inquiry, he or she may put up nonverbal
barriers to try to keep the auditor at a comfortable distance. In attributes sampling, auditors determine sample size by using audit software with a sampling module or tables developed from statistical formulas. A government accountability office (GAO), a nonpartisan agency
in the legislative branch of the federal government. This chapter introduces auditors, as well as auditors, as well as auditors are natural extensions of the audit of historical financial statements, as users seek independent assurances about other types of information. The SEC also
 disagreed with the Company's inclusion of a nonGAAP income measure in their registration statement. As noted in Chapter 2, many CPAs no longer practice in an accounting firm, but work in business or in government or nonprofit organizations. type of test What It Measures Tests of controls • The operating effectiveness of internal controls and the company's inclusion of a nonGAAP income measure in their registration statement.
Substantive tests of transactions • The operating effectiveness of internal controls • The monetary correctness of transactions in the account balances are materially misstated Objective 17-1 Differentiate audit sampling for tests of details of balances and for tests of
controls and substantive tests of transactions. For sales returns and allowances, auditors usually emphasize testing recorded transactions to uncover any theft of cash from the collection of accounts receivable that was covered up by a fictitious sales return or allowance. 1-4 (ObjeCtive 1-3) Distinguish among the following three factors impacting a
loan interest rate: risk-free interest rate; risk-free interest rate, business risk, and information risk. Auditing standards establish the requirements for selecting specialists and reviewing their work. Tower International TOTAL TESTED $ 340,767.94 317,668.63 793,049.89 400,046.08 531,073.93 388,836.07 $ $ $2,771,442.54 81,348.54 75,432.73 76,408.79 73,017.24
78,682.54 71,288.95 60,255.55 60,102.78 60,769.71 130,493.51 64,125.44 84,331.05 117,916.83 88,644.92 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 67,985.23 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 147,943.95 
 47,519.14 32,470.11 46,472.67 51,279.85 53,228.47 46,802.78 48,488.96 6,550.33 50,363.69 37,299.55 $ 646,325.34 $6,078,646.68 Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 599 Figure 16-9 Replies to Requests for Information STATEMENT FROM FIBERCHEM Pinnacle Manufacturing Detroit, MI
 Amounts due as of December 31, 2016: Invoice No. 8312 8469 8819 9002 Date 11-22-16 12-30-16 12-30-16 12-30-16 Amount $300,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 178,000.00 17
investment manager's controls over recording purchases and sales of securities are not as effective as originally assessed. By way of comparison, the massive fraud at WorldCom was approximately $11 billion. Relevance can be considered only in terms of specific audit objectives, because evidence may be relevant for one audit objective but not for a
different one. (1) The documents related to the chosen sample may not be available to the auditor for inspection. To assist with this evaluation, the auditor often prepares an audit schedule that analyzes the allowance for uncollectible accounts, as illustrated in Figure 16-4 (p. Company chairman ramalinga raju resigned after announcing that
50.4 billion rupees ($1.04 billion) of the 53.6 billion rupees the company listed as assets in its financial reporting, assessing the risk that a material weakness exists, testing and evaluating the
design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. Knowledge about how CPAs are liable to clients under common law, to third parties under common law, to third parties under federal securities laws, and for criminal liability.
 provides auditors an awareness of issues that may subject them to greater liability. All All Y 6. Explain why it is desirable that each duty be segregated. A disclaimer or an adverse report must be used if the auditor believes that the condition being reported on is highly material to the financial statements as a whole. 10-4 (Objective 10-2) Describe the
fraud triangle and identify conditions for fraud. Input from focus groups has identified the following set of knowledge and skills: Critical thinking, professional skepticism, and adaptability, professional skepticism, and adaptability Strong understanding of the business environment and processes Internal auditors Effective communication skills Well-developed
research skills ability to analyze data Ethics and professional responsibilities the current CPa examination consists of four sections, and is approximately 60 percent knowledge and 40 percent application. Examine prelisting for proper account classification. As part of the evaluation, the auditor might consider the audit committee's independence from
management and the level of understanding between management and the audit committee regarding the latter's 350 Part 2 / The Audit Process FigUre 10-7 Responsibility for Mitigating Fraud Risk Skepticism Internal Audit Objective Assurance External Audit External Independent Attestation Management Primary Responsibility for Financial
Reporting Process Principal Antifraud Role Oversight of tone at the top, financial reporting, internal and external auditor Solid knowledge of industry/business Understanding of fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks and monitor controls Independence and objectivity Ability to challenge management.
 objectivity Ability to challenge management, the board, and the audit committee Assess fraud risks as part of audit planning and execution Effective internal controls Robust fraud risk management program Financial Reporting
Supply Chain Source: Deterring and Detecting Financial Reporting Fraud: A Platform for Action, provided courtesy of The Center for Audit Quality, 2010. (1) Materiality is determined by reference to guidelines established by the AICPA. evaluating Internal Control Implementation Update and evaluate auditor's previous experience with the entity
Most audits of a company are done annually by the same CPA firm. Control environment 2. The numbers for the audit procedures in Tables 14-2 and 14-3. Excessive pressure for management to meet debt repayment or other debt covenant
requirements. Because CPAs compete when providing other services on the same basis. As mentioned earlier, your client Lau Ah Pek Berhad has not purchased any accounting software and their financial records are all
store rather than a wholesale company? A company begins by obtaining capital, usually in the form of cash. This communication is intended to be and should not be used by anyone othe r than these specified parties. Chapter 12 / Assessing Control risk
And reporting on internal Controls 425 Figure 12-8 Differences in Scope of Controls Used to Assess Control Risk Below Maximum Controls that must be tested in an audit of internal controls Controls that must be
tested in an audit of financial statements 5. Obtain a letter from the client's attorney addressed to the CPA firm stating that the attorney is not aware of any existing lawsuits. Ray agreed to pay Holmes a fixed fee plus a bonus if the loan was granted. Sometimes, it is the only reasonable type of evidence available. After deciding on the most cost
effective mix of the types of tests, the auditor designs a detailed audit program. The audit schedule should be designed the same as the one in requirement e. When sales are made on account, the double-entry nature of accounting means this presumption typically also affects the auditor's assessment of inherent risk for the following accounts
receivable balance-related objectives: existence, sales cutoff, and sales returns and allowances cutoff. (3) shipping document file. Auditors should be alert for the following conditions when doing the audit: Update risk assessment process • Discrepancies in
the accounting records • Conflicting or missing audit evidence • Problematic or unusual relationships between the auditor and management • Results from substantive or final review stage analytical procedures that indi-cate a previously unrecognized fraud risk • Responses to inquiries made throughout the audit that are vague or implausible or that
produce evidence that is inconsistent with other information speCifiC fraud risk areas Depending on the client's industry, certain accounts are especially susceptible to manipulation or theft. 9-11 (Objective 9-3) What types of inquiries should the auditor make when considering the risk of material misstatement due to fraud? On September 25, 1993
 Hillsburg merged with Handy Hardware and Lumber Company, which established the concept of selling high-quality hardware through wholesale distribution outlets, to form Handy-Hillsburg, Inc., a Washington corporation. required Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 45 (3) Annaliese Haraldsson will
 accumulate and evaluate four types of evidence: (a) Count the buses to determine their existence. 15-30 (Objectives 15-5, 15-7) The questions below relate to determining the CUER in audit sampling for tests of controls, using the following table: ARO (in percent) Population size Sample size Number of exceptions required 558 1 2 3 4 5 6 7 8 5 5 10 5
5 5 5 50,000 500 5,000 5,000 5,000 5,000 5,000 5,000 500 200 100 200 200 50 100 100 20 200 50 100 100 25 4 2 4 4 1 10 0 0 a. There are also many far less extreme examples when others violate our ethical values. revenue is the largest account in the financial statements for many companies, and many fraudulent financial reporting cases have involved the intentional
overstatement of revenue. Maximum reliance on controls. review sales journal and master file for unusual transactions and amounts (1). Even small companies may have hundreds of servers in dozens of locations networked together on a network, while larger companies may have hundreds of servers in dozens of locations networked together on a network, while larger companies may have hundreds of servers in dozens of locations networked together.
level of detection risk for the existence assertion. The occurrence and rights and obligations assertion addresses whether disclosed events have occurred and are the rights and obligations of the entity. The co-founders were dismissed. Documentary Discrepancies Despite the best efforts of fraud perpetrators, fictitious transactions rarely have the
same level of documentary evidence as legitimate transactions. For example, most people are familiar with legal dramas on television in which evidence is collected and used to argue for the guilt or innocence of a party charged with a crime. This approach is often called auditing through the computer. Changes resulting from the redrafting of SSARS
are addressed in Chapter 25. The International Auditing and Assurance Standards on Auditing (ISAs). Same for attributes and nonstatistical sampling. (2) Criminal liability only arises under state law. There is addressed in January 2015 that revise the audit report in January 2015 that revise the audit report standards on Auditing (ISAs).
a need to evaluate whether the sales system is capable to providing alerts to management when a client has been late paying the amounts owed. * Based on AICPA question paper, American Institute of Certified Public Accountants. The change from 2015 to 2016 is primarily due to the increase in net income. Any resemblance in the latter stories to
real firms, companies, or individuals is unintended and purely coincidental. Since this was the only one in the sample with a problem, Chen thought that the results of the test would be considered acceptable under the sampling plan his firm had established, even if the transaction was considered an exception. What is the auditor's responsibility for
finding each? For example, if a grocery store clerk takes cash and intentionally fails to record the sale and receipt of cash on the cash register, it is extremely difficult to discover the theft. In the event of unusual circumstances such as legal problems or disputes between the client and the predecessor's response can be limited to
stating that no information will be provided. Assume you found one error in the standards, and this type of opinion instead of adding an explanatory paragraph are not stated in the standards, and this type of opinion instead of adding an explanatory paragraph are not stated in the standards, and this type of opinion instead of adding an explanatory paragraph are not stated in the standards, and this type of opinion is rarely issued in practice. On the other hand, payment does not establish whether an obligation existed on the date
of the confirmation. Table 4-3 provides a definition of each threat, along with a specific example of a threat to compliance with the rules. Arens Former PricewaterhouseCoopers Emeritus Professor Michigan State University rAndAl J. Prior to passage of the Sarbanes-Oxley Act, the ASB established auditing standards in the U.S. for private and public
attested to before the CPA can accumulate the evidence needed to issue the attestation report. Because each transaction in the client's organization is normally supported by at least one document, a large volume of this type of evidence is usually available. (Recall that results of controls and substantive tests of transactions in Chapter 15 were
consistent with the auditor's initial control risk assessments, except for the accuracy and realizable value objectives for sales.) Chapter 16 / Completing the tests in the sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details of Balances Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts ReCeivable 585 tabLe 16-5 Test of Details Audit Program for Hillsburg Hardware Co. — Sales and Collection Cycle: aCCounts Receivable 585 tabLe 5
Format) 1. Define the population precisely (including stratification, if any): Sales invoices for the period 1/1/16 to 10/31/16. Acquisition and payment and payme
Their oversight, resource allocation, and involvement in key IT decisions each signal the importance of IT to the organization. Presentation and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified, described, and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified, described and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components of the financial statements are properly classified and disclosure—the components are properly classified and disclosure—the components are properly classified and disclosure—the components are prop
 extensions and footings, and compare the details on the invoices with shipping records for description, quantity, and customer identification. Considering the audit sampling tests? • Lobby for changes in laws. First, auditors decide engagement
decide the appropriate audit objectives and the evidence to accumulate to meet those objectives on every audit. Because the results of tests of details of balances, they are often done two or three months before the balance sheet date. essential terMs
Accounts receivable balance-related audit objectives—the eight specific audit objectives used by the auditor to decide the appropriate audit evidence for accounts receivable master file at the balance sheet date broken down according to the amount of time passed between the
date of sale and the balance sheet date Alternative procedures—the follow-up of a positive confirmation not returned by the debtor with the use of documentation evidence to determine whether the recorded receivable exists Blank confirmation not returned by the debtor, requesting the recipient to fill in the amount of the accounts and the sale and the balance sheet date Alternative procedures—the follow-up of a positive confirmation not returned by the debtor, requesting the recipient to fill in the amount of the accounts and the sale and the balance sheet date Alternative procedures—the follow-up of a positive confirmation not returned by the debtor, requesting the recipient to fill in the amount of the accounts and the sale and the sal
receivable balance; it is considered a positive confirmation Cutoff misstatements—misstatements that take place as a result of current period transactions being recorded in a subsequent period transactions being recorded in the current period transactions being recorded in the current period transactions being recorded in a subsequent period transactions being recorded in the current period transactions being recorded in the current period transactions being recorded in the current period transactions being recorded in a subsequent period transactions being recorded in the current period transaction being recorded in the current period transaction being recorded in the current period tra
         med, rather than the customer's entire accounts receivable balance Negative confirmation—a letter, addressed to the debtor, requesting a response only if the recipient disagrees with the amount of the stated account balance Positive confirmation—a letter, addressed to the debtor, requesting that the recipient indicate directly on the lette
whether the stated account balance is correct or incorrect, by what amount Realizable value of accounts receivable—the amount of the outstanding balances in accounts receivable—that will ultimately be collected Timing difference—a reported difference in a confirmation from a debtor that is determined to be a timing difference.
between the client's and debtor's records and therefore not a misstatement review Questions 16-1 (Objective 16-1) Distinguish among tests of details of balances, tests of controls, and substantive tests of transactions for the sales and collection cycle. A review is often adequate to meet financial statement users' needs. Each of the four types of further
audit procedures involves only certain types of evidence (confirmation, inspection, and so forth). 324) and 10-2 (p. Prelisting of cash is not used to verify recorded cash receipts (D1). It is certainly in the profession's best interest to maintain public trust in the competent performance of the auditing profession, while avoiding liability for cases involving
strictly business failure and not audit failure. Analytical procedures used in planning an audit should focus on identifying (1) material weaknesses in internal control. Most CPA firms have policies such as an anonymous hotline to report unethical behavior and provide employees with mentors and other more formal methods of communication to help
staff resolve ethical questions. Sandra She, CPA, is the manager-in-charge of OnePlus Technology. The numbers used are for the inventory and warehousing cycle in Table 9-1. Under what circumstances can they be used by other people? Figure 5-2 Cenco Incorporated v. Our primary focus is the section that emphasizes issuing an opinion on financial
statements. What circumstances related to the accounting treatment of the supplier allowances should increase an auditor's professional skepticism? The name cloud computing comes from the use of a cloud-shaped symbol in systems diagrams to represent complex IT infrastructures. He responds by telling you, "I'm not sure. Note that some audit
procedures fulfill more than one transaction-related audit objective [for example, audit procedure (13b) is included for three objectives]. If the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. It is important for the auditor to consider risks at
the overall financial statement level, given those risks may increase the likelihood of risks of material misstatement across a number of accounts. Solitron Devices, Inc. tabLe 5-4 Auditor Defenses Against Suits by Client, Third Parties Under Common Law, and Under the 1933 and 1934 Securities Acts Client Suits
Third Parties Common Law 1933 Securities Act 1934 Securities Act 1
Defenses "X" indicates the auditor defense would be available. Trace the credit entries in the accounts receivable master file to its source to see whether it relates to cash actually collected, goods returned, bad debt written-off or an issue of credit memo. Imagine the owner's surprise when he discovers that Gyders has committed a major theft of the
company's cash receipts. Chapter 8 / Audit PlAnning And MAteriAlity 287 (3) The firm will have to hire a specialist in one audit area. (4) Assess the allowance for uncollectible accounts for reasonableness. Thus, we are especially pleased to have Chris Hogan, Professor at Michigan State University, join the author team on this edition, continuing the
Michigan State connection started by Al. Among his many honors, Al was selected as one of five national auditing educators to hold a Price Waterhouse Auditing Standards Board, and was President of the American Accounting Association. Normally, this is
impractical because of cost. Trace cancelled check to the related cash disbursements journal entry and date. Decide the appropriate type of opinion by using a decision aid. 3-9 (Objective 3-4) Describe what is meant by
reports involving the use of other auditors. The fraud succeeded because the auditors to confine themselves to reviewing documents and talking to management. This methodology helps the auditors to confine themselves to reviewing documents and talking to management.
each client. The digital signature contains the holder's name and its public key. The following additional information is obtained from independent sources and the client's records as a means of investigating the controller's explanations: erie Books ($ in thousands) 292 Year Book Sales 2008 2007 2006 2005 $21,500 Part 2 / The AudiT Process 20,472
17,851 16,995 Non-book Sales Book Cost of Goods Sold Non-book Cost of Goods Sold Industry Gross profit percent for retailers of Books & related products $25,675 23,567 19,222 18,040 $13,169 $17,145 39.8 12,197 15,801 39.9 10,543 12,888 40.0 9,961 12,111 40.4 a. If the randomly 526 Part 3 / APPlicAtion of the Audit Process to the sAles And
collection cycle selected number is 9, the first item in the sample will be invoice number 661 (652 + 9). required Chapter 13 / Overall audit Strategy and audit Program 483 b. Auditing standards also require the auditor to communicate certain other matters to those charged with governance, such as the audit committee or a similarly designated
body, upon completion of the audit, if not sooner. Do you think the salaries paid by Johnny to his parents are genuine and legitimate? Or, suppose a CPA firm failed to determine that certain accounts receivable were uncollectible and, in reviewing collectibility, the auditors were lied to and given false documents by the credit manager. An account
balance will be misstated if transactions near the end of the accounting period are not properly recorded. Flowcharts have two advantages over narratives: typically they are easier to read and easier to update. The potential
consequences of all three are significant because they lead to an overstatement of assets and income. Apr. In addition to the analytical procedures in Table 16-1, auditors should also review accounts tabLe 16-1 Design and perform Substantive analytical procedures (phase III)
Objective 16-2 Design and perform substantive analytical procedures for accounts in the sales and collection cycle. In addition, auditors should trace a sample of individual balances to supporting documents such as duplicate sales invoices to verify the customer's name, balance, and proper aging. Chapter 1 introduces key provisions of the Sarbanes-
Oxley Act, including the creation of the PCAOB and Section 404 internal control reporting requirements. For example, because the auditor plans for less evidence (D) than for inventory and warehousing, required integrated case aPPlication —
Pinnacle manufacturing: Part i 8-39 (Objectives 8-3, 8-4) introduction This case study is presented in seven parts. You have reviewed their audit files and believe they did an excellent job on their portion of the audit. "RUN" allows the employee to use a program to process data. for acquisitions. The ability to make interest payments depends on the
company's ability to generate positive cash flow from operations. For example, a CPA firm can perform management services for a company in which the partner owns stock. What are the three lines of defense? Liability to third parties under common law Bank sues auditor for not discovering that a borrower's financial statements are materially
misstated. Prepare common-size financial statements for one or more years that display all items as a percent of a common base, such as sales. Examine b. required case 14-33 (OBJeCtIVe 14-4) The Kwan Pharmaceutical Company, a drug manufacturer, occasionally receives requests from customers for credit memos. For example, the
auditor might use computer software to compare the unit selling price on duplicate sales invoices with an electronic file of approved prices as a test of the accuracy objective for sales transactions. Without using ACL, will your results be acceptable? Explain why Ling set performance materiality for inventory at a lower amount as compared to
accounts receivable, PP&E, and other assets. A number of overarching factors may increase the risks of material misstatement at the overall financial statement level. 12-18 (Objective 12-7) The following questions concern auditing complex IT systems. Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 569
tabLe 16-2 Comparative Information for Hillsburg Hardware Co. — Sales and Collection Cycle Amount 12-31-16 (in Thousands) Percent Change 2014-2015 $132,421 7.0% 12-31-14 (in Thousands) $123,737 1,242 3.9 1,195 13.6 1,052 Gross margin
39,845 9.6 36,350 7.0 33,961 Accounts receivable 20,197 15.3 17,521 3.3 16,961 Allowance for uncollectible accounts 1,240 (5.4) 1,311 21.5 1,079 Bad debt expense 3,323 (2.1) 3,394 7.3 3,162 Total assets 61,367 0.9 60,791 1.8 59,696 5,681 21.9 4,659 39.0 3,351 258 16.7 221 5.7 209 37 15.6 32 6.7
30 Net earnings before taxes Number of accounts receivable Number of accounts receivable with balances over $100,000 that have been outstanding for a long time; receivables from affiliated companies to report
management's assessment of the effectiveness of internal control. (3) exists because a necessary control is missing or not properly designed. Discuss whether Collier's approach is acceptable under existing auditing standards for either public or nonpublic companies. Both Item 1 and Item 1.A may provide helpful information to the auditor when
assessing the risk of material misstatement. In networks, application software and data files used to process transactions are included on several computers that are linked together. Vouch goods dispatched notes to ensure details are correctly reflected on the sales invoices. By tracing from shipping documents to duplicate sales invoices, the auditor
can determine whether shipments have been billed to customers. This book is also appropriate for introductory professional development courses for CPA firms, internal auditors, and government auditors. Dividend Policy Divi
this engagement to be a fixed percentage of costs savings that result once the new processes are implemented. Assume further that the following three misstatement 1 recorded Value $ 897.16 $ 609.16 2 47.02 0 3 1,621.68 1,522.68 Calculate the overstatement bound for the population. Any deviation from
the independence rule is therefore considered highly material. In testing for the completeness objective, the auditor typically starts by selecting a sample of shipping documents and traces them to duplicate sales invoices and the sales journal as a test of omissions. Chapter 4 has been substantially revised to provide an overview of the key elements of
the revised Code based on this new structure. The Securities Act of 1933 deals only with the reporting requirements for companies issuing new securities, including the information in registration statements and prospectuses. Compare and contrast traditional auditors' legal responsibilities to clients and third-party users under common law. (4) Their
engagement letter specifically disclaimed any liability to any party that resulted from Markum's fraudulent conduct. These should also be communicated to the client. For example, the audit engagement team may need to modify audit procedures to reduce the risk that the former employee has knowledge of the audit plan, and the firm will need to
evaluate whether members of the engagement team can maintain an effective level of professional skepticism when evaluating audit information and other representations provided by the former firm member. Regardless of the quality of hardware controls, output will be corrected only if the client has provided for handling machine errors. In
addition, the Sarbanes-Oxley Act of 2002 made it a felony to destroy or create documents to impede or obstruct a federal investigation. This information can take many forms, (2) relative effectiveness and efficiency of the tests. For example, they can become bored or dissatisfied, personal problems can disrupt their performance, or their goals may
change. The scope of the auditor's report on internal control is limited to obtaining reasonable assurance that material weaknesses in internal controls and substantive tests of transactions, she put "Same as the above" for her methodology in designing tests of details of
balance in the cycle. Upon receipt of cash, he immediately prepares a listing of the cash and a Chapter 10 / Assessing And Responding to FRAud Risks 369 duplicate deposit slip. Company employees are sometimes used to construct fixed assets. In this case, the auditor must evaluate the materiality of a misstatement of inventory of 10 percent, current
assets of 3.3 percent, and net income before taxes of 5 percent. Management's responsibility. The controller stated that the work was carefully coordinated with the construction company responsible for the addition. 74 There are two significant audit reporting differences for public companies. The AICPA also publishes selected examination questions
with unofficial answers indexed to the content specification outlines of the examination. Management believes that earnings growth will be primarily driven by (1) continued focus on customer satisfaction, (2) penetration into markets currently dominated by national wholesale hardware store chains, and (3) the use of technology to attract additional
customers and promote more efficient operations. Cable Sys./Ind. Auditors must generally identify a fraud risk for revenue recognition. Cash receipts transaction-related audit Objectives D Low Medium Low Low Low Low Low C = Control; D = Significant deficiency or material weakness uncover recorded cash receipts that have not been deposited,
unrecorded deposits, unrecorded loans, bank loans deposited directly into the bank account, and similar misstatements. Should auditors fail to provide the services or not exercise due care in their clients for negligence and/or breach of contract, and, in certain circumstances, to parties other than their clients.
Include a "C" in the matrix in each column for the objective(s) to which each control applies. Which of the following best described them to customers, or destroying them should be described. Below are four descriptions of
different businesses. Which of the preceding transactions would most likely be considered and unrecorded shippers are reviewed weekly. The Uniform CPA Examination is administered by the American Institute of Certified Public Accountants (AICPA), and information on CPA examination requirements can be
found on the AICPA Web site (www.aicpa.org). These typically include separation of duties (such as credit approvals), and internal verification and understandability Classification and understandability Classification and
understandability Notes payable are appropriately classified as to shortterm and long-term obligations, and related financial statements (Total) b. Typically, the auditor examines approvals by the appropriate persons. Control risk assessments for each audit
objective are the same as those in Figure 15-6 on page 504. You will need to determine the size of each stratum using the accounts payable listing. Application controls are effective only when general controls are effective only when general controls are effective.
than an audit because less evidence is needed. The following items relate to what a plaintiff who purchased securities must prove in a civil liability suit against a CPA. When operating income measure. The share price plummeted
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from USD6.75 to just only $0.28. In some cases, these discussions with management have been the basis for management consulting engagements. PowerPoint Slides PowerPoint presentations are available for each chapter of the text. Estimate population exception rate 9. After the evidence mix is approved, the incharge prepares the audit program
or modifies an existing program to satisfy all audit objectives, considering such things as materiality, evidence mix, inherent risk, and any identified significant risks, as well as the need for an integrated audit for larger public companies. Distinguish between auditing and accounting. Prepare an audit program for accounts payable in a
performance format, using the audit procedures in Table 18-5. There is a natural tendency to emphasize the short term because those consequences may be more important. Several staff were involved in the audit, all of whom had attended the firm's
in-house training program on effective auditing methods. To calculate the estimate of the likely misstatement from the sample to the population and adds an estimated allowance for sampling risk. Distinction among risks in the audit risk Model
Assessing AccePtAble Audit Risk Auditors must decide the appropriate acceptable audit risk for an audit, preferably during audit planning. Assemble the payroll imaster files. Interviewing can also help identify issues omitted from documentation or
confirmations. Pcard purchases over $1,000 are required to be reviewed by a supervisor. Formal frameworks have been developed to help people resolve ethical dilemmas. The auditor's standard unmodified opinion audit report contains eight distinct parts, and these are labeled in bold letters in the margin beside Figure 3-1. While auditing standards are required to be reviewed by a supervisor.
specifically require a discussion among the key engagement team members, including the engagement team members, including the engagement team members, including the engagement team members and the susceptible to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements and the susceptibility of financial statements are susceptible to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements are susceptible to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements are susceptible to material misstatement due to fraud, this can be held concurrently with the discussion about the susceptibility of financial statements are susceptible to material misstatement due to financial statements are susceptible to material misstatement.
to error. During the audit, auditors may change the preliminary judgment about materiality. The auditor was not very familiar with the concept of consignment goods. Insiders have the best access to such information and can discover fraud at a much lower cost when compared to outsiders including market actors and regulators. For each of the 10
confirmation responses, indicate the procedures you would perform to determine whether the exception is a misstatement or has been appropriately recorded by the client.* 16-33 (OBJeCtIVeS 16-3, 16-5) The following are various changes in audit circumstances. (2) find larger misstatements. An audit includes examining, on a test basis, evidence
supporting the amounts and disclosures in the financial statements. On the other hand, failure to record a material sale is highly pervasive because it affects sales, accounts receivable, income taxes, and retained earnings, which in turn affect current liabilities, total liabilities, owners' equity
gross margin, and operating income. On the 5 percent ARO table, locate the 7 percent TER column, and read down the column until it intersects with the 1 percent EPER row. 3 About the Authors Alvin A. For example, if internal controls over sales and shipping
documents than if the controls were inadequate. This system greatly reduces the chance of the failure to bill a customer if all invoices are accounted for periodically, but controls have to exist to ensure the sale isn't recorded until shipment occurs. For example, if a company frequently sells products at a price below inventory cost because of rapid
technology changes, it is essential for the company to incorporate adequate controls to address the risk of overstating inventory. In many small companies, it is essential for the company to incorporate adequate controls to address the risk of overstating inventory. In many small companies, it is essential for the company to incorporate adequate controls to address the risk of overstating inventory. In many small companies, it is not practical to segregate the duties to the extent illustrated in Figure 11-5.
16, the auditor must distinguish misstatements from differences such as timing differences in the recording of transactions that do not represent misstatements. Justify the cost of such audit. $670,000 from Au Courant, a women's clothing store; 3. The proper preparation of schedules to document the audit evidence accumulated, the results found,
and the conclusions reached is an important part of the audit. Source: "How to Read a 10-K," Securities and Exchange Commission (www.sec.gov). The exception rate in a sample is used to estimate the exception rate in the entire population, meaning it is the auditor's "best estimate" of the population exception rate in a sample is used to estimate the exception rate in the entire population, meaning it is the auditor's "best estimate" of the population exception rate in the excepti
receivable Accrued interest expense Accrued sales salaries Accumulated depreciation—furniture and equipment Furniture and equipment Furniture and equipment Encome tax payable Insurance expense Interest expense Interest expense Accumulated depreciation—furniture and equipment Furniture and equi
expense Inventory Loans payable Notes payable Notes payable Notes receivable—trade Prepaid insurance Property tax expense Retained earnings Salaries expense Retained earnings Salaries, office and general Sales salaries expense Property tax expense Retained earnings Salaries expense expense
wrote down the wrong price. In selection without replacement, an item can be included only once. required 374 a. 186 Balance-related audit objectives are similar to the transaction-related audit objectives just discussed. The auditor makes a separate assessment of control risk for objectives that are related only to the accounts receivable balance or
to presentation and disclosure audit objectives. Now assume a CPA is preparing the tax return for a client advocate, encourages the client to take a deduction on the return that the CPA believes is valid, but for which there is some but not complete support. Audit sampling does not apply for the first two procedures in this audit
program. In an audit environment, auditor's responsibility, but does not include a separate paragraph that discusses the shared responsibility, but does so in the auditor's responsibility and opinion paragraphs. Discuss with members of sales
team the process for setting sales discounts and review the sales discount report for evidence of review by the sales director. To support the auditor performs procedures to determine that internal controls are operating effectively. He further noticed that a sentence on the credit memos
from Orange had been obliterated by a felt-tip marker. 8-31 (Objective 8-4) Your comparison of the gross margin percent for Jones Drugs for the years 2013 through 2016 indicates a significant decline. 6-10 Link balance-related and presentation and disclosurerelated audit objectives to management assertions. Even then, the intent at the time of the
communication must have been for the communication to remain confidential. If the bank makes the loan, it will charge a rate of interest determined primarily by three factors: 1. Las Flores Designs, Inc. A summary schedule documents the extent of testing, the misstatements found, and the auditor's conclusion based on the testing. These ratios show
a company's ability to generate profit for each dollar of assets and equity. Describe the type of fraud risk that is likely associated with the need for this audit procedure. Janes is not a partner. BeAsley North Carolina State University Deloitte Professor of Enterprise Risk Management Chris e. Honest, efficient people are able to perform at a high level
even when there are few other controls to support them. Draw audit conclusions based on the results. If management or those charged with governance are unable to provide sufficient information that supports that the entity is in compliance may be material to
the financial statements, the auditor should consider the need to obtain legal advice. (3) accuracy of the aging of accounts receivable. 142 Part 1 / THE AUDITING PROFESSION tabLe 5-1 Legal Terms Affecting CPAs' Liability 
expected of a person in a set of circumstances. More than 90% of the Company's products are purchased from manufacturers and shipped either directly to customers or to the main warehouse in Gary, Indiana, where shipments are combined to minimize the costs of freight and handling. No allegations were made as to Ernst & Ernst's fraudulent and
intentional conduct. As part of the effort to converge U.S. auditing standards with international standards board (ASB) recently completed its Clarity Project to redad, understand, and apply. Customer order
S.O. C.O. 3 1 Receive checks Sales transaction file Update accounts receivable master file Print reports Accounts receivable master file Print reports Accounts receivable master file S.O. Carrier copy 2 2 3 Checks 3 2 To customer 1 2 3 Prelisting 2 Invoice 1 Prepare prelisting 3 To customer 1 Checks
3 C.O. B.L. Inv. Consider the possibility of compensating controls. (2) qualified opinion on internal control over financial reporting. When auditors obtain a simple random sample, they must use a method that ensures all items in the population have an equal chance of selection. Significant deficiency
The increase in selling expenses as a percentage of net sales 216 from 2015 to 2016 is due to our new advertising campaign and increased expenditures on sales meetings and training. Is there adequate separation of duties between billing, recording sales, and handling cash receipts? Most auditors will never encounter a material fraud during their
careers. Accounts receivable are pledged as collateral for the loan. In choosing the appropriate ARO for each attribute, auditors must use their best judgment. Rights and obligations is the only balance-related assertion without a similar transaction-related assertion. The service provider often engages an auditor to provide an attestation
report on the design and effectiveness of controls at the service organization. For example, if a misstatement is immaterial relative to the financial statements of the entity for the current period, it is appropriate to issue an unmodified opinion audit test and
calculate statistical results, they must conclude either that the population is or is not materially misstated. Thus, the heaviest volume of processing occurs during the night shift, although there is some daytime processing occurs during the night shift, although there is some daytime processing of payroll and general ledger applications. A positive confirmation is more reliable evidence because the auditor can perform
follow-up procedures if a response is not received from the debtor. If you were Sarah, how would you respond to each question? Classification—transactions and events have been recorded in the proper accounts. Population size and sample size c. (2) Unusual discrepancies exist between the entity's records and confirmation replies. Assume that an
auditor failed to complete an audit on the agreed-upon date. All mail is opened by Tom Peter, treasurer. Observe endorsement of incoming checks and prelisting of cash receipts. We are sorry, but we cannot answer your request for confirmation of our account as the PDQ Company uses an accounts payable voucher system and can only confirm
individual invoices. Government and not-for-profit entities often have audits to meet the requirements of lenders or funding sources. You should read all of the reference material preceding the instructions about "Quick Sort" before locating the appropriate command to answer questions a. The audit program is often maintained in a separate file to
improve the coordination and integration of all parts of the audit, although some firms also include a copy of the audit program with each audit section's audit documentation. The company recorded "bill-and-hold sales" at year-end. For example, if either a partner in the office in which an audit is conducted or the partner's spouse has a financial
interest in a company, the CPA firm is prohibited from expressing an opinion on the financial statements of that company. Although confirmation is currently not required for any account other than accounts receivable, this type of evidence is useful in verifying many types of information. For example, there are specific presentation and disclosure-
related audit objectives for accounts receivable and notes payable. EPER and sample size 15-18 (Objective 15-5) When the CUER exceeds the TER, what courses of action are available to the auditor? What risks would you consider to be significant risks? Following are examples of compliance audits for a private business. 434) shows the relationship of
the four types of further audit procedures to the audit risk model. Except for the definition of what is being measured, the mean-per-unit estimate is calculated in exactly the same manner as the difference estimate. Subsequent to the offering, certain misstatements were revealed. Known misstatements are those where the auditor can determine the
amount of the misstatement in the account. It is common for auditors to find fewer misstatements than performance materiality. When the owner writes the second check, Fateen records this in the cash disbursements journal, and then deposits the check. The shaded area in Figure 13-3 is the maximum assurance obtainable from control risk
assessment and tests of controls. If no misstatements are found, the auditor can conclude that the procedure is a matter for legal determination, such as by a court of law. The most important aspects of billing are: Billing Customers and recording Sales • All shipments made have
been billed (completeness) • No shipment has been billed more than once (occurrence) • Each one is billed for the guantity shipped at the authorized price, which includes consideration for freight charges, insurance, and terms of payment. We
conducted our audits in accordance with auditing standards generally accepted in the United States of America. After making the decision, the auditor should step back and evaluate the judgment process to determine that all of the key activities in the judgment process have been appropriately performed. A member shall not practice public
accounting under a firm name that is misleading. Explain whether you believe the information in requirement d. Insurance policies 13. The partners accept responsibility for leading and promoting a quality assurance manual and all other necessary practical aids and
guidance to support engagement quality. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement, whether due to fraud or error; and c. • There is a substantial doubt about the company's ability to continue as a going concern
and information about the causes of the uncertainties is not adequately disclosed in a footnote. Relevance of Evidence must pertain to or be relevant to the auditor is testing before it can be appropriate. Separation of duties exists among billing, recording of sales, and handling of cash receipts (C3). Changes in an
estimate, such as a decrease in the life of an asset for depreciation purposes 2. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Commitment to competence
includes management's consideration of the competence levels for specific jobs and how those levels translate into requisite skills and knowledge. Unfortunately, some of the credit review staff recently left the bank to work for a competitor. Reperformance is the auditor's independent tests of client accounting procedures or controls that were
originally done as part of the entity's accounting and internal control system. If the auditor decides, for example, to select 50 disbursements from a population of 6,600 for comparison with the cash disbursements journal, several different methods can be used to select the specific items to be examined. These steps are introduced here and discussed
in more detail in subsequent chapters. Identify whether the control is an automated application control (AC) or a manual control done by Gilman employees (MC). (3) The auditor may limit exposure to liability by destroying documents that might suggest an improper act. Identify the alternatives available to the person who must resolve the dilemma.
17-9 (Objective 17-3) Monetary unit sampling (MUS) automatically increases the probability of selecting a high value item from the population. Management's responsibility to evaluate risks of Fraud Chapter 10 / Assessing And Responding to FRAud Risks 349 FigUre 10-6 Impact of Antifraud Controls on Fraud Deterrence Control Percent Reduction
in Median Loss from Fraud Percent Reduction in Median Duration of Fraud Antifraud policy 35.5% 50.0% External audit of internal control over financial reporting
42.8% 37.5% Formal fraud risk assessments 44.0% 47.9% Fraud training for employees 39.0% 50.0% Independent audit committee 20.0% 41.7% Internal audit department 44.4% 41.7% Job rotation/mandatory vacation 33.3% 40.0% Management review 51.9% 45.8%
Management certification of financial statements 34.8% 37.5% Proactive data monitoring/ analysis 59.7% 50.0% Rewards for whistleblowers 25.9% 33.3% Surprise audit fees by management of audit fees by management of either government of the CPA firm by the audit committee and payment of audit fees by management is probably the use of either government of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm by the audit fees by management of the CPA firm
or quasi-government auditors. Use an appropriate method of selecting sample items from the population Increasing sample size reduces sampling risk, and vice versa. In his judgment, McClain Plastics, with sales of $200 million and 146 employees, had reached the size where it was not economical, and probably not wise, to concentrate all the tests
on the balance sheet. Operational auditing is discussed in greater depth in Chapter 26. The specific requirements of the rule on confidential client information are shown in the box below. confirMation of accounts receivable was a recurring concept in our discussion about designing tests of details of balances for
accounts receivable. The firm is conducting its audit planning for the current fiscal year and is in the process of performing risk assessment procedures. With the floods at the client's dateline. The SEC forced Groupon to amend its registration
statement prior to their IPO and reduce sales revenue by approximately 50 percent. Communicate with audit Committee and Management The audit required to communicate significant deficiencies in internal control to the audit committee and Management. (2) give every element in the population an equal
chance of being included in the sample. An essential consideration by the auditor in uncovering fraud is identifying factors that increase the risk of fraud. Note in Table 4-4 (p. A misclassification between cash and accounts receivable affects only those two accounts and is therefore not pervasive. However, auditors must recognize that, in part, the
claims of audit failure result from the hope of those who suffer a business loss to recover from any source, regardless of who is at fault. Discuss fully, including your assessment of whether the auditor's responsibility for the detection of fraud is appropriate. The division makes the audit more manageable and aids in the assignment of tasks to different
members of the audit team. The Securities and Exchange Commission (SEC) Form 10-K filing rules require management of American public companies to include background information about the business, as well as the most recent financial condition and results of operations. Figure 16-1 Objective 16-1 Describe the methodology for designing tests
of details of balances using the audit risk model. Each control must be related to one or more audit objectives. Regarding Book Discovery, (1) Identify the deficiencies in the procedures for the cash collection. (3) support for the auditor's representations as to compliance with auditing standards. (remainder is the same as the introductory paragraph in
the standard report) (Same management's responsibility paragraph as the standard report) Auditor's Responsibility our responsib
Describe the parts of the standard unmodified opinion audit report for nonpublic entities under AICPA auditing standards. When these nonattestation services are provided for a client receiving attestation services on a contingent fee basis. The
bottom row in Figure 16-7 shows the planned audit evidence for tests of details of balances for accounts receivable by objective. Such values create an environment that reinforces acceptable behavior and expectations that employees can use to guide their actions. This text emphasizes general concepts common to all audit documentation. 4-21
(Objectives 4-5, 4-7) Each of the following situations involves a possible violation of the AICPA Code of Professional Conduct. Likelihood that someone else will discover the behavior. This part of the chapter examines the conditions requiring modification of the opinion
in greater detail and shows examples of reports under AICPA auditing standards. What are the probable defenses that might be asserted by Allen, Dunn, and Rose in light of these facts?* *Based on AICPA question paper, American Institute of Certified Public Accountants. Instead, the auditor should carefully evaluate the implications of the revision of
the risk and modify evidence appropriately, outside of the audit risk model. Analyze exceptions 14. availability of types of evidence for Further audit procedures Typically, auditors use all five types of tests when performing an audit of the financial statements, but certain types may be emphasized, depending on the circumstances. A shipping
document is prepared at the time of shipment, which can be done automatically by computer, based on sales order information. Hillsburg Hardware Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial statements, for maintaining effective internal control over financial statements.
financial reporting, included in the accounts receivable turnover are lower than industry averages. (4) increase inherent risk in the accounts as a result, corporate responsibility has become an important element of companies' business strategies to
create value for shareholders and other stakeholders. What do PCAOB auditing standards say about how the auditor should assess risk related to revenue recognition? (4) degree of data entry accuracy. Even when a prospective client has been audited by another CPA firm, a successor may make other investigations by gathering information from local
attorneys, other CPAs, banks, and other businesses. These can be obtained through the SEC Web site (www.sec.gov), or directly from the investor relations selected from the sales journal, verify that the amount of the transaction has been recorded
in the correct customer account in the accounts receivable subledger. (4) auditing procedures followed and the testing performed in obtaining audit evidence being inspected is called documentation. Financial reporting
problems at companies such as Enron and WorldCom also exposed serious deficiencies in internal control. What is the auditor's responsibility for discovering this type of embezzlement? Reconcile the monthly statements from vendors with the accounts payable master file. Identify and explain any items included in "Other Information" that need not be
part of the auditor's report. During planning, you visited with the information systems vice president and learned that personnel in information systems are assigned to one of four departments: systems programming, applications programming, operations, or data control. Auditing has no effect on either the risk-free interest rate or business risk, but
it can have a significant effect on information risk. Knowledge of these control activities assists in identifying the key controls and deficiencies for sales. It is usually stated as flowcharts and other documentation of the auditor's understanding
of internal control. Additional services commonly provided by CPA firms include accounting and bookkeeping services, and management consulting and risk advisory services, and management consulting and risk advisory services, and management consulting and risk advisory services. Effect on Audit Plan: 2. (Corroborating evidence is additional evidence to support the original evidence.) As an illustration, when the auditor wants to obtain
information about the client's method of recording and controlling accounting transactions, the auditor usually begins by asking the client how the internal controls operate. Companies often integrate database management systems within the entire organization using enterprise resource planning (ERP) systems that integrate numerous aspects of an
organization's activities into one accounting information system. You will need to save the summary by vendor as a file, by clicking on "Output" within the Summarize command, in order to sort the data. To eliminate this possibility, interpretations prohibit covered members, partners, and professional staff in the office of the partner responsible for the
Facebook, Inc.'s May 18, 2012, initial public offering set expectations high; however, the opening days of trading led quickly to disappointment. Controls are effective F. There are three important distinctions in the rules as they relate to independence and stock ownership. Regardless of how the allocation is done, when the audit is completed, the
 auditor must be confident that the combined misstatements in all accounts are less than or equal to the preliminary (or revised) judgment about materiality. You may complete this requirement using attributes sampling. Estimate the population exception rate. We intend to vigorously defend our position. (1) Estimating payroll expense by multiplying
the number of employees by the average hourly wage rate and the total hours worked. Reasonable assurance is a high level of assurance that allows for only a low likelihood that material misstatements will not be prevented or detected on a timely basis by internal control. Through our continuing employee evaluation and counseling program and
through the quality control review procedures as established by the firm, educational needs are reviewed and formal staff training programs modified to accommodate changing needs. The receipt of a customer order often results in the immediate creation of a sales order. Chapter 2 provides in-depth coverage of the AICPA Clarity Project and
resulting changes to AICPA auditing standards. Company is publicly traded and audit is required by bank due to large notes payable outstanding. The Report to the Nations on Occupational Fraud and Abuse issued by the Association of Certified Fraud Examiners highlights the impact of the presence of 18 common internal controls on the median
losses suffered by organizations for all types of fraud and the impact of those controls on the duration of the fraud scheme before it was detected. General Balance-related audit Objectives existence—amounts Included exist This objective deals with whether the amounts included in the financial statements should actually be included. The three main
sets of auditing standards are International Standards on Auditing, AICPA auditing standards for entities other than public companies, and PCAOB Auditing Standards. What disclosures are required when related party transactions or balances are material? The bank reconciliation is prepared by individuals independent of cash receipts record
keeping. It is usually also necessary to ask personnel what their responsibilities are and if there are any circumstances where their responsibilities are different from the normal policy. Read the description of each company's business in Part I, Item 1 of Form 10-K and evaluate the similarity of each company as a basis for making financially also necessary to ask personnel what their responsibilities are and if there are any circumstances where their responsibilities are different from the normal policy. Read the description of each company's business in Part I, Item 1 of Form 10-K and evaluate the similarity of each company as a basis for making financially also necessary to ask personnel what their responsibilities are and if there are any circumstances where their responsibilities are also necessary to ask personnel what their responsibilities are and if there are any circumstances where their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what their responsibilities are also necessary to ask personnel what the necessary to ask personnel which the necessary to ask perso
comparisons. We are committed to continually providing you with up-to-date content in this dynamic global auditing environment and will keep you updated with highlights posted on our Web site of major changes in new standards as they are issued. Define a misstatement. Source: Sirota v. The customer's written request outlines a delivery schedulery schedulery schedulery schedulery.
that will begin in February 2017. A sales invoice for $5,200 was computed correctly but, by mistake, was entered as $2,500 to the sales journal and posted to the accounts receivable master file. To vouch recorded acquisitions ranked to the accounts receivable master file.
invoices and receiving reports and thereby satisfy the occurrence objective. Indicate whether the information indicates an increased risk for fraud. Statistical theory shows that in populations where attributes sampling applies, population size is a minor consideration in determining sample size. Marry advised Jack, the audit partner, that he had talked
to Harold Orange. Often, auditors can perform a large number of tests of controls quickly using audit software. Companies are required to disclose in their proxy statement or annual filings with the SEC the total amount of audit and nonaudit fees paid to the CPA firm for the two most recent years. a/r = Agrees with A/R lead schedule. Identify the
types of audit reports that can be issued when an unmodified opinion is not justified. The most important difference in a nonpublic company in assessment of control risk at maximum for any or all control-related objectives when internal controls for the objective or objective are nonexistent or ineffective. auditors are
example, assume that there is a scope limitation in auditing inventory. During the period of the fraud, senior management manufactured over $1 billion in revenue for services that were never provided, in some cases for customers that did not exist. As the acceptable level of detection risk decreases, the
auditor may do one or more of the following except change the (1) nature of audit procedures. Is inadequately funded Similar provisions exist outside the U.S., such as the European Commission's 8th Directive, which requires each public-interest entity to have an audit committee with at least one member who is
independent and who has competence in accounting or auditing. Or, client circumstances may have changed due to qualitative events such as the issuance of debt, which created a new class of financial statement users. After the review is completed, the reviewers issue a report stating their conclusions and recommendations. (2) One of the auditing their conclusions are competence in accounting or auditing.
procedures is to examine sales invoices for credit approval by the credit manager. The control risk matrix can include both manual and automated applications, are restricted to a READ-only access to all live application software
program files but have READ and CHANGE capabilities for test copies of those software program files. For example, in the well-known fraud at ZZZZ Best, insurance restoration contracts worth millions of dollars were supported by one- or two-page agreements and lacked many of the supporting details and evidence, such as permits, that are
normally associated with these types of contracts. Due to a loss of client personnel, the client asks a member firm to assist with accounting activities, including the authorization of transactions. The client may assist with accounting activities, including the authorization of transactions. The client may assist with preparing the confirmations, but the auditor must be responsible for mailing the confirmation outside the client's office. Fictitious
revenues also lower accounts receivable turnover, because the fictitious revenues are also included in uncollected receivables. Table 16-4 (p. When auditing the financial statements of a public company, the auditor should consider those deficiencies when auditing internal controls over financial reporting, which is described in Chapter 12. Research
points to several factors affecting engagement risk and, therefore, acceptable audit risk. He gives the total to Khalid to update customer accounts on the computer. When controls are effective and control risk is assessed as low, auditors put heavy emphasis on tests of controls. A client's performance measurement system includes key performance
indicators that management uses to measure progress toward its objectives. The auditor may then determine through the performance of tests of control is not operating effectively. The increase in gross profit offset the total operating expense increase
and the net result was a $1,170,000 increase in operating income. However, when the company was going public in 2011, it would have been classified as an audit client with high inherent risk: an Internet-based business model, an upcoming initial public offering (IPO), top management turnover, low working capital, and aggressive accounting
practices, just to mention a few of the indicators. Only three of those are discussed here: the degree to which external users rely on the statements, the likelihood that a client will have financial difficulties after the audit report is issued, and the integrity of management. The three operators consist of a day operator and two night operators. During an
emergency board meeting, hastily called after the fraud came to light, word was received that Coster had committed suicide. Required 256 a. A comparison of the 14 steps discussed in this chapter for nonstatistical and attributes sampling shows that this criticism is unwarranted. Compare number of days that accounts receivable are outstanding with
previous years and related turnover of accounts receivable. In the Hillsburg Hardware Co. audit, the estimated population exception rates for the attributes in Figure 15-2 (p. Jackson sold her shares at a loss of $60,000 and seeks to hold all parties liable who participated in the public offering, including Clarion's CPA firm of Allen, Dunn, and Rose.
Selecting the sample involves deciding how a sample is selected from the population. In recent years, the IT product manufacturing industry has suffered from intense competition in the market as well as soaring labour and material costs. Her basis for doing this was that there were about 250 such items, so 50 was a reasonably good proportion of
such additions. Quantity and other data on the bill of lading agree with the duplicate sales invoice and sales journal (procedure 13c). 11-17 (Objective 11-4) Explain how the effectiveness of automated application controls. These address existence, completeness, valuation and allocation, and rights and
obligations for account balances at year-end. through c. account for a sequence of sales invoices (12). Major has been sued by the purchasers of the stock offered pursuant to the registration statement that included the financial statements audited by Major. Determine the initial sample size. Because tests of controls also involve inquiry, observation
and inspection, their relative costs are also low compared to substantive tests. (2) $15,000. Explain their relationship to the general audit objectives. The embedded audit module approach allows auditors to continuously audit transactions by identifying actual transactions processed by the client, as compared to test data and parallel simulation
approaches, which only allow intermittent testing. the Financial accounting Standards Board and International accounting Standards Board have jointly adopted a converged standard on revenue recognition. Many of these businesses fail financially and expose the CPA firm to significant potential liability. As discussed earlier in the chapter, this is
called an unmodified opinion audit report with an emphasis-of-matter explanatory paragraph. Inventories have been written down where net realizable value is impaired. On 21st October, 2015, Yue Chi Kin (47 years old), the audit partner of Messrs Roger Yue, Tan & Associates, was identified as the perpetrator and convicted. Suppose that three
months after an unmodified opinion audit report was issued, the auditor discovers that the financial statements were materially misstated. Practice-monitoring, also known as peer review, by CPAs, of another CPA firm's compliance with its quality control system. Identify internal controls and evaluate effectiveness, a process called
assessing control risk. Part 1 / THE AUDITING PROFESSION • Third-party users do not have the burden of proof that the auditor was negligent or fraudulent in doing the audit. For now, you might want to look at the example of a completed worksheet in Figure 16-7 on page 544 to see what the
completed worksheet looks like, to provide you an overview of the focus of this chapter. Creating a culture of honesty and high ethics includes six elements. Personnel are likely to forget or intentionally fail to follow procedures, or they may become careless unless someone observes and evaluates their performance. The advance estimate is $1,500
(overstatement) for Hart Lumber, based on the previous year's audit tests. Audits are designed to provide reasonable assurance that the financial statements are to be used extensively, as is often the case for publicly held companies, those with
extensive indebtedness, and companies that are to be sold in the near future. Johnny suggested that Coco Audio impair the cassette tape decks. Recognize specific fraud risk areas and develop procedures to detect fraud. Because of the lack of effective internal control, we can assume this company is probably a nonpublic company. We believe this
consolidation trend is advantageous to our operations as a distributor of hard-tofind, high-quality hardware equipment. Accordingly, we express no such opinion. This testing approach is called parallel simulation testing. Identify the strengths of Hardwood Lumber Company's computerized accounting system. 259) and are our primary concern in this
chapter. Management assertion about account Balances 1. Understand Internal Control and assess Control risk The risk of misstatement in the financial statement is reduced if the client has effective controls over computer operations and transaction processing. Source: Based on Bethany McLean, "Why Enron Went Bust," Fortune (December 24,
2001), pp. Ratio and percent relationships overcome both shortcomings. Because Machinetron's machines were large and complex, they were expensive. Auditors calculate the confidence limits, which define the confidence interval at the desired
confidence level (point estimate ± computed precision interval). mulTiple ChoiCe QuesTions from Cpa examinaTions 10-19 (Objectives 10-2, 10-3) The following questions address fraud risk factors and the assessment of fac
Illinois, Michigan, Wisconsin, Ohio, and Missouri. For example, if the response rate to positive confirmations in prior years was extremely high or if there are high response rates on audits of similar clients does not involve financial
statement audits, and our audit clients seem to like interacting with us." a. Employees should avoid activities outside the organization that create an excessive demand on their time or create a conflict of interest. The term deviation refers specifically to a departure from prescribed controls. This is uncommon and thus the adverse opinion is rarely
used. Although risk model assessments may be quantitative or nonquantitative or nonquantitative assessments of risk (such as low, moderate, and high) due to the difficulty in precisely quantifying measures of risk. The SEC has power to establish rules for any CPA associated with audited financial statements submitted to the
commission. (Note: Kelley Blue Book is a United States automotive vehicle valuation company that gives used vehicle pricing information. 9/3/16 $400/mo. The auditor should evaluate controls are extremely weak, the
period covered by the proof of cash receipts may cover the entire year. Engagement letter information is important in planning the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the timing of the tests and the total amount of time the audit principally because it affects the the audit 
these provisions increase the independence and role of the audit committee and enhance auditor independence by effectively making the audit committee the client for public companies, rather than management. This may be a violation of independence. At the time, Mr. Green was a partner with the former Brisbane firm of Pitcher Partners, which
was dissolved on 28 November 2008. Third parties include actual and potential stockholders, vendors, bankers and other creditors, employees, and customers. COnCept CheCk 1. If the tests were performed prior to year-end, this may allow management to correct the deficiency before year-end. These findings are consistent with the prior year's
IFIAR survey results, as well as with audit deficiencies identified in the PCAOB inspection process in the U.S., suggesting audit firms around the world face similar challenges. How has that law changed in recent years? 457). Often, considerable information about potential misstatements can be obtained by simply comparing two or three numbers.
The assurance provided by analytical procedures depends on the reliability of the auditor's expectation of the auditor's expectation. In vertical analysis of the balance sheet, balance and the reliability of the data used to develop the expectation of the auditor's expectation
focuses on the risk assessment process that is fundamental to planning the audit approach. The balance sheet in question was misstated by approximately $800,000. (3) The inclusion of zero and negative balances usually does not require special design considerations. These differences reflect life experiences, successes and
failures, as well as the influences of parents, teachers, and friends. Several factors are good indicators of the degree to which statements are relied on by external users: Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 313 • Client's size. These audits are the most common assurance service provided by CPA firms. What portion of these
audits can include material misstatements without having an adverse effect on society? (4) compliance with generally accepted reporting standards. Estimate misstatements in the population. Explain why the auditor may not place the maximum extent of reliance on controls in Audit C. The Seventh Circuit Court of Appeals concluded that
the CPA firm was not responsible in this case. Various approvals of the manager or senior accountant are obtained throughout the audit. These differences must be investigated to determine whether the client is in error and the amount of the error. He determined that additional evidence was not necessary to obtain because of his experience with
other clients. Documents can be conveniently classified as internal and external. Competition in the marketplace. Design audit procedures for the audit of accounts receivable, using an evidence planning worksheet as a guide. Approximately 80 percent of the money
stolen was recovered. In past years, the client made audit adjustments to the allowance for uncollectible accounts because it was found to be understated. (69) 3. Cutoff tests would be done at year-end. However, subsequent cases were brought arguing the knowledge and deceit standard Figure 5-7 Hochfelder v. If controls are in place over sales and
cash receipts transactions, the auditor can perform tests of controls to determine whether the six transactions to Test Key Control Procedures Master Files Application Programs (Assume Batch System) Auditor-
Predicted Results of Key Control Procedures Based on an Understanding of Internal Control Test Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Makes Comparisons Differences Between Actual Outcome and Predicted Results Auditor Differences Differences Differences Differences Differences Differences Differences Differences Differences D
explain in brief operational audits that can be conducted by an internal auditor in a manufacturing company. risk Factors for Misappropriation of assets. To become a partner, an individual must have exhibited a high degree of technical competence; must possess integrity, motivation
and judgment; and must have a desire to help the firm progress through the efficient dispatch of the job responsibilities to which he or she is assigned. Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 319 Like control risk and inherent risk, planned detection risk and required audit evidence will vary from cycle to cycle, account to
account, or audit objective to audit objective to audit objective. Similarly, confirmations are ordinarily not used to verify individual transactions, because the auditor can use documents for that purpose. This related party transaction is not disclosed in WRS's notes to its 2016 financial statements. advertising and
Solicitation advertising and Other Forms of Solicitation rule A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. You are to prepare the report to send to the client. These should be investigated to determine the possibility of the customer not
receiving the goods at all or the existence of a cutoff misstatement on the client's records. Compare date on cancelled check with bank cancellation date. A financial statement user cannot be expected to evaluate audit performance. To offset this measurement problem, many auditors use broad and subjective measurement terms, such as low,
medium, and high. Similarly, thefts of laptop computers are much more frequent than thefts of desktop systems. In the planning section, Carol noted that sales and accounts receivable are closely related. (3) continuing professional education. The extent and nature of the alternative procedures depend primarily on the materiality of the nonresponses
the types of misstatements discovered in the confirmed responses, the subsequent cash receipts from the auditor's conclusions about internal control. However, to justify an unmodified opinion, the auditor must be satisfied and Explanatory Paragraph Because of Substantial Doubt About Going Concern INDEPENDENT
AUDITOR'S REPORT (Same paragraphs as the standard report) Added Explanatory Paragraph 80 The accompanying financial statements have been prepared assuming that Fairfax Company will continue as a going concern. One technique to smooth income is to reduce the value of inventory and other assets of an acquired company at the time of
acquisition, resulting in higher earnings when the assets are later sold. (3) unmodified opinion with explanatory paragraph. Differentiate the three main types of audits. • Education of users. Information and Communication Monitoring Monitoring activities deal
with ongoing or periodic assessment of the quality of internal control by management to determine that controls are operating as intended and that they are modified as appropriate for changes in conditions. Understand the purposes of audit documentation. Companies need a reasonable level of liquidity to pay their debts as they come due, and these
three ratios measure liquidity. consideRing FRAud Risk While auditors perform risk assessment procedures to assess the risk of not detecting a material misstatement due to fraud or error, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to fraud or error, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement due to fraud or error. What evidence can the auditor use to uncover
all accounts as of December 31, 2016, with a balance greater than $100,000 and greater than $100
during planning and held constant for each major cycle and account. Some of the more common actions are as follows: • Deal only with clients possessing integrity. On the other hand, if controls are adequate to ensure correct billings, cash receipts, sales returns and allowances, and write-offs, the ending balance in accounts receivable is likely to be
correct. If an auditor believes that the appropriate percentage is 1 percent, then acceptable audit risk should be set at 1 percent, or perhaps lower, based on the specific circumstances. Also, several of the items discussed earlier under factors affecting inherent risk, such as the results of previous audits and nonroutine transactions, are evaluated
separately to help assess inherent risk. She was about to receive her Master of Accounting degree, and next week she would begin her career on the audit staff of Green, Thresher & Co., CPAs. Things looked a little different to Barbara in February 2016. Nevertheless, prior cases of fraudulent financial reporting, such as WorldCom, have involved
improper capitalization of assets. At a 5% ARO, what is the appropriate sample size for the audit test? The results of controls determine whether assessed control risk for sales and the restructuring of debt covenants that are less restrictive but
demand higher interest rates. For those who pass, no further work is needed. What are the three options available to the primary auditor responsible for the opinion, and when should each be used? State your audit concerns with any gaps or duplicates. 594 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle been cleared
satisfactorily, and 10 confirmations had the following information and comments: 1. It was subsequently shown in court, through an audit by another CPA firm, that earnings had been materially overstated by more than 30 percent in two different years, by overstating inventory. Table 10-4 includes comparative sales, cost of sales, and accounts
receivable data for Regina Vacuum, including the year before the fraud and the two fraud years. Users of financial statements rely on the auditor's report to provide assurance on the company's financial statements rely on the auditor's report to provide assurance on the company's financial statements. This means deciding which procedures to use for auditing inventory, as well as determining the sample size and items to select from the
population to satisfy the sufficiency requirement. Use difference estimation in tests of details of balances. The expert calculated that the misstatement in accounts receivable, based on the auditor's sample, was significantly
more than a material amount. (3) customers' accounts receivable master file. (1) Audit procedures that are effective for detecting an unintentional misstatement may be ineffective for an intentional misstatement that is concealed through collusion. Arthur Young (1992), the California Supreme Court reversed a lower court decision against Arthur
                                  the Restatement doctrine. Evaluate the results. In order to link the online ordering system to the company's accounting system, Jonathan chose a new vendor to implement a new accounting system. Gelb, Seton Hall University John
Giles, North Carolina State University Lori Grady, Bucks County Community College Charles L. 5-2 (Objective 5-2) Business risk and audit failure are both causes of lawsuits to accounting firms. Competition in the electronic components industry is high and inventory can become obsolete quickly due to rapid technology changes (inventory turnover is
a measure that analysts focus on when assessing performance for electronic component manufacturers). As part of our engagement for the year ending December 31, 2016, we will also prepare the federal and state income tax returns for Babb Clothing Co. Our fees will be billed as work progresses and are based on the amount of time required at
various levels of responsibility, plus actual out-of-pocket expenses. Probably not. 8431 Invoice was dated 3 days later than the date entered in the sales journal. For low acceptable audit risk clients, special care is appropriate in staffing, and the importance of professional skepticism should be emphasized. Thus, when the entity financial statements
are based on FASB standards, the auditor's evaluation of the time horizon would be the same as that considered by management. An example is the authorization of a sales transaction by the sales manager for a used-car company. Many small local firms do not perform audits and primarily provide accounting and tax services to their clients. An audit
of these statements is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues as a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues as a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues as a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the auditor issues as a written report expression and the auditor issues as a written report expression and the auditor issues as a written report expression and the auditor issues as a written report expression and the auditor issues are a written as a written report expression and the auditor issues are a written report expression and the auditor issues are a written as a written report expression and the auditor issues are a written and the auditor issues are a written as a written are a written and the auditor is a written are a written as a w
increased to $80,000 due to new auditing standards requirements. Numerous meetings were held between management and the investor group. As we've discussed, planned audit evidence is the inverse of planned detection risk. summary A major purpose of audit planning is to gain an understanding of the client's business and industry, which is
used to assess acceptable audit risk, client business risk, and the risk of material misstatements in the financial statements. • Work is assigned to personnel who have adequate technical training and proficiency. Hillsburg Hardware Company Statement of Stockholders' Equity (in thousands) Common Stock Shares Par value Balance as of December
31, 2013 5,000 $ 5,000 Paid-in Capital Retained Earnings Total Stockholders' Equity $ 3,500 $ 10,256 $ 18,756 Net income 2,279 Dividends paid (1,900) (1,900) Balance as of December 31, 2015 5,000 $ 11,929 $ 20,429 3,934 3,934
Dividends paid (1,900) (1,900) 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $ 5,000 $
as it relates to the audit of internal control over financial reporting? Less precision is needed for long-term notes payable given the constant rate of interest across the year and the stable nature of the balance outstanding. We now move to phase III and turn our attention to substantive analytical procedures and tests of details of balances for the sales
and collection cycle. (2) increase testing of general IT controls to conclude whether they are operating effectively. Similarly, a CPA firm that observes substandard audit documentation of another CPA firm that observes substandard performance against the firm. As the circumstances of each
engagement differ, the extent and nature of evidence needed will depend on the unique circumstances. Therefore, management wishes to make readers aware that the aforementioned factors could cause the actual results of our operations to differ considerably from those indicated by any forward-looking statements included in this report. To
manage these interdependency risks, companies must ensure that their business partners manage IT system risks before conducting business with them electronically. Examine vendors' invoices for proper account classification. 16-16 (Objective 16-4) A non-response from a negative confirmation is considered as confirming an account balance, even
if the reason for the debtor simply ignored the request. To determine whether internal control relative to the revenue cycle of a wholesaling entity is operating effectively in minimizing the failure to prepare sales invoices, an auditor would most likely select a sample of transactions from the population represented by the (1) sales order file. A common
example is a bank that has a large loan outstanding at the balance sheet date and requires an audit as a part of its loan agreement. Henderson Energy is considerably more profitable than many of its competitors, largely due to its extensive investment in information technologies used in its energy distribution and other key business processes. The
auditor's defense in the case was based on the absence of privity on the part of Rusch Factors. Because each state Board of Accountancy's code of conduct can result in the loss of the CPA certificate and the license to practice. Auditors respond to risk
primarily by changing the extent of testing and types of audit procedures, including incorporating unpredictability in the audit procedures used. By the end of 2001, the company was in bankruptcy. determine Performance materiality Objective 8-7 Determine performance mat
access to assets. During the current year, ABC has entered into a joint venture partnership with a company that serves similar customers, but makes an entirely different product than ABC. In addition, they do routine monthly backup procedures. Seidman & Seidman deals alleged
                                                                                                                                                                                                                                                                                                                                                                                                by the auditor in detecting fraud. 8-4 (Objective 8-2) Who is
considered the client when auditing public companies? 6-10 (Objective 6-6) Identify the cycle to which each of the following general ledger accounts receivable, inventory, and repairs and maintenance. Because of its popularity, the term "blue book" has become
synonymous with the car's market value.) If she uses a different criterion than the "blue book," the fair market value will not be meaningful. Amount and other data in the master file agree with sales journal entry (procedure 13a). When the auditor determines that fraud may be present, auditing standards require the auditor to discuss the matter and
audit approach for further investigation with an appropriate level of management, even if the matter might be considered inconsequential. • Information related to understanding internal control and assessing control risk. At this stage, all items in phases I and II will have been completed before auditors determine sample size and items to select from
the population. Review the minutes of the board of directors meetings and inquire of management to determine whether any receivables are pledged or factored. Perform expanded confirmation procedures and review older uncollected balances thoroughly. For attributes sampling, the auditor calculates the computed upper exception rate (CUER, also
referred to as upper precision limit) at a specified ARO, again using special computer programs or tables developed from statistical formulas. For example, inventory might require extensive testing on an engagement because of deficient internal controls and the auditor's concerns about obsolescence resulting from technological changes in the
industry. Lestor Nay, the president of First Securities Co. of Chicago, fraudulently convinced certain customers to invest funds in escrow accounts that he represented would give employees an opportunity to alter the files. (3) a statistical measure, at a specified confidence level,
of the maximum rate of occurrence of an attribute. (3) prohibited under the AICPA rules of conduct. Under Sarbanes-Oxley, a person may face fines and imprisonment of up to 20 years for altering or destroying documents. In a Ponzi scheme, people are enticed to invest by above-market returns that are paid from the investments of additional
investors, rather than actual profits on investments. Auditors often use the preceding year's audit results to estimate EPER. Walkthroughs conveniently combine observation, inspection, and inquiry to assure that the controls designed by management have been implemented. Several additional sample items may be selected as extras to replace any
voided items in the original sample. 8. Audit firms continue to experience increases in litigation-related costs. You can download the document at .tescoplc.com/files/pdf/reports/ar15/download annual report.pdf 3-23 (Objectives 3-1, 3-2, 3-4, 3-6, 3-7) Patel, CPA, has completed the audit of the financial statements of Bellamy Corporation as of and for
the year ended December 31, 2016. the Macau subsidiary paid substantial funds to its suppliers which were then passed on to customers and circulated back to the general ledger if the financial statements are to be correct. Would this information be
relevant in determining which of the alternatives in answer c. An integrated approach to auditing considers both the risk of misstatements and operating controls intended to prevent misstatements. Because the required allowance depends on the age and quality of accounts receivable, some companies have altered the aging of accounts receivable to
make them appear more current. Valuation and allocation accuracy Inventory quantities on the client's perpetual records agree with items physically on hand. Describe the broad purposes of analytical procedures. 214 $ 828 1,602 720 $ 743 655 $ 720 Allowance for Doubtful Accounts: The allowance for doubtful accounts is maintained to account for
expected credit losses. Confidential discussions between the client and auditor cannot be withheld from the courts. Summary of Methodology for Sales Figure 14-2 (p. Fortunately for the profession, courts continue to support the auditor's view. As you can see, the general organizational structure of the IESBA Code and the AICPA Code are similar.
Perform test of reasonableness on depreciation expense of equipment items taking into account their remaining useful lives, additions and disposals during the year and compare against the amount calculated by client. During your conversation, he asks if you know anything about the recent intercompany loan from Welburn to Solar-Electro. (2)
qualified opinion only. An example of a client restriction is management's refusal to permit the auditor to confirm material receivables or to physically examine inventory. AudiT resPonsibiliTies And objectives riding the tiger: Indian Computer Services
Limited, an information technology services company based in Hyderabad, India, that serviced more than a third of the Fortune 500 companies, roiled Indian stock markets when it announced it deceived investors by engaging in a massive fraud. 11-10 (Objective 11-3) Explain the difference between general authorization, specific authorization and
approval. (4) Subsidiary accounts receivable records are reconciled to the control account by an employee independent of the audit, supervising the staff, and reviewing their work. For example, internal controls may be more effective for the existence of
cash than for Part 2 / The AudiT Process Figure 9-3 Factors Influencing Risks and Relationship of Risks to Planned Evidence FACTORS INFLUENCING RISKS • Reliance by external users • Likelihood of financial failure • Integrity of management • Related parties •
Complex or nonroutine transactions • Judgment required • Makeup of population • Factors related to misstatements arising from fraudulent financial reporting* • Susceptibility of assets to misappropriation* • Effectiveness of internal controls • Planned detection risk
D I I Planned audit evidence I D Control risk D Direct relationship; I Inverse relationship *Fraud risk factors. 8-31-16 phase II Perform tests of controls and substantive tests of transactions for first nine months of the year. Because of advances in computer and audit technology, as well as offshoring of more basic tasks, beginning assistants on the
audit are rapidly given greater responsibility and challenges. Sales generated through the company's Web site are recorded at the point the customers submit the orders online. (2) a system of peer review. We'll first address the risk factors for fraudulent financial reporting, and then discuss those for misappropriation of assets. When the auditor
reports on financial statements prepared in conformity with IFRS, the auditor refers to those standards rather than U.S. generally accepted accounting principles as follows: In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carlos Incorporated as of December 31, 2016 and 2015,
and the results of its operations, comprehensive income, changes in equity, and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Fi
authorization of transactions and activities Every transaction must be properly authorized if controls are to be satisfactory. These problems are highlighted by an "in-class" discussion icon in the margin next to the related homework problem. I'm not sure, I forgot to date this ATTORNEY RHONDA ATTORNEY RHONDA one. Things Aren't Always As
They Appear The Wilsall Trading Company has been in operation for 10 years and has always presented solid financial statements. However, even large organizations may fail to maintain adequate separation in critical areas. On the recent audit engagement of financial statements for ABC Technologies, John was responsible for auditing the valuation
of inventories, including the reserve for obsolescence. As noted in Figure 5-3, engagement letters between the client and the CPA firm developed as a result of this case. He frequently did not sign or initial and date the audit workpapers that he prepared. Because the customer had confirmed the balance due to Prince at the balance sheet date,
management refuses to charge off the account or otherwise disclose the information. What is the purpose of a control risk matrix? It will change only if the auditor changes one of the other risk model factors, premature revenue recognition to meet earnings or sales forecasts. Thomas has
developed excellent client relationship with the management of Pacific Products as Thomas offered constructive advices to Pacific Products over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years, especially in the implementation of internal controls over the years.
business. Myers, Brock University Kathy O'Donnell, SUNY Buffalo Kristine N. the ratio of cost of goods sold to sales and compare the ratio to previous years. tests Of cOntrols We've examined how auditors link controls and compare the ratio to previous years. tests Of controls (C) and Deficiencies (D)
are from control matrix for cash receipts in Figure 14-5 (p. Figure 11-1 includes an example of management's report on internal control that complies with Section 404 requirements and exception condition in the audit procedure in (2). In this case,
the auditor has done the test in the wrong direction by starting with the shipping document instead of the duplicate sales invoice. Table 10-1 (p. (3) require footnote disclosure. (2) it can be shown that at least some of the investors did not actually read the audited financial statements. 310 Compliance with standards X X A member who performs
auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council. The organization provides the information to help consumers make intelligent decisions about the products they buy. Mitigating Fraud risks Management is responsible for designing and
implementing programs and controls to mitigate fraud risks, and it can change business activities and processes prone to fraud to reduce incentives and opportunities for fraud. For example, when the press reports that a physician, clergyperson, U.S. senator, or CPA has been indicted for a crime, most people feel more disappointment than when the
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same thing happens to people who are not labeled as professionals. evaluate Need for Outside Specialists If the audit requires specialist. The client has a tendency to forget to declare goods in transit. To evaluate the adequacy of the presentation and disclosure, the auditor must have a thorough
understanding of accounting standards and presentation and disclosure requirements. CPA firms are required to be independent for certain services that they provide, but not for others. These are summarized in Figure 1-3. Purchase invoices were input daily by the purchase ledger clerk. Explain why auditors use analytical procedures extensively in
all parts of the audit. The key differences between Figures 15-4 and 15-8 are the auditor's judgment about ARO and the initial sample size determined when planning the audit, and the calculation of CUER using the actual test results. You are doing the audit of a small loan company with extensive receivables from customers. The ASB completed this
project for auditing standards in 2014. Most people have a personal physician who provides medical care when needed, including annual physician who provides medical services. management assertions about financial information. An Abdul & El-Emir staff auditor noted the size of the credit
and that the credit memos were dated subsequent to year-end. For entities with an internal audit's views of fraud risks, whether they have performed any procedures to identify or detect fraud during the year, and whether they have any knowledge of any actual fraud. When the auditor has
failed to conduct an adequate audit, liability may depend on the level of negligence, which can range from ordinary negligence to fraud. *AICPA adapted. For example, assume that the auditor decides that TER for attribute 8 in Table 15-3 is 9 percent. Chapters 9 and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how auditors perform procedures to identify significant risks and 10 further described how and 10 further 
and assess inherent risk and control risk, while Chapter 12 illustrated how auditors perform procedures to obtain an understanding of internal control risk. Most auditors assess risk of material misstatement as high for related parties and relate
independence between the parties involved in the transactions, and the opportunities they may provide to engage in fraudulent financial reporting. One way to evaluate sampling risk (TER - SER), and evaluate whether it is
sufficiently large to conclude that the true population exception rate is acceptable. Accounts Payable Accrual—Abdul & El-Emir assigned a senior with experience in the retail area to audit accounts payable. Sources: KOBELCO's CSr website to conclude that the true population exception rate is acceptable. Accounts Payable Accrual—Abdul & El-Emir assigned a senior with experience in the retail area to audit accounts payable.
amount on the confirmation but requests the recipient to fill in the balance or furnish other information. organization of u.s. Auditing standards as a basis for further study. Lee, two permanent staff (Calvin Chan and Susan Wong) and three part-time staff, professional Corporation A professional corporation
(PC) provides professional ser- vices and is owned by one or more shareholders. MultIple ChoICe QuestIons from Cpa exaMInations 11-2, (Objectives 11-1, 11-2, 11-3) The following are general questions about internal control. Error corrections not involving principles, such as a previous year's mathematical error Figure 3-5 Explanatory Paragraph
Because of Change in Accounting Principle INDEPENDENT AUDITOR'S REPORT (Same paragraphs as the standard report) As discussed in Note 8 to the financial statements, the Company changed its method of computing depreciation in 2016. The auditor's follow-up findings are indicated on each reply. The
expected only to conduct the audit with due care and not to perfection. While standing in line at a vending machine, you see a Pinnacle vice president wearing a golf shirt with the words "Todd-Machinery." You are familiar with the company and noticed some of its repairmen working in the plant earlier. a Cl problem 10-36 (Objective 10-6) This problem
requires the use of ACL software, which can be accessed through the textbook Web site. Inadequate internal control over assets due to lack of the following: Disregard for the need to monitor or reduce risk of misappropriating assets. Requiring permission from each client may restrict access of the peer reviewers and would be a time burden on all
concerned. One or more of three categories of inquiry can be used, depending on the auditor's objectives. The facts are adequately disclosed in footnotes. This information is used to update the perpetual inventory records. Use December 31, 2014 as the cutoff date, and enter aging periods of 0, 30, 60, and 90 days. the contract was a "drop-ship"
arrangement in which HSN did not purchase the product, but facilitated the sales to end users. 11-2 (Objective 11-2) Many companies around the world are required to test the operating effectiveness of its internal controls. Therefore, the nature of the tests depends on the nature of the product, but facilitated the sales to end users. 11-2 (Objective 11-2) Many companies around the world are required to test the operating effectiveness of its internal controls.
Was No Shipment The auditor can vouch selected entries in the sales journal to related copies of shipping and other supporting documents 498 Part 3 / APPlicAtion of the Audit Process to the sales and collection cycle
by lightly shaded ovals with the words "Audited by STOT." Observe that both tests of controls and substantive tests of transactions in the cycle, not on the ending account balances. Documentation is widely used as evidence in audits because it is usually readily available at a relatively low cost. Identify the related audits
objective(s) that this procedure addresses. Their financial reporting troubles did not end with the IPO. An error is an unintentional misstatement of the financial statements, whereas fraud is intentional. Under what circumstances is it acceptable to change those items in part a. The revenue in Xerox's leasing arrangements represented three
components: the value of the equipment, servicing over the life of the lease, and financial statements of evidence are appropriateness and sufficiency. In the context of auditing financial statements, fraud is defined as an intentional misstatement of financial statements. It required a huge effort to falsify such
number of shipping documents. In recent years, legislative efforts have attempted to control litigation costs by discouraging nonmeritorious lawsuits and by bringing damages more in line with relative fault. Examine prelisting for proper account classification (17). 13-30 (Objective 13-3) You are an audit staff senior and you are going to assign the
task to perform tests of controls for sales and collection and test of details of balances for accounts receivable for the three engagements to your audit junior. If control risk (CR) were .50 instead of 1.0, planned detection risk (PDR) would be .10, and planned evidence could therefore be reduced. may warrant further consideration. Securities and
Exchange Commission, Litigation Release No. 16022, Washington, DC, January 1999; 2. These audits are solely compliance audits. (We'll discuss this in more detail in Chapters 15 and 17.) In this simplified example, we'll assume the estimated allowance for sampling risk is 50 percent of the direct projection of the misstatement amounts for the
accounts where sampling was used (accounts receivable and inventory). Indicate whether each procedure is a test of control, substantive test of transactions, substantive analytical procedure, or a test of details of balances. Profitability Ratios 238 A company's ability to generate cash for payment of obligations, expansion, and dividends is heavily
dependent on profitability. These people may continue to be CPAs but often give up their right to practice as independent auditors. The purpose of a peer review is to determine and report whether the CPA firm being reviewed has developed adequate quality control policies and procedures and follows them in practice. Andersen (2002) — Criminal
Liability In this case, the government charged Andersen with destruction of documents related to the firm's audit of Enron. Fictitious revenue overstates the gross margin if the related cost of sales is not recognized. Similar to inquiries related to those charged with
governance, AICPA auditing standards suggest making inquiries of internal audit personnel, (1) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (2) Liberalization of credit policy (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (3) Shortening of due date terms (4) Increase in the cash discount offered (4) Increase i
communicate actual or suspected fraud and the appropriate way to do so. • Fidget, tap their foot, or shake a leg. the aCFE is the world's largest anti-fraud organization, with nearly 75,000 members. The 3 percent must be measured in relation to the appropriate benchmark. As discussed in Note 11 to the financial statements, Fairfax
Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about the company's ability to continue as a going concern. Therefore, auditors should read agreements with suppliers when amounts are material and make sure the financial statements reflect the substance of the agreements. Audit
risk is unavoidable, because auditors gather evidence only on a test basis and because well-concealed frauds are extremely difficult to detect. • Multiple-element revenue arrangements. Risk-free interest rate. A clerk in accounting matches the received sales invoice shipping copy with the sales invoice customer copy from the pending file. When
substantive analytical procedures are used during the testing phase of the auditor's expectation and factors considered in its development. Trace from the sales journal to the accounts receivable master file to make sure the information is the same. Minutes of
Meetings The corporate minutes are the official record of the meetings of the board of directors and stockholders. Sales are normally recognized at the time goods are invoiced before they are shipped, but in a bill-and-hold sale, the goods are invoiced before they are shipped. For example, the auditor can test whether credit is properly authorized by the computer by
attempting to initiate transactions that exceed a customer's credit limit. Parallel testing: The old and new systems operate simultaneously in all locations. The effect of the misstatement(s) is not pervasive to the financial statements and the overall financial statements are presented fairly. To assist auditors with maintaining an appropriate level of
professional skepticism when making professional judgments during an audit, this edition features the Center for Audit Quality's Professional Judgments the company sells directly to users through infomercials produced by the company and
through third-party distributors for sale to end users. This file includes all shipments recorded as sales in 2014. This applies to both manual and automated controls. Written termination notices, with properly documented reasons for termination, and appropriate official are required. According to PCAOB Auditing Standard 3 on audit
documentation, the complete audit documentation must be assembled by 45 days after the report release date. required 202 For each activity listed above, indicate in which phase of the audit the procedure was likely performed. Discipline Employees must know that they will be held accountable for failing to follow the company's code of conduct.
Another accounts payable clerk enters the invoice details in the accounts payable system and the system automatically generates requests for payment terms in the system. If you cannot decide the level of materiality from the given information, state the additional information that you would need to make a decision
It is called a preliminary judgment about materiality because, although a professional opinion, it may change during the engagement. Auditors should gain knowledge of the company's code of ethics and examine any changes and waivers of the company's code of ethics and examine any changes and waivers of the company's code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and waivers of the code of ethics and examine any changes and examine any changes are the code of ethics and examine any changes are the code of ethics and examine any changes are the code of ethics and examine any changes are the code of ethics and examine any changes are the code of ethics are the co
of senior management. Specify acceptable risk of overreliance. Standard Unmodified opinion audit report for nonpUblic entitieS To allow users to understand audit reports, AICPA auditing standard unmodified opinion audit report in Figure 3-1 (p. Depending on
the arrangement, all or parts of an entity's IT hardware, software, and data might reside in an IT service center shared with other organizations and managed by a third-party vendor. Incentives and pressures exist that interfere with the application of professional skepticism, allowing subconscious biases to prevail. These are often called key controls.
Commissions are paid in the month following the month following the month follows: A misstatement in the financial statements can be considered material if knowledge of the misstatement will affect a decision of a reasonable user of the statements. If
management insists on financial statement disclosure that the auditor can either issue an adverse or qualified opinion or withdraw from the engagement. Evaluate the significance of the threat. conditions for Standard Unmodified opinion and Unit report Objective 3-2 Specify the conditions required to issue the standard Unmodified opinion or withdraw from the engagement.
unmodified opinion audit report. There are four decisions about what evidence to gather and how much of it to accumulate: 1. A test of control audit procedure is to inspect a sample of duplicate sales invoices for the initials of the person who verified the information. Such unpaid fees are considered a loan from the auditor to the client and are
therefore a violation of independence. For example, assume a client's internal controls require computer matching of all relevant terms on the customers. When performing nonstatistical audit sampling, the auditor uses judgment in generalizing from
the sample to the population to determine whether it is acceptable. 6-7 (ObjeCtive 6-4) What are the six elements of professional skepticism? (ICtV), is a marketer of "fountain of youth" beauty products. Four of these were for new customers. She burnt the documents. If a significant number of documents lack initials, the auditor should consider
implications for the audit of internal control over financial reporting and follow up with substantive tests for the financial statement audit. Note that the assessments in Table 9-1 are not in numerical form. (1) Sales invoice numbers, prices, discounts, extensions, and footings are independently checked. Barbara audited the additions with the following
results: The items over $20,000 contained no misstatements; however, the 50 small items contained a large number of misstatement audit. The evidence-planning worksheet shows that other factors must also be considered before making the final evidence decisions. These
alternative practice structures are permissible, but an AICPA Council resolution makes it clear that to protect the public interest, CPAs remain responsible for the conduct of their attest work as they are in traditional practice structures. Inventory turnover 7. Cash receipts transaction File This is a computer-generated file that includes all cash
receipts transactions processed by the accounting system for a period such as a day, week, or month. It is important to understand the distinctions between and uses of the two risks. The chart below is a breakdown of market share in the wholesale hardware market by competitor category, including the 2% market share held by the Company. What
updates have been made in the COSO framework in 2013 to enhance its acceptability? Microsoft® and Windows® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. Tests of controls, on the other hand, are applied only when the assessed control risk has not been satisfied by the procedures to obtain an
understanding. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and comprehensive systems and control procedures for accounts in the sales and collection cycle are related to internal control and audit objectives for tests of controls,
substantive tests of transactions, and tests of details of balances in the context of both the audit of financial reporting. The result is stated as a point estimate of the population misstatement plus or minus a computed precision interval at a stated confidence level. Explain the importance of
auditing in reducing information risk. trace cash receipt entries from the cash receipt entries 
of the audit engagement, the engagement management software will not allow archiving of the engagement file until all audit program steps have been electronically signed. Creating a positive feelings about their employer than when they
feel abused, threatened, or ignored. In this book, we refer to these pronouncements as auditing standards, and we distinguish between AICPA and PCAOB standards only when there are substantive differences. However, only the CPa examination is uniform among the 55 jurisdictions (the 50 states; Washington, DC; Puerto rico; the Virgin Islands;
Guam; and the Commonwealth of the Northern Mariana Islands); the other requirements vary among the jurisdictions. One of a CPA firm's basic objectives is to provide professional services that conform with professional standards. As studied in Chapter 8, the auditor first decides the preliminary judgment about materiality for the entire financial
statements, and then allocates the preliminary judgment amount to each significant risk of material improper revenue recognition. • Summary of procedures. Material fringe benefits, such as retirement benefits, are also subject to
manipulation. The overall objective of the ASB Clarity Project is to clarify and converge AICPA audit, attest, and quality control standards with the standards of the IAASB. Mar. To test this control, the auditor can prepare payroll transactions with 79, 80, and 81 hours for each sampled week and process them through the client's system in a manner
shown in Figure 12-9. This automated control is primarily designed to ensure the (1) accuracy of input. However, a major weakness in using industry ratios for auditing is the difference between the nature of the client's financial information and that of the firms making up the industry totals.
sales invoice and compare the total to the amount on the duplicate sales invoice. Part 2 / The Audit Process Auditors follow five closely related steps in applying materiality, as shown in Figure 8-5. The recorded population of accounts receivable in Table 17-1 consists of 40 accounts totaling $207,295. Visit Pronouncements/Australian-Auditing-
Standards aspx to find the Auditing Standards Made Under Section 336 of the Corporations Act 2001 of Australia. All steps of the Process must be followed carefully. A firm may not designate itself as "Members of the Enstitute of Certified Public Accountants" unless all of its CPA owners are members of the Institute. The following are the
requirements of the technical standards: technical standards General Standards General Standards of the financial statements of ABC Bank. After the update
procedure has been run on the computer, Khalid's assistant files all sales included in the sales printout. There are two primary levels of disciplinary action. Similarly, counts of inventory and marketable securities are also substantive tests. Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 31 Figure 1-2 relationships among
auditor, Client, and External Users Client or audit committee hires auditor Statements are provided The most common way for users to obtain reliable information is to have
an independent audit. Obviously, a much larger number of statements fall under the 1934 act than under the 1933 act. The occurrence and completeness objectives emphasize opposite audit concerns. 532). Explain the differences among management assertions about account balances
and management assertions about presentation and disclosure. This difference is called the sampling error. If records are not adequately protected, they can be stolen, damaged, altered, or lost, which can seriously disrupt the accounting process and business operations. Blaine was sold to another company in 2012 at a purchase price that was based
primarily on the 2011 audited financial statements. Why are the financial statement audit findings relevant to the auditor's opinion on the effectiveness of internal controls over financial reporting? For the year ended December 31, 2015, gross profit increased by $2,389,000 or 7% from 2014. Management, under the supervision and with the
participation of the Company's President and Chief Executive Officer assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effectiveness.
disbursement transactions are properly included in the accounts payable master file and are correctly summarized. (1) The entity's management places no emphasis on meeting publicized earnings projections. Based on the cumulative probabilities column in Table 15-7, an auditor could estimate a 27.94 percent probability that the sample came from
a population with more than a 5 percent exception rate of 5 percent or less. Self-review The threat that a member will not appropriately evaluate the results of a previous judgment or service performed or supervised by the member or an
individual in the member's firm and that the member will rely on that service in forming a judgment as part of another service. In light of all the information obtained for the unusual sales transaction, the auditor would determine whether the inclusion of
the transaction is in accordance with accounting standards. State the appropriate analysis of exceptions for each of the exceptions in the sample, including additional procedures to be performed by the auditor when obtaining an understanding of internal
control and assessing control risk. Management or the board of directors' personal net worth is materially threatened very hard by the entity's financial statements. Which of the following circumstances would most likely pose the
greatest risk in accepting a new audit engagement? Recording a cash receipt that did not occur violates the occurrence transaction-related audit objective for accounts receivable because a receivable that is still outstanding is no longer included in the records.
Impact of engagement risk on acceptable audit risk Factors affecting acceptable audit risk the Degree to Which external Users rely on the Statements when external users place heavy reliance on the financial statements, it is appropriate to decrease acceptable audit risk. Only the first two are discussed further because the last two were discussed in
earlier chapters. audit procedures When designing tests of controls and substantive tests of transactions, auditors emphasize satisfying the transaction three things. all rights reserved. balance-Related and pReSentatiOn and
diSclOSuRe-Related audit Objective 6-10 Link balance-related and presentation and disclosure-related audit objectives to management assertions. Explain how the tests of controls and substantive tests of transactions affect the tests of details of balances. 3-2 (Objective 3-1) What are the purposes of the scope paragraph under the
auditor's responsibility in the auditor's report? Explain why Ling set performance materiality for accounts receivable at the highest amount. This is the second year of the engagement, and there were few misstatements found in the previous year's audit. This control was most receivable at the highest amount of evidence required for
the audit is likely to be beyond that for which the management of Hillsburg Hardware is willing to pay. Genre/Form: Electronic books Additional Physical Format: Print version: Arens, Alvin A.Auditing and Assurance Services, Global Edition. Harlow: Pearson Education Limited, © 2016 Material Type: Document, Internet resource Document Type:
Internet Resource, Computer File All Authors / Contributors: Alvin A Arens; Randal J Elder; Mark S Beasley Find more information about: Alvin A Arens Randal J Elder Mark S Beasley ISBN: 9781292147881 OCLC Number: 1016999156 Description: 1 online resource (897 pages) Contents: Cover -- Title Page -- Copyright Page -- Contents
- Preface -- Part 1 The Auditing Profession -- Chapter 1 The Demand for Audit and Other Assurance Services -- Learning Objectives -- Nature of Auditing -- Distinction Between Auditing -- Certified Public Accountant -- Summary -- Essential
American Institute of Certified Public Accountants (AICPA) -- International and U.S. Auditing Standards -- Organization of U.S. Auditing Standards -- Quality Control -- Summary -- Essential Terms -- Review Questions -- Multiple Choice Questions from CPA Examinations -- Discussion Questions and Problems -- Chapter 3 Audit Reports -- Learning
Objectives -- Standard Unmodified Opinion Audit Report on Internal Control over Financial Report of Internal Contr
Nonstandard Report Wording -- Modifications to the Opinion in the Audit Reports -- Materiality -- Discussion of Conditions Requiring a Modification of Opinion -- Auditor's Decision Process for Audit Reports -- International Accounting and Auditing Standards -- Summary -- Essential Terms -- Review Questions Multiple Choice Questions from CPA
Examinations -- Discussion Questions and Problems -- Chapter 4 Professional Ethics -- Learning Objectives -- What Are Ethics? Often, auditors also examine customer orders and sales orders for the same information. This also means that adequate disclosures have been included in the footnotes and other parts of the financial statements. Familiarity
ownership relationship between the auditor and the client. • Part VI—Determine sample sizes using audit sampling and evaluate results, Chapter 15. For audits of non-accelerated filers and nonpublic companies, the decision to perform tests of controls is based on the effectiveness of controls and the extent to which the auditor intends to rely on them
to reduce control risk. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsburg Hardware Company, Inc. design of the AudiT progrAm After the auditor uses risk assessment procedures to determine the appropriate emphasis on each of the other four types of tests, the specific
audit procedures for each type of test must be designed. through d. Consistent with auditing standards, the firms using a nonstatistical approach. Such software can test controls in clients' computerized accounting systems, such
as in computerized accounts receivable systems that automatically authorize sales to existing customers by comparing the proposed sales amount and existing accounts receivable for $187,000. In the last 3 months of the current year, Oil
Refining Company decided to change direction and go significantly into the oil drilling business. The bank's equityderivatives unit had not experienced a major incident in 15 years. Audit sampling and nonstatistical sampling and nonstatistical sampling methods can be divided into two broad categories: statistical sampling and nonstatistical sampling. As a result, fixed assets may be a target for
manipulation, especially for companies without material receivables or inventories. With the profession's continued focus on the importance of applying appropriate levels of professional skepticism, we have expanded coverage in later chapters, including Chapter 10, which addresses the
auditor's responsibilities for detecting fraud. The format of the audit program should be similar to Table 16-5 (p. Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Figure 14-2 Methodology for Designing tests of Controls and Substantive tests of transactions for Sales Understand internal control — sales Assess planned control
risk — sales Determine extent of tests of controls* Design tests of controls and substantive tests of controls is determined by planned reliance on controls is determined by planned reliance on controls and substantive tests of controls are substantive tests of controls and substantive tests of controls are substantive tests of controls and substantive tests of controls are sub
as stated on the invoice to the list of unit selling prices authorized by management. 17-17 (Objective 17-4) What are some sampling? The use of evidence is not unique to auditors. PCAOB auditing standards require the auditor to evaluate the effectiveness of the audit committee's oversight of the company's
external financial reporting and internal control over financial reporting. U.S. investors must then rely on audit regulators in those countries to provide oversight of these audit firms. account Balance $ 50,000 1,200,000 250,000 $4,000,000 performance Materiality $ 5,000
30,000 50,000 15,000 $100,000 estimate of total Overstatements $1,000 20,000 ? Distinguish between business failure and audit risk. Moore discussed with CEO and CFO, read minutes, and reviewed other key reports and performance indicators. Prior-year account balances are usually included for comparative purposes, but are excluded from
Figure 6-5 in order to focus on transaction cycles. • Accounting and bookkeeping services. Some of the more common issues faced by members are summarized in this section. Tests of controls are performed on larger samples of transactions (perhaps 20 to 100), and often, observations are made at more than one point in time. 13-12 (Objective 13-3)
Assume that the client's internal controls over the recording and classifying of fixed asset additions are considered deficient because the individual responsible for recording new acquisitions has inadequate technical training and limited experience in accounting. Therefore, it is common for accountants to be CPAs who do not practice as independent
auditors. While at the client's premises at year-end, obtain information on the last few cash receipts cutoff testing. For example, if the auditor wants to test the occurrence of sales, the appropriate sampling unit is sales invoices recorded in the sales journal. The reasons will become apparent in the following sections. Bank
personnel enter all data, run applications hosted at Technology Solutions, and retrieve reports summarizing the processing of all bank transactions. The employee must continue to cover the shortage through repeated lapping, replace the stolen money, or find another way to conceal the shortage. 12-21 (Objective 12-2) The following are partial
descriptions of internal controls for companies engaged in the manufacturing business: 1. RepResentative sample from a population, the auditor strives to obtain a representative sample from a population, the auditor strives are one useful technique for detecting inventory fraud. Confirm accounts receivable ending balances and sales
terms, such as right of return and consignment arrangements. Auditors may use different terms to express the management assertions as long as all the aspects included in Table 6-3 are addressed. Decide Whether audit Sampling applies whenever the auditor plans to reach conclusions about a population based on a sample.
(2) Compare receivable turnover ratios with industry statistics for reasonableness. The purpose of the requirement is to help the successor auditor evaluate whether to accounts payable for advertising credits and other allowances. Note
the file includes a default payment date for unpaid invoices that will be updated once payment is received. She selected a few samples of revenue recognized by the Division during the year and noted that the Division booked the entire amount of cash received. She selected a few samples of revenue recognized by the Division during the year and noted that the Division booked the entire amount of cash received.
no discrepancy. Kinney, Jr., University of Texas at Austin W. Consists of the performance of professional Services for a client by principles of professional Responsibility from Record-Keeping Responsibility To ensure unbiased information,
record keeping is typically the responsibility of a separate department reporting to the controller. Inherent risk is most likely to vary from business for accounts such as inventory, accounts and loans receivable, investments, and property, plant, and equipment. Account for a sequence of shipping documents. This chapter explains audition and loans receivable, investments, and property, plant, and equipment.
planning in detail, including gaining an understanding of the client's business and industry, developing an overall audit plan and strategy, and making a preliminary judgment about materiality. If you cannot decide the level of materiality, state the additional information needed to make a decision. Auditors should verify that notes receivable or
accounts that should be classified as noncurrent assets are separated from regular accounts, and significant credit balances in accounts receivable are reclassified as accounts payable. 12-11 (Objective 12-4) Detail the steps how control risk assessment, results of test of controls and the audit risk model are used to determine the level of detection risk
for each balance-related audit objective. Describe the purpose and content of the AICPA Code of Professional Conduct. The guidelines above are the most conservative that should be followed. This objective is the auditor's counterpart to the management assertion of existence for account balances. Two aspects of the relationships in Figure 16-2
deserve special mention: 1. If the deficiencies constitute a material weakness but are corrected before year-end, the auditor may be able to test management's corrected controls. Asset balances for the current year (unaudited) and prior year (audited) are listed below, as well as Ling's initial determination of performance materiality for each account
560) presents the six replies that indicate a difference between the vendor's balance and the company's records. Timeliness. Design Substantive tests of transactions, auditors commonly use some procedures on every audit regardless of the circumstances, whereas others are dependent on the
adequacy of the controls and the results of the tests of controls. For the CPA, it is essential that the client and external financial statement users have confidence in the quality of audits and other services. 397), there are two control deficiencies, and each applies to only one transaction-related objective. You do not recall noticing any inventory held in
a separate area of the client's warehouse during the December 31, 2016, inventory observation. Table 11-2 (p. (Classify and Quick Sort). Figure 14-6 (p. How does PCAOB Standard No. 12 define "fraud risk factors"? Like relevance, if evidence is considered reliable it is a great help in persuading the auditor that financial statements are fairly stated.
The copies are sent to: (a) the selected supplier, after obtaining the authorization of the purchasing director; (b) the accounts payable department; (c) the warehouse department company's affairs as at 28 February 2015" instead of
"In our opinion, Tesco PLC's parent company financial statements give a precise view of the state of the parent company's affairs as at 28 February 2015" b. Recall from Chapters 9 and 10 that auditing standards require the auditor to presume that a fraud risk exists for revenue recognition. While reviewing Pinnacle's long-term debt agreements, you
identify several restrictive covenants. We will also assume two things: Objective 16-3 Design and perform tests of details of balances for accounts receivable. Common authorizations in the minutes include compensation of officers, new contracts and agreements, acquisitions of property, loans, and dividend payments. Compare the objective of an audit
under AICPA Auditing Standards and International Standards on Auditing. The term professional means a responsibility for conduct that extends beyond satisfying individual responsibility reporting is worth the cost, to
what information should be reported and how it should be presented. Explain the rule on contingent fees. For example, if most companies in the audit client uses LIFO and double-declining-balance depreciation, comparisons may not be meaningful. ASB pronouncements are
called Statements on Auditing Standards (SASs). As a result, they may have insider knowledge that may help the auditor identify heightened risks of 10, 50 blocks of 2, or one block of 10. Because of the expectation that public companies
should have effective internal controls for all significant transactions and accounts, there is an initial presumption that control risk is low in the audit of public company financial statements. Inspection, analytical procedures, and reperformance are moderately costly. k. The auditor should discuss the matter with management at a level above those
involved with the suspected noncompliance and, when appropriate, those charged with governance. Banana, Orange & Company believed the contingency was remote and agreed to the elimination of the disclosure. According to estimates of the Association of Certified Fraud Examiners, the average company loses five percent of Part 2 / The AudiT
Process its revenues to fraud, although much of this fraud involves external parties, such as shoplifting by customers and cheating by suppliers. (These are studied in subsequent chapters and will be integrated into the evidence-planning worksheet at that time.) The audit risk model is primarily a planning model and is, therefore, of limited use in
evaluating results. (3) extent of audit procedures, by perhaps using larger sample sizes. The Independence Rule does not apply to those types of services. (2) Employees who handle cash receipts are not bonded. Since a lower TER is used for significant account balances, the auditor requires a larger sample size to gather sufficient evidence about the
effectiveness of the control or absence of monetary misstatements. Although both selection approaches are consistent with sound statistical theory, auditors rarely use replacement sampling. Many companies have reported that their ICOFR was operating effectively, while others have reported that such controls were not effective in design or
operation. The six-step approach that follows is intended to be a relatively simple approach to resolving ethical Dilemmas 1. (3) it can prove due diligence in the audit of the financial statements of MacLain. Observation Appropriateness of Types of Evidence As discussed earlier in this chapter, the characteristics for
determining the appropriateness of evidence are relevance and reliability. (4) $30,000. In frauds like this, analytical procedures are typically not useful to signal the fraud, although the manipulation may affect related ratios such as accounts receivable turnover. the auditor's evaluation of Management's Integrity As we discussed in Chapter 8, as a
part of new client investigation and continuing client evaluation, if a client has questionable integrity, the auditor is likely to assess a lower acceptable audit risk. Corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meetings of a corporate minutes—the official record of the meeting of the meeti
of contracts are documented Engagement letter—an agreement between the CPA firm and the client as to the terms of the audit and related services Initial audit planning—involves deciding whether to accept or continue doing the audit for the client, identifying the client's reasons for the audit, obtaining an
engagement letter, and developing an audit strategy Known misstatements—misstatements in a class of transactions or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balances or from projections or account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates of account balance identified during the auditor's judgment about estimates and account about estimates are account about estimates and account about estimates are account about estimates and account about estimates are a
of misstatements based on the auditor's test of a sample from a population 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 Performance materiality—the materiali
of reasonable users; used in audit planning Related party—affiliated company, or any other party with which the client deals, where one of the parties can influence the management or operating policies of the other Related party transaction—any transaction between the client and a related party Revised
judgment about materiality— a change in the auditor's preliminary judgment made when the auditor determines that the preliminary judgment was too large or too small Risk assessment procedures—audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess
the risks of material misstatement Risk of material misstatement are materially misstatement—the application of performance materially misstatement—the auditor has sampled only a portion of the population Tolerable misstatement—the application of performance materially misstatement—the auditor has sampled only a portion of the population Tolerable misstatement—the auditor has sampled only a portion of the population Tolerable misstatement.
the materiality allocated to any given account balance (PCAOB standards) revieW Questions 8-1 (Objective 8-1) What are the benefits derived from planning audits? A typical misappropriation of cash involves failure to record a sale or an adjustment to customer accounts receivable to hide the theft. The profession must continue to educate statement
users about the role of auditors and the differences among business failure, audit failure, and audit risk. Results of Operations For the year ended December 31, 2016, gross profit increased by 9.6% or $3,495,000 from 2015. Collections on trade accounts receivable in the cash receipts journal is the primary operating inflow to cash in the bank. It is
easy to test for a cash receipts cutoff misstatement (often called holding the cash receipts book open) by tracing recorded cash receipts to subsequent period bank deposits on the bank statement. The computer calculates the invoice extensions and total sales amount using the information entered, along with prices in the inventory master file. He car
run the business without spending much time there because of Peter's effectiveness. Such assessments are typically based on discussions with management, knowledge of the company, and results in audits of previous years. • Column 4 includes internal control deficiencies. Use the information to identify accounts for which you believe there is a
concern about material misstatements. First, we examine several legal concepts pertinent to lawsuits involving CPAs. There is agreement within the profession and the courts that the auditor is not a guarantor or insurer of financial statements. The master file is updated from the sales, sales returns and allowances, and cash receipts computer
transaction files. The finance director is only provided with the total amount of payments to be made on the payment approval. How might the write-off of accounts receivable increase the risk of fraud related to cash receipts? amounts are Material but Do Not Overshadow the Financial Statements as a Whole The second level of
materiality exists when a misstatement in the financial statements would affect a user's decision, but the overall statements are still fairly stated and therefore useful. Moore assessed acceptable audit risk as medium because the company is publicly traded, but is in good financial condition, and has high management integrity. Express in general
terms the most important difference between the nature of the potential controls available for large and small companies. 5-13 (Objective 5-8) In what ways can the profession positively respond to and reduce liability in auditing? She was very happy with her results. auditors or insights obtained from background checks for new client engagements
may heighten the auditor's awareness of the risks of material misstatement. If the auditor reduces ARO from high to low, planned sample size must be increased. Because the estimated combined misstatement exceeds the preliminary judgment, the financial statements are not acceptable. The same thing can be done for all other objectives. 17-10
(Objective 17-2) Explain what is meant by acceptable risk of incorrect acceptance. Extract the 20 highest balance, prepare the confirmation letters to the selected company, have the client sign the letters, and have them sent out. Observe that performance materiality does not affect any of the four risks,
and the risks have no effect on performance materiality, but together they determine planned evidence. It is equally difficult to measure the amount of evidence implied by a given planned detection risk. There may be more than one specific balance-related audit objective for a general balance-related audit objective. To maintain the right to practice and the right tof the right to practice and the right to practice and the right t
as independent auditors in most states, CPAs must meet defined continuing education and licensing requirements. For manual controls, the auditor calculates likely misstatements for accounts receivable and inventory using known misstatements
detected in those samples. However, before any sale will be made, the board has agreed to evaluate this year's operating results. Auditors update their testing of internal controls near year-end to verify that the controls continue to operate effectively. Do all conditions have to be present for fraud risk to exist? Examples include accounting for the
numerical sequence of prenumbered documents, checking the accuracy of document preparation, and reviewing reports for unusual or incorrect items. Gilgamesh Goods has been in business since 2005; however, this is the second time Yosef's firm has dealt with the company. First, the auditor identifies internal controls, if any exist, for each
transaction-related audit objective. (e) Moderately large performance materiality because a relatively large number of misstatements are expected. Nonprobabilistic sample selection methods include: 1. Although it is common in practice to assess inherent and control risks for each balance-related audit objective, it is not common to allocate
materiality to those objectives. Bill of lading is not attached to the duplicate sales invoice and the customer order. To reduce the potential for theft, fixed assets should be periodically inventoried. Review aged trial balance for large and unusual
furious with you. It is difficult to assess the potential misstatement of an account that the auditor does not audit. The objective of alternative procedures is to determine by a means other than confirmation whether the nonconfirmed account existed and was properly stated at the confirmation date. Internal audit plays a key role in monitoring activities
to ensure that antifraud programs and controls are operating effectively. CPA firms prepare corporate and individual tax returns for both audit and nonaudit clients. However, any referral fees for CPA services must also be disclosed. Customer checks are received for less than the customers' full account balances, but the customers' full account
CoSo Framework 377 Figure 11-1 Example Section 404 Management Report on Internal Control Over Financial Reporting The management of Marble Corporation is responsible for establishing and maintaining adequate internal Control Over Financial Reporting.
of 50 items from a very large population and an exception rate of 5 percent. Nonetheless, the expectation gap often results in unwarranted lawsuits, which ultimately result in millions of dollars spent in defense. This covers implementation, security and conversion issues of the software. Absence of causal connection in third-party suits often means
nonreliance on the financial statements by the user. Cash receipts from sales on account have been misappropriated. Asare, University of Florida David Baglia, Grove City College Brian Ballou, Miami University of Florida David Baglia, Grove City College Brian Ballou, Miami University William E. (3) consider the implications for other aspects of the audit and discuss the matter with the appropriate levels of management.
Sales transactions have been recorded in the proper period. In Figure 13-3 (p. Often, the auditor begins by making additional inquiries of management and others. required Chapter 4 / Professional ethiCs 137 5 Chapter LegaL LiabiLity Learning Objectives The Good, the Bad, and the Needy After studying this chapter, you should be able to The charity
trust Bill and Melinda Gates Foundation is suing both the energy company Petróleo Brasileiro SA (Petrobras) and its auditor PricewaterhouseCoopers LLP of Brazil (PwC) for the losses of tens of millions of dollars incurred by the charity due to plummeting values of their investment in the energy company. 10-11 (Objective fraud risk. The extent of
testing also depends on the frequency of the operation of the controls, and whether it is manual or automated. Your team has been assigned the responsibility of auditing the acquisition and payment cycle and one related balance sheet account, accounts payable. 14-3 (OBJeCtIVe 14-3) State one test of control and one substantive test of transactions
that the auditor can use to verify the following sales transaction-related audit objective: Recorded sales are stated at the proper amounts. In sampling for tests of balances, the auditor determines whether the dollar amount of an account balance is materially misstated. We are excited about the inclusion of a number of changes to the end-of-chapter
 homework material for all chapters. (1) Understating the sales journal (2) Overstating the accounts receivable control account (3) Overstating the accounts receivable subsidiary records (4) Understating the accounts receivable control account the
buses. 15-21 (Objective 15-7) List the major decisions that the auditor must make in using attributes sampling. (3) auditor's comments concerning the efficiency and competence of client management personnel. This report must be filed annually within 60 to 90 days after the close of each fiscal year, depending on the size of the company. CPA firms
need to ensure adequate review of the audit files that document the auditor's planning, evidence accumulation and other matters in the audit. At the end of the day, the salesclerks give their books to the supervisor, and the supervisor, and the supervisor compares the totals to the cash register tape. The lower and upper confidence limits for Hart
Lumber are ($1,760) and $19,840, respectively. Of course, peer reviews are expensive to conduct, so the benefits come at a cost. 455) shows the timing of the tests in each phase for an audit with a December 31 balance sheet date. Both the CPA firm next. The role of the ARSC
and services other than audits are included in Chapter 25. Except for audit procedure 18, random selection may be possible for cash receipt procedures 15 through 21. required 5-19 (Objectives 5-4, 5-5) Lauren Yost & Co., a medium-sized CPA firm, was engaged to audit Stuart Supply Company. For example, a total misstatement of $10 million would
be extremely material for Hillsburg Hardware Co. because, as shown in their financial statements, total assets are about $61 million and net income before taxes is less than $6 million. (Recall from Chapter 15 that all results were acceptable except for the accuracy and cutoff objectives for sales.) • Substantive analytical procedures. Based on the
information provided, list which analytical procedures you can use to determine whether trade receivables and the allowance for doubtful receivables are accurately reported. Generalize from the sample to the population. Specify acceptable risk The auditor specifies two risks: 1. The auditor can therefore conclude that controls for the accuracy
balance-related audit objective for accounts receivable are effective because the only transactions that affect accounts receivable are sales and cash receivable are sales and enters cash receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are sales and cash receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions that affect accounts receivable are effective because the only transactions are effective because the only transaction are effective becau
controls for a company in which all received through the mail several weeks after the sales have taken place. As a result, the salesman received no commission for that sale. 70 29,656 22.60 28,437 23.18 7,370 5.15 6,694 5.10 5,524 4.50 Other income and expense Interest expense Gain on sale of assets 2,409 (720) 1.68 (0.50) 2,035 0
1.55 0.00 2,173 0 1.77 0.00 Earnings before income taxes 
Advertising Sales and promotional literature Sales meetings and training Miscellaneous sales expense Earnings from operations $ $ Chapter 8 / Audit PlAnning And MAteriAlity 273 should calculate income statement account balances as a percent of sales when the level of sales has changed from the prior year—a likely occurrence in many
businesses. Reperform client procedures. This objective is the auditor's counterpart to the management assertion of rights and obligations for account balances. C Prelisting of cash receipts is prepared (C2). (4) a violation of generally accepted auditing standards. These are called transaction-related audit objectives in the remainder of this book. Use
the six-step approach discussed in this chapter to resolve the ethical dilemma. These are called presentation and disclosure-related audit objectives. Management cannot act one way and expect others in the company to behave differently. For example, the cost of an auditor's test-counting inventory (a substantive test of the details of the inventory
balance) often depends on the type and dollar value of the inventory, its location, and the number of different items, as well as the effectiveness of the client's controls over inventory. A Basis for Review by Supervisors and Partners The audit files are the primary frame of reference used by supervisory personnel to review the work of assistants. As a
result, applying materiality in practice is a difficult professional judgment. To perform audit procedures 12 through 14, the auditor will define the sampling unit as the duplicate sales invoice. How can each be reduced? Commission rates have not changed. These numbers are included to help you see the relationship between the two tables and Figure
14-6. Rental payments for the remainder of the contract are set at $312,000 per annum. According to AU-C 230.08, what are the requirements for the form, content, and extent of audit documentation? Obtain the accounts receivable aged trial balance and trace the balance to the general ledger (1). Figure 12-1 provides an overview of the process of
understanding internal control and assessing control risk. Operational audit 2. She has provided links to their Web sites and included quotes from her happy clients. Those standards required confirmation of receivables and observation of physical inventory, procedures that are standard today, plus guidance on the auditor's responsibilities for
detecting fraud. For each situation, describe whether it indicates a potential fraud risk. integrity. Without an effective control environment, the other four components are unlikely to result in effective internal control, regardless of their quality. Most auditors set a higher inherent risk in the first year of an audit and reduce it in subsequent years as
they gain more knowledge about the client. In the preceding two chapters, we examined tests of controls and substantive tests of transactions for the sales and collection cycle. In some cases, the SEC has required an extensive review of a major CPA firm, or made CPA firm, or made CPA firms make changes in their practices. The Private
Companies Practice Section (PCPS) provides practice management information to firms of all sizes. What is the objective of the IAASB? A remittance advice is used as a record of the payment received to permit the immediate deposit of checks received and to improve control over the custody of assets. In a three-way match test, the auditor compares
the quantity and description of items billed to the same information on the shipping document and customer order to determine whether they are in agreement. Audit documentation is usually maintained in computerized files. As advisory and consulting services
grow, performance measures for partners may emphasize 118 Part 1 / THE AUDITING PROFESSION revenue growth and profitability over audit quality. Identify three or more assurance services that may be provided by public accounting firms or other assurance providers. In previous years, your response from patients to confirmation requests has
been frustrating at best. How would you improve internal controls for each of the three companies?* *Based on AICPA question paper, American Institute of Certified Public Accountants. Such examinations may relate to financial statement fraud, asset misappropriations, money laundering, bribery, or more recently, theft of information via computer
hacking, and a long list of other fraudulent activities. Corporate governance and other control factors that reduce fraud risks are discussed in the next section. Obviously, internal documentation from a company with effective internal control is more reliable because the tabLe 7-4 appropriateness of types of evidence Criteria to Determine
appropriateness type of evidence Independence of provider effectiveness of Client's Internal Controls auditor does) Varies Confirmation High (auditor does) Waries—usually high Waries—usually high Varies
—external documents more independent than internal documents Varies Low Varies High Analytical procedures High/low (auditor does/client responds) Varies—depends on reliability of data Inquiries of client Low (client provides) Not applicable Low Varies—low to high Recalculation
High (auditor does) Varies High (auditor does) Varies High (auditor does) Waries High (auditor does) Waries High (auditor does) High (auditor does
counting of physical inventory, but the reduction in the related accounts receivable balance is not made. In such cases, other documentary evidence is necessary to verify that all sales are recorded in the sales journal. • A man was near death from a rare blood
disease. United National Bank has offered to loan Busch $6 million at a rate of 5.0% but requires Busch to provide financial statements that have been reviewed by a CPA firm. Among the requires Busch to provide financial statements that have been reviewed by a CPA firm.
services, subsidiaries it owns, and markets where it operates. This is because the AICPA Code with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Professionals are expected to
conduct themselves at a higher level than most other members of society. Each of the factors is subjective. Which of the following circumstances most likely would cause the auditor to suspect that there are material misstatements in the entity's financial statements? For example, a retail client that normally sells its products through company-owned
stores across the country may decide to sell to a competitor a large block of inventory located in a distribution center. 266 A thorough understanding of the client's business and industry and knowledge about the company's operations are essential for the auditor to conduct an adequate audit. The first is materiality. If the decision is made to confirm
accounts receivable before year-end, the auditor typically prepares a roll-forward schedule that recounts receivable balance at the confirmation date to accounts receivable at the balance sheet date. pROfeSSiOnal judgment ObjeCtive 6-5 Describe the key elements of an effective professional judgment process. 7-19 (Objective 7-8)
Define what is meant by a tick mark. (3) decrease. (2) Significant differences between the physical inventory count and the accounting records are not investigated. required 9-31 (Objectives 9-5, 9-6) Describe what is meant by acceptable audit risk. The AICPA, leaders of CPA firms, and educators should educate investors and others who read
financial statements as to the meaning of an auditor's opinion and to the extent and nature of the auditor's work. required 100 Read the preceding paragraphs to answer the following: a. If a client will not previde a comprehensive response, the successor should seriously consider the desirability
of accepting a prospective engagement, without considerable other investigation. In this chapter we focus on legal liability for CPAs both on a conceptual level and in terms of specific legal suits that have been filed against CPAs. We also discuss actions available to the profession and individual practitioners to minimize liability while, at the same
time, maintaining high ethical and professional standards and meeting the needs of society. essential terms Acceptable audit risk—a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk—a measure of how willing the audit opinion has been issued; see also audit assurance Audit
assurance—a complement to acceptable audit risk; an acceptable audit risk (AAR), inherent risk (IR), control risk (CR), and planned detection risk
(PDR); PDR = AAR/(IR × CR) Control risk—a measure of the auditor's assessment of the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the client's internal controls Engagement risk—the risk that the auditor or audit firm will suffer harm because of a client relationship, even though
the audit report rendered for the client was correct Inherent risk—a measure of the auditor's assessment of the susceptibility of an assertion to material misstatement before considering the effectiveness of internal control Nonroutine transaction—a transaction that is unusual, either due to size or nature, and that is infrequent in occurrence Planned
detection risk—a measure of the risk that audit evidence for a segment will fail to detect misstatements that could be material, should such misstatements exist; PDR = AAR/(IR × CR) Risk—the acceptance by auditors that there is some level of uncertainty in performing the audit function Significant risk—an identified and assessed risk of material
misstatement that, in the auditor's professional judgment, requires special audit consideration Review Questions 9-1 (Objective 9-1) Chapter 8 introduced the eight parts of the planning phase of an audit. Pippins v. 15-32 (Objective 9-1) Chapter 8 introduced the eight parts of the planning phase of an audit.
the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 595 c. Understand internal control, and design and perform tests of controls and substantive tests of transactions for cash receipts. Other risk assessment procedures ITEM 1.A RISK FACTOR DISCLOSURES 306 Other procedures may be performed to assist in the auditor's assessment
of the risk of material misstatement. the SFC successfully won the case to wind up China Metal recycling alleging evidence of accounting fraud3. Chapter 7 / Audit EvidEnCE 221 Audit Program. This understanding is necessary for both the audit of internal
controls over financial reporting and the audit of financial statements. The CPA's use of an engagement letter provides a basis to demonstrate a lack of duty to perform. It is believed that there is a reasonable possibility that internal control will not prevent or detect material misstatements on a timely basis. These can include such diverse items as
long-term notes and bonds payable, stock options, pension plans, contracts with vendors for future delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts for completion and delivery of manufactured products, royalty agreements, union contracts and account of the contract of the con
and planned evidence the same as an inherent risk of 60 percent and a control risk of 40 percent. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Some smaller Part 2 / The AudiT Process CPA firms will not do
audits of publicly held clients because of the risk of litigation or because of costs associated with registering the audit firm with the PCAOB. Dec. Figure 8-7 also includes the rationale followed in deciding performance materiality for each account. Excellent operating results may have the effect of keeping the division as part of Pinnacle for the next
few years. The accounting records were inadequate to uncover these illegal transfers. The only time anyone else, including the client, has a legal evidence or when they are examined by approved peer reviewers or regulatory inspectors. SelecTing Which Types of TesTs To
perform Objective 13-2 Select the appropriate types of audit tests. Part 2 / The AudiT Process Profit margin is similar to gross profit margin but subtracts both cost of goods sold and operating expenses in making the calculations. (4) Unauthorized remittance deductions made by customers or other matters in dispute are investigated promptly by a
person independent of the accounts receivable function. Before examining audit objectives in more detail, we first deal with management assertions. 16. When the auditor is confident that the client records all sales returns and allowances promptly, the cutoff tests are simple and straightforward. required Chapter 8 / Audit PlAnning And MAteriAlity
293 8-36 (Objective 8-7) Ling, an audit manager, is planning the audit of Modern Technologies, Inc. The Art Appreciation Society board of directors has identified a need to improve its internal controls over cash admission fees. The annual reports of many public companies include a statement about management's responsibilities and relationship with
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the CPA firm. Touche (1931) — Liability to Third Parties The creditors of an insolvent corporation (Ultramares) relied on the audited financials and subsequently sued the accountants, alleging that they were guilty of negligence and fraudulent misrepresentation. The first four parts of the planning phase of an audit are studied in this chapter. Upon
reviewing a new client's financial statements, Rukan, CPA, approaches the company's president. 7-20 (Objective 7-8) Explain the purposes and benefits of audit engagement management management software. Provide substantive evidence Analytical procedures done during planning typically differ from those done in the testing phase. Comment: Allowance as a
percentage of accounts receivable has declined from 6.4% to 6.1%. For example, if an auditor knows that financial statements will be relied on in a buy-sell agreement for the entire business, the amount that the auditor considers material may be smaller than that for an otherwise similar audit. the following month, ann was performing the same
procedure and obtained the same results. The following chart indicates the percentage of net sales by class of merchandise sold during the years 2016, 2015 15% 2014 10% 5% 0% Power Tools Hand Tools Landscaping Equipment Residential Construction MERCHANDISE TYPE
206 Commercial Construction Paint Products Marketing Program This year, the Company made a significant investment in a new advertising campaign. Who was Macqurie Bank's auditor for that period? raju admitted that he intentionally maintained the inflated revenues and profits because public knowledge of the company's poor performance
would likely lead to a takeover of the company, thereby exposing the fraud. The public key is distributed to all approved users of the e-commerce system. If the CPA encourages the client to take a deduction for which there is no support but has little chance of discovery by the IRS, a violation has occurred. These "topside adjustments" have been used
to manipulate financial statements. (3) the various assertions that are embodied in the financial statements. An independent auditor has the responsibility to design the audit to provide reasonable assurance of detecting errors and fraud that might have a material effect on the financial statements. The reason for including only key controls is that they are controls is the control of th
will be sufficient to achieve the transaction-related audit objectives and also provide audit efficiency. (2) detection risk. One bet paid off handsomely after an attack on the London transport system sent European markets into a dive.
appropriate part of Table 15-8 (p. Information and established Criteria accumulating and evaluating evidence To do an audit, there must be information and established Criteria by which the auditor can evaluate the information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information in a verifiable form and established Criteria accumulating and evaluating evidence To do an audit, there must be information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information in a verifiable form and established Criteria accumulating evidence To do an audit, there must be information in a verifiable form and established Criteria accumulating evidence To do an audit, there must be information in a verifiable form and established Criteria accumulating evidence To do an audit, there must be information in a verifiable form and established Criteria accumulating evidence To do an audit, there must be information in a verifiable form and established Criteria accumulating evidence To do an audit of the criteria accumulating evidence To do an audit of the criteria accumulating evidence To do an audit of the criteria accumulating evidence To do an audit of the criteria accumulation in a verifiable form and evidence To do an audit of the criteria accumulation in a verifiable form and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation and evidence To do an audit of the criteria accumulation
all inventory after store hours on the last day of each month for comparison with the perpetuals. In practice, auditors never know whether a sample is representative, even after all testing is complete. Several of the tests of controls within a
company encourage efficient and effective use of its resources to optimize the company's goals. This has no effect on the CPA firm's ability to continue the audit if the former auditor accepts a position such as assistant controller or accountant without primary accounting responsibilities. For example, the computer can prevent processing payment on
a vendor invoice if there is no matching purchase order number or receiving report number for that invoice included in the system. • For attributes 2-5, the incorrect billing to a customer and recording the trans- action is potentially significant, but no misstatement is likely to be for the full amount of the invoice. Under which line of defense will you
classify information security? In such cases, the analytical procedure constitutes substantive evidence in support of the related account balances. 14-13 (OBJeCtIVe been deposited? Ineffective general controls create the potential for material misstatements across all system applications, regardless of the quality of individual application controls. The
lead schedule for cash has been indexed as A-1, and the individual general ledger accounts making up the total cash on the financial statements are indexed as A-2 through A-4. Interest earned Interest received 12/31/16 bal. It performs the same function as the sales journal. Design an audit program. Patients make appointments to be seen by their
physician, who examines the patient and prescribes treatments and medications when needed. In designing tests of details of balances for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, auditors must satisfy each of the eight balance for accounts receivable, and the
approach automatically puts the numbers in sequence, making it easy to develop the appropriate documentation. Virginia M. Robert Frank, Amir Efrati, Aaron Luchetti, and Chad Bray, "Madoff Jailed After Admitting Epic Scam," The Wall Street Journal (March 13, 2009); 2. Compare the quantities on hand and unit prices on this year's inventory countries.
sheets with those in the preceding year as a test for large differences. Chapter 7 / Audit EvidEnCE 251 17. However, fairly recent tort reform legislation may result in a reduction of negative outcomes for CPA firms in federal courts. processing and recording Cash receipts remittance advice A remittance advice is a document mailed to the customer
and typically returned to the seller with the customer's payment. Many CPA firms have developed sophisticated advertising for national journals read by businesspeople and for local newspapers. Ownership interests of close family members, defined as a parent, sibling, or nondependent child, do not normally impair independence unless the member
knows or has reason to believe the ownership interest is material to the close relative or enables to exercise significant influence over the attest client. (attributes sampling). The auditor's responsibilities for audits of internal control are discussed in Chapters 11 and 12. C C Checks are restrictively endorsed (C3). with access to
assets. These estimates and judgments affect certain asset, liability, revenue, and expense account balances. However, the board has agreed that the sale of admission tickets must be an integral part of its improvement efforts. We also discuss the effects on auditing of the Sarbanes-Oxley Act and the Public Company Accounting Oversight Board
(PCAOB), as well as other standards and regulatory agencies that influence auditor performance. was met in cases in which the auditor knew all the relevant facts but made poor judgments. When the auditor knew all the relevant facts but made poor judgments. When the auditor is required to test the operating effectiveness of controls that mitigate these
risks in the current year audit, if the auditor plans to rely on those controls to support a control risk assessment below 100%. Often, bills of lading include only the number of boxes or pounds shipped, rather than complete details of quantity and description. Several terms commonly used to describe audit procedures are defined in Table 7-5. Auditors
are normally more concerned with the risk of overreliance because it impacts the effectiveness of the audit. Based on evidence gathered and evaluated, an auditor decides to increase the assessed level of controls will therefore depend on the nature of the controls and when
the company uses them. Monthly Statements Sending monthly statements is a useful control because it encourages customers to respond if the balance is incorrectly stated. To evaluate the effect of the issue on the audit of the financial statements, the auditor should consider the accounting and auditing standards and rules relevant to the issue.
Figure 8-8 (p. In such situations, the courts emphasized that the CPAs had requisite knowledge. The auditor will test year-end controls, but will also test a sample of controls, but will also test a sample of controls, but will also test a sample of controls that might identify unusual
transactions or events having audit implications. He needed to continue to delete and re-enter fake trades to avoid detection. Analytical procedures may include both financial and nonfinancial information, and they often use data aggregated at a high level. Examples of external documents
include vendors' invoices, cancelled notes payable, and insurance policies. At the other extreme, a sample of one or two items has an extremely high sampling risk. The nature of the client's business should have little or no effect on inherent risk for accounts such as cash, notes, and mortgages payable. Levin (1968) Reasonably limited and identifiable
group of users who have relied on the auditor's work. The reason for studying it now is to permit reference to different audit reports as we study the accumulation of audit evidence throughout this text. Which stratum accounts for the greatest number of purchases? Methodology for Designing Tests of Details of Balances for Accounts Receivable
Identify significant risks and assess risk of material misstatement for accounts receivable Phase I Design and perform tests of controls and substantive tests of transactions for sales and collection cycle Phase I Design and perform
substantive analytical procedures for accounts receivable balance Phase III Design tests of details of accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives Audit procedures for accounts receivable balance related audit objectives and accounts related audit objectives are related audit objectives and accounts receivable balance related audit objectives are related audit objectives and accounts related audit objectives are related audit objectives and accounts related audit objectives are related audit objectives and accounts related audit objectives are related and accounts are related at the related and accounts are related at th
evidence to be obtained from tests of details of balances must be decided on an objective-by-objective basis. Describe how PCAOB assertions and assertions as a second assertion as a second assertion as a second assertion as a second assertion as a second as a s
15-29 (Objectives 15-5, 15-7) You are going to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the attention cycle for the year ended 31 December 2016 for a private company and are planning how to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the audit of sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the sales and collection cycle for the year ended 31 December 2016 for a private company and are planning how to perform the year ended 31 December 2016 for a private company and are planning how to perform the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 2016 for a private cycle for the year ended 31 December 
purchases were made. It may not be practical for all members of the engagement team to be included in a single discussion. However, confirmations are relatively costly to obtain and may cause some inconvenience to those asked to supply them. The auditor needs to determine the cause of the decline to be confident that the financial statements are
not materially misstated. Total Average Monthly Balance and Interest Rate (total \div 12) Month end Balance $5,900,000 5,268,000 5,062,000 4,180,000 5,062,000 4,180,000 5,25% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50% 5.50%
5.50% $ 4,493,000 $ 247,115 Long-term loans: Beginning balance Ending balance End
the weeks rolled on, the staff auditor realized that there were a few confirmations that were just never going to come back and—figuring they were immaterial amounts—she made a note about the two missing confirmations and marked the workpaper as complete. In nonprobabilistic sample selection, the auditor selects sample items using
nonprobabilistic methods that approximate a random sampling approach. The audit firm and Nefret eventually agreed on adjustment to increase accounts payable by $260,000. Observe the procedures for banking in the cash sales by staff member. Understand Sarbanes- Oxley Act and other SEC and PCAOB independence requirements and additional
factors that influence auditor independence. Near the end of the audit, during the engagement completion phase, auditors proceed through the final two steps. Figure 13-5 Substantive analytical procedures Four-Step Approach to Designing Tests of Controls and Substantive Tests of Transactions Apply transactionrelated audit objectives to a class of
transactions (step 1) Identify key controls and make a preliminary assessment of controls (step 2) Design tests of controls (step 3) Audit procedures Sample size Items to select Timing Chapter 13 / Overall audit Strategy and audit PrOgram 461
When the auditor plans to use analytical procedures to provide substantive assurance about an account balance, the data used in the calculations must be considered sufficiently reliable. Discuss what Janes should do in each situation. Objective 13-7 Integrate the four phases of the audit process. All statements—balance sheet, income statement,
statement of changes in stockholders' equity, and statement of cash flows—are included in the financial statements are fairly stated. 14 Chapter Learning ObjeCtives After studying this chapter, you should be able to Audit of the sAles And
collection cycle: tests of controls And substantive tests of transactions 14-1 Identify the accounts and the 14-2 14-3 14-6 14-7 classes of transactions in the sales and collection cycle. Understand the Client's Industry and Business Auditors must obtain knowledge about a client's industry and business as a part of planning an audit. If Koss
had been subject to an integrated audit, the fraud may have been prevented or at least detected sooner. Collections are an ongoing problem because many of the customers have severe financial problems. First, the standard unmodified opinion audit report is different for audits of financial statements of public companies. Employees Hillsburg
Hardware currently employs 319 individuals. Recorded accounts receivable exist. The two most common areas of fraud are the creation of fictitious employees and overstatement of individual payroll hours. 528) shows the relationship for the two primary classes of transactions in the sales and collection cycle. For example, S-11 is for registration of
securities of certain real estate companies. All bills of lading numbers are accounted for weekly by the controller. Many members formerly working in government, industry, and education. An astute employee in the accounting office noticed that revenues collected from the lot seemed to increase after Sam's
departure. These overdrafts were included as liabilities on the balance sheet, but the balance sheet description of the liabilities. In addition to understanding accounting, the auditor must possess expertise in the accumulation and interpretation of audit evidence. 441), explain the differences among C3,
C2, and C1. At the end of each month, an accounting clerk accounts for all prenumbered receiving reports (documents evidencing the month and traces each one to the related vendor's invoice and acquisitions journal entry. Kateb Utu discussed expenditure of $40,000 for acquisition of a new computer system for
the Amman office to replace equipment that was purchases in 2012 and has proven ineffective. The National Association of State Boards of Accountancy (NASBA) Web site (www.nasba.org) provides information on licensure requirements and links to the Web site of each state board. Devise an evidence mix for the audit of sales and collection cycle for
the three clients above with respect to tests of control, substantive tests of transactions, analytical procedures and tests of details of balances. Bad Debt expense. In addition, it is economically inefficient for all users to verify the information
individually. Sales Executive salaries Factory hourly payroll Factory supervisors' salaries Office salaries Sales commissions Audited Balance 10/31/2015 Preliminary Balance 10/31/2016 $ 51,316,234 546,940 10,038,877 785,825 1,990,296 2,018,149 $ 57,474,182 615,970 11,476,319 810,588 2,055,302 2,367,962 You have obtained the following
information to help you perform preliminary analytical procedures for the payroll account balances. This method of management keeps all programmers excited about the job tasks because of the variety of assignments they receive. Obtain information about receivable
write-offs recorded during the current fiscal year for receivables included in the prior year audited financial statements and obtain other information to perform a hindsight evaluation of the reasonableness of the allowance account included in the prior year audited financial statements. The existence and completeness objectives emphasize opposite
audit concerns. responsibilities appropriate Competence and Capabilities Auditors are responsible for having appropriate competence and capabilities to perform the audit. • Method of financing growth. Read the description of each company's business included in Part II, Item 7 of Form 10-K and evaluate the similarity of each company as a basis for
making comparisons. The cash register is staffed by Mr. Lee most of the time. Therefore, the qualified opinion audit report. Attestation standards provide guidance to auditors who issue reports on the internal control of service organizations (service auditors), while auditing
standards provide guidance to auditors of user organizations (user auditor's report. 1 In this situation, both internal control and evidence about it are good. If the auditor's report and perform the audits to obtain
reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial respects. In making decisions about evidence for a given audit, both persuasiveness and cost must be considered. Objective Of cOnducting an audit Of financial
StatementS The preface to the clarified AICPA auditing standards indicates The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor on whether the financial statement users with an opinion by the auditor of the financial statement users with an opinion by the auditor of the financial statement users with an opinion by the auditor of the financial statement users with an opinion by the auditor of the financial statement users with an opinion by the auditor of the financial statement users with an opinion by the auditor of the financial statement users with a statement user and the financial statement users with a statement user and the financial statement users with a statement user and the financial statement users with a statement user and the financial statement users with a statement user and the financial statement users with a statement user and the financial statement
Chief Executive Officer Avis A. The rules for members in public practice apply to attestation services and, unless stated otherwise, apply to all services provided by CPA firms such as taxes and management services and, unless stated otherwise, apply to all services provided by CPA firms such as taxes and management services. List those relationships, ratios, and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness of accounts and trends that you believe will provide useful information about the overall reasonableness and accounts a constant and the overall reasonableness are also accounts and the overall reasonableness are also accounts and the overall reasonableness.
payable. Inquire of the warehouse manager if there is any consigned inventory in other locations. Also note the distinction between joint and several liability and separate and proportionate liability, because the amounts assessed will likely vary greatly between these two approaches when courts assess damages. Price authorization is meant to ensure
that the sale is billed at the price set by company policy. Acceptable risk of incorrect acceptance (ARIA). For a sale, a data entry operator erroneously failed to enter the information of inventory, and other important procedures may be impossible under
those circumstances. Assertions about classes of transactions and events for the period under audit 2. Fraud perpetrators are often knowledgeable about audit procedures. Elder, Mark S. Part 2 / The AudiT Process 1. This includes fraud by senior management that results in even immaterial misstatements. Figure 16-9 (p. Occurrence and rights and
obligations—Disclosed events and transactions have occurred and pertain to the entity. 5-4 (Objectives 5-1, 5-8) Discuss why many CPA firms have willingly settled lawsuits out of court. Although auditors may use one or any combination of testing approaches, they typically use: • Test data to do tests of controls and substantive tests of transactions •
Parallel simulation for substantive testing, such as recalculating transactions for substantive testing summary This chapter focused on the auditor's responsibility for understanding, evaluating, and testing internal control,
including integrated audits of financial statements and internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act and PCAOB requirements. Accounts receivable turnover 5. Compute the confidence limits. Figure 16-7 (p. Auditors will first use that information in assessing acceptable audit risk for the engagement as whole.
In a similar complaint, audit assistants and seniors at Deloitte allege the firm misclassified their duties as administrative or professional despite the duties being low-level. Choose the best response. Most people who commit such acts feel no remorse when they are apprehended because their ethical standards differ from those of society as a whole.
Four steps are essential to this assessment. After concluding that an amount cannot be collected, the company must write it off. If you have not decided on one level of materiality in part b., state the appropriate report for each alternative materiality level. Many companies use a bank to process cash receipts from customers. For example, the auditor
will determine whether receivables from related parties have been separated on the aged trial balance. A shared unmodified opinion audit report is appropriate when the portion of the financial statements audited by the other CPA is material in relation to the whole. Which of the 10 confirmation responses likely represent a misstatement? The
company's financial reporting systems were compromised as well. As a result, auditors need greater knowledge about major customers and suppliers and related risks. According to a New York Times article, it became clear that "mountains of documents had been stolen, internal data centers had been wiped clean, and 75 percent of the servers had
been destroyed." The hackers began releasing information to the Internet, including films that had not yet been released, and thousands of e-mails from Mr. Lynton's account. An auditor involved in any of these areas must have considerable tax knowledge and auditing skills to conduct effective audits. 140 Many accounting and legal professionals
believe that a major cause of lawsuits against CPA firms is financial statement users' lack of understanding of two concepts: 1. Objective 4-4 Describe the purpose and content of the AICPA Code of Professional Conduct. Any point between the two, such as C2, represents situations where the audit assurance obtained from tests of controls is less than
the maximum level of assurance represented by point C1. Information gained while obtaining knowledge about the client's business and industry and assessing this factor. Typically, this occurs after a customer files for bankruptcy or the account is turned over to a collection agency.
In the next chapter, we discuss how effective internal controls can reduce planned audit evidence in the adjustments for evidence of possible Misstatements. (3) accuracy, examine Journal entries and Other adjustments for evidence in the financial statements, even when
effective internal controls exist over the rest of the recording processes. performed f Footed. John McCrank and Jonathan Spicer, "Facebook Investors Left Guessing after NASDAQ Glitch," Reuters (May 21, 2012) (www.reuters.com); 4. What are the strengths? 12-32 (Objective 12-5) PCAOB Auditing Standard No. 5, titled "An Audit of Internal Control of Con
Over Financial Reporting That Is Integrated with An Audit of Financial Statements," provides guidance for auditors when performing integrated audits. Assuming that the auditor selects a point within the shaded area of Figure 13-3 that is
consistent with the assessed control risk the auditor decides to support with tests of controls. The two most expensive types of evidence are physical examination and confirmation. materiality for financial statements as a Whole Auditing standards require auditors to decide on the combined amount of misstatements in the financial statements that
they would consider material early in the audit as they are developing the overall strategy for the audit. Examples of key controls for Hillsburg Hardware are shown in Figure 12-3. In Table 14-2, the substantive tests of transactions directly relate to the objectives in the first column. The determination of these procedures is based on the tests of
controls and substantive tests of transactions, as illustrated in Chapters 14 and 15, and the executives faced charges both in the United States and Canada. Hubbard escalated the findings to the engagement partner. Subpoena or summons and
compliance with laws and regulations. For example, if inherent risk for inventory obsolescence is extremely high, it makes sense for the CPA firm to assign an experienced staff person to perform more extensive tests for inventory obsolescence and to more carefully review the audit results. As part of that analysis, the auditor considers a number of
factors such as whether he or she understands the form and substance of the transaction or event, whether the auditor has been able to corroborate the facts and assumptions that are important to the analysis, and whether the auditor has
identified any discrepancies or inconsistencies in the facts and information obtained. Some states include experience working for governmental units or in industry, including internal control? (Quick Sort) f. Which part is understanding internal control and assessing control risk?
second time. The sales invoices are prenumbered and the invoice numbers for this year are as follows: 1st quarter: 1 to 1423; 2nd quarter: 1424 to 4566; 3rd quarter: 4567 to 6924; 4th quarter: 6925 to 9300. Part 2 / The AudiT Process Figure 11-3 Five Components of Internal Control Environment Risk Assessment Control Activities
and retaining competent personnel; and holding individuals accountable for internal control responsibilities. We use the PCAOB terminology to reference the different auditor responsibilities. (1) It is difficult to prepare financial statements that fairly present a company's financial position, operations, and cash flows without the expertise of an
independent auditor. Chapter 3 contains examples of the new standard auditor's report format updated by the Clarified SASs. All remaining chapters of the textbook reflect the various revisions resulting from the issuance of the Clarified SASs. All remaining chapters of the textbook reflect the various revisions resulting from the issuance of the Clarified SASs.
briefly discuss auditor responsibilities below but provide a more extensive discussion in the next chapter. In prior cases, auditors and other third parties have been held liable as "aiders or abettors" of fraud. the delayed deposit was for the same store that had had a delayed deposit the previous month. Thorough investigation of all violations and
executives, but excluding commission salespeople, received a three percent salary increase starting November 1, 2015. Review PCAOB auditing standards related to the auditor's consideration of fraud in a financial statement audit, to answer questions in parts a. (4) ignore obtaining knowledge about the design of general IT controls and whether they
have been implemented. Regardless of the quality of the controls, personnel can make errors or commit fraud. Total amounts posted to the accounts receivable subsidiary records from remittance advices are compared with the validated bank deposit slip. Risk is a measure of uncertainty, whereas materiality is a measure of magnitude or size. The
facility. Decide whether audit sampling applies 3. The company is made up of three divisions. Underreliance affects the efficiency of the audit. When a member should evaluate whether the relationship or circumstance creates a threat
to following the rule. 18. The ARO of high means that the auditor is willing to take a fairly substantial risk of concluding that the control is effective after all testing is completed, even when it is ineffective. The need to maintain a confidential relationship with the client is expressed in the AICPA Code of Professional Conduct, which states • A member
to identify significant risks. (Filter) integrated case aPPlication— Pinnacle manufacturing: Part iv 12-36 (Objectives 12-1, 12-2) In Parts I and II of this case, you performed preliminary analytical procedures and assessed acceptable audit risk and inherent risk for Pinnacle Manufacturing. STATEMENT FROM NORRIS INDUSTRIES Pinnacle
Manufacturing Detroit, MI Amounts due as of December 31, 2016: Invoice No. 14896 15111 Date 12-27-16 12-28-16 Amount $88,314.64 (1) 205,610.64 Auditor's notes: (1) Agrees with accounts payable listing. This view appears now to be winning favor in the courts. Classification and understandability-
Financial and other information is appropriately presented and disclosures are clearly expressed. The horizontal line in Figure 12-4 depicts the likelihood of a misstatement resulting from the significant deficiency, while the vertical line depicts its significance. For these companies, the interested parties include the SEC, financial
analysts, and the general public. The same is true of average days to sell compared to average inventory turnover. What is the relationship between materiality and the phrase obtain reasonable assurance used in the auditor's report? For acceptable audit risk, the auditor decides the risk the CPA firm is willing to take that the financial statements are
misstated after the audit is completed, based on certain client-related factors. Organize your answer in the following are various audit procedures performed to satisfy specific transaction-related audit objectives as discussed in Chapter 6.
He reconciles the total receipts on the prelist to the deposit slip and to her printout. In addition to programming staff maintains the library of programs and data tapes, which is located in a locked room nearby. Clerical errors and Disputed amounts The most likely types of reported differ- ences in a client's records
are when the customer states that there is an error in the price charged for the goods, the goods are damaged, the proper quantity of goods was not received, and so forth. 8-22 (Objective 8-7) Assume a company with the following balance sheet accounts: Part 2 / The AudiT Process You are concerned only about overstatements of owner's equity. (7)
Providing valuation services on complex financial instruments for an audit client performed by individuals in a department that is separate from the audit department. For this problem, use the file labeled "Payroll" subfolder in the ACL Rockwood project. Francine McKenna, "Groupon: Ernst & Young's Accounting Challenged
Client," Forbes (April 23, 2012); 2. All All Y 8. However, the theft of company assets is often a management concern, regardless of the materiality of the amounts involved, because small thefts can easily increase in size over time and they often lead to significant reputational harm once discovered and disclosed. Select a sample of payroll checks and
agree hours to employee time records. The lead programmer is responsible for assigning duties among the programming staff. Fee pressures, scheduling, or workload demands may lead auditors to accept information too quickly. Moore assessed inherent risk as medium for existence and cutoff because of concerns over revenue recognition. Auditors
often use inquiry, as previously discussed, as part of that information-gathering process. In addition to understanding the design of the internal controls, the auditor must also evaluate whether the designed controls are implemented. However, while planning analytical procedures might be based on interim data or aggregate data, such as company-
wide sales for the first six months of the fiscal period, substantive analytical procedures will likely use disaggregate data, such as sales amounts by month and product based on data for the full year under audit. Variables Methods Auditors use the preceding statistical inference process for all the variables sampling methods. He keeps the money but
leaves the briefcase in a conspicuous place. The appropriate level of management should be at least one level above those involved, as well as senior management and the audit committee. The SEC has been working on a plan to determine whether to incorporate IFRS into the U.S. financial reporting system. In the event of actual or threatened
litigation, an auditor should consult with experienced legal counsel. In doing Part IV, the following steps are recommended: (1) Controls a. When the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, an unmodified opinion audit report with an explanatory paragraph is required, regardless of the
disclosures in the financial statements. For the Hart Lumber audit, assume an ARIA of 10 percent. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. When the amounts are so material and pervasive that a disclaimer of opinion rather than a qualified opinion is required, the first
(introductory) paragraph is modified slightly to say "We were engaged to audit...." The first paragraph of the auditor's responsibility is modified to indicate that the auditor was not able to obtain sufficient appropriate evidence to express an audit opinion. Pearson would like to thank and acknowledge Loo Choo Hong (Wawasan Open University), Eric
Leung (The Chinese University of Hong Kong), Jeff NG (The Chinese University of Hong Kong), Junaid Shaikh (Curtin University) and A. Evidence is any information being audited is stated in accordance with the established criteria. This will alarm the creditors. Send confirmations to
customers for large sales transactions made in the fourth quarter of the year to obtain customer responses about terms related to the transfer of title and ability to return merchandise. A separate listing of all unpaid bills is also automatically prepared, and both are given to Mr. Diab. Which parts involve the evaluation of risk? If the auditor is verifying
accounts receivable, for example, the planned audit procedures must be sufficient to satisfy each of the balance-related audit objectives. Explain the effect of your answer in requirement b. C Procedures require recording of cash on a daily basis (C7). Schroeter Senior Vice President and Chief Financial Officer, Finance and Enterprise Transformation
February 24, 2015 auditOR'S ReSpOnSibilitieS AICPA auditing standards state Objective 6-3 the overall objectives of the auditor, in conducting an audit of financial statements, are to: (a) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby
enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial statements, and communicate as required by auditing standards, in accordance with the auditor's findings. Specifically applied to
accounts receivable, they are called accounts receivable balance-related audit objectives and are as follows: 1. Explain your answer. Barbara forged ahead with her own judgment and selected 50 smaller items. As early as possible after the balance sheet date, the auditor obtains or prepares a listing of the general ledger accounts and their year-end
balances. Our audit will be conducted with the objective of our expressing an opinion on the financial statements. This understanding helps the auditor identify significant misstatements in the financial statements. Observe that each account has at least one cycle associated with it, and only cash
and inventory are a part of two or more cycles. Discussed with Chulick, who stated his busy schedule did not permit approving all sales. One method is to find the "blue book" value. A sampling distribution of the Audit Process to the sAles And collection cycle
Figure 15-7 Summary of Audit Sampling Steps PLAN THE SAMPLE Compare 1. The payroll application is programmed so that only human resource personnel are able to add employee master files. Four major areas in which the AICPA has authority to set standards and make rules are as follows: Objective 2-5 Describe the
key functions performed by the AICPA. We have discussed acceptance (ARIA) for nonstatistical and MUS sampling. Pilot testing: A new system is implemented in one part of the organization while other locations continue to rely on the old system. An auditor will most likely review an entity's periodic accounting for the
numerical sequence of shipping documents to ensure all documents are included to support management's assertion about classes of transactions of (1) occurrence. An example of a separate report is illustrated in Figure 3-4 on page 53. Explain possible reasons for this. Required Ratio 1. (MT, Inc.), a manufacturer of electronic components. The
financial reporting. Fraudulent financial reporting is an intentional misstatement or omission of amounts or disclosures with major customers and suppliers. What controls and deficiencies exist in the lines of reporting from IT to senior management? Tests of details
of balances help establish the monetary correctness of the accounts they relate to and therefore are substantive tests. Bellamy has disclosed this in the footnotes to the financial statements account classifications are internally verified (C8). It has been estimated that sales from this channel would contribute to around 5% of the company's total sales.
Laws and regulations with a Direct effect on the Financial Statements The provisions of certain laws and regulations, such as tax and pension laws and regulations, are generally recognized to have a direct effect on the amounts and disclosures in the financial statements. Effect on Audit Plan: Controls tested through attributes 1, 3, 6, 7, and 9 can be
viewed as operating effectively given the size of the allowance for sampling risk (e.g., TER - SER). Based on the preliminary understanding of the internal control of El&Fan, it is noted that there has not been much segregation of duties within the company due to limited manpower. For example, if all the exceptions in the tests of internal verification
of sales invoices occurred while the person normally responsible for performing the tests was on vacation, this would affect the auditor's evaluation of the incompetence of the regular employee. For example, the gross margin is a common percent
Company-The company is a manufacturer of luggages. Required Chapter 7 / Audit EvidEnCE 259 8 Chapter Audit PlAnning And MAteriAlity Learning Objectives The Fall of Enron: Did Anyone Understand Their Business? In the audit of historical financial statements by CPA firms, the criteria may be U.S. generally accepted accounting principles
(GAAP) or International Financial Reporting Standards (IFRS). The auditor identifies internal controls and evaluates their effectiveness, a process called assessing control risk. Arens Al Arens, founding author of this textbook, was the Pricewaterhouse Coopers Professor of Accounting Emeritus at Michigan State University. Significant accounting
response provides audit evidence, it is not considered a confirmation. The management then regularly tracks the performance to established targets for evaluation. When the auditor wishes to emphasize other matters, the report should include the heading "Other Matters." These paragraphs continue to be referred to as explanatory paragraphs under
PCAOB auditing standards. Inherent risk and control risk differ from planned detection risk in that they (1) arise from the misapplication of auditing procedures. The list of audit firms that have not yet been inspected by the PCAOB is publicly available so that investors have knowledge and can "invest at their own risk." Audit regulators from around
the world are collaborating through the International Federation of Independent Audit Regulators (IFIAR) to share knowledge with a goal of improving audit quality. (If the securities have been sold, users can recover the amount of the loss incurred.) The Securities Act of 1933 imposes an unusual burden on the auditor. The auditor will select and test
only the 3,895th cash disbursement transaction. is ultimately used to estimate the population characteristics. The senior was very busy with other work and grumbled to herself, "what a pain, no one ever returns these things . It would be extremely costly (and probably impossible) for auditors to have responsibility for finding all immaterial errors and
fraud. We will now continue with phase III by discussing sample results. Justify if the above answers will be changed: (1) If it is unlikely that the deficiency in Ranger Supply Company leads to material misstatements; (2) if
the management of System IT Company was able to remediate all the deficiencies before year end and the auditors. 13-3 (Objective 13-1) Distinguish between a test of control and a substantive test of transactions. Perform substantive tests of
details of balances. Several key-entry mistakes resulted in the exclusion of three invoices alow risk of overrelying on controls. For example, auditors commonly use higher TER and ARO levels for tests of credit approval than for tests of the occurrence of duplicate sales invoices and bills of
lading, required 598 a. Monitoring Fraud prevention programs and Controls For high fraud risk areas, management should periodically evaluate whether appropriate antifraud programs and controls have been implemented and are operating effectively. Failure to communicate and/or document required communications with those charged with
governance. Most auditors believe that the conduct of the audit in accordance with auditing standards is all that can be expected of auditors. Prenumbered sales invoices are not accounted for. Unmodified opinion aUdit report with emphaSiS-of-matter explanatory paragraph or nonStandard report wording Objective 3-4 Describe the five
circumstances when an emphasis-of-matter explanatory paragraph or nonstandard wording is appropriate to include in an unmodified opinion audit report. Two of the most useful are analytical procedures and documentary discrepancies. As described in Chapter 8, auditors are required to perform preliminary analytical procedures as part of audit
planning in every audit to better understand the entity and to assess client business risks. Table 15-2 indicates the audit procedures for the sales cycle for Hillsburg Hardware Co. where audit sampling is appropriate. Also assume recorded inventory of $1 million, current assets of $3 million, and net income before taxes of $2 million. Chapter 6 / Audit
Responsibilities And objeCtives 173 5. The board of directors consists of several individuals who own stock in ABC Outing. They also include the communication of entity values and behavioral standards to personnel through policy statements, codes of conduct, and by example. Most accounting systems involve technologies where many internal
verification procedures are automated as part of the system. Involving users also results in better acceptance by key users. Many clients outsource some or all of their IT needs to an independent organization commonly referred to as a computer service center, including application service providers (ASPs) and cloud computing environments, rather
and regulations is impacted by the following factors: auditor's responsibility to Consider Laws and regulations • Many laws and regulations primarily relate to operating aspects of the business and typically do not affect the financial statements and are not captured by the client's information systems related to financial reporting. Objective 12-2
Assess control risk by linking key controls and control deficiencies to transaction-related audit objectives. esseNtial terms Analytical procedures—evaluations of financial information through analysis of plausible relationships among financial and nonfinancial and nonfinancial data Appropriateness of evidence—a measure of the quality of evidence; appropriate
evidence is relevant and reliable in meeting audit objectives for classes of transactions, account balances, and conclusions the audit procedure—detailed instruction for the collection of a type of audit evidence Audit
program—list of audit procedures for an audit area or an entire audit; the audit program always includes audit procedures and may also include sample sizes, items to select, and timing of the tests Budgets—written records of the client's expectations for the period; a comparison of budgets with actual results may indicate whether or not
 misstatements are likely Confirmation—the auditor's receipt of a direct written or electronic response from a third party verifying the accuracy of information requested Current files—all audit files applicable to the year under audit External document—a document, such as a vendor's invoice, that has been used by an outside party to the transaction
Internal document—a document, such as an employee time report, that is prepared and used within the client's organization Lead schedule—an audit schedule—an
Permanent files—auditors' files that contain data of a historical or continuing nature pertinent to the current audit such as copies of evidence—the degree to which the auditor is convinced that the evidence supports the audit opinion; the two determinants of
persuasiveness are the appropriateness and sufficiency of the evidence Chapter 7 / Audit EvidEnCE 247 Physical examination—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation—the auditor's inspection or count of a tangible asset Recalculation and a tangible asset Recalculation a
of journals and subsidiary records Reliability of evidence—the extent to which evidence is believable or worthy of trust; evidence is reliable when it is obtained (1) from an independent provider, (2) from a client with effective internal controls, (3) from the auditor's direct knowledge, (4) from qualified providers such as law firms and banks, (5) from
objective sources, and (6) in a timely manner Reperformance—the auditor's independent tests of client accounting procedures or controls that were originally done as part of the entity's accounting and internal control system Substantive analytical procedure—an analytical procedure in which the auditor develops an expectation of recorded amounts
or ratios to provide evidence supporting an account balance Sufficiency of evidence—the quantity of evidence—the quantity of evidence supporting schedules—detailed schedules prepared by the client or the auditor in support of specific amounts on the financial statements.
or details of audit procedures performed Tracing—the use of documentation to determine if transactions or amounts are included in the accounting records Unusual fluctuations—significant unexpected differences indicated by analytical procedures between the current year's unaudited financial data and other data used in comparisons Vouching—the
wait until tests of controls are done to complete the three control-risk rows of the worksheet. At the time Ms. Sachdeva was arrested, more than 22,000 items were confiscated from her home that had been purchased using Koss Corporation funds. 22% 207 Business Properties The Company owns and operates its main warehouse and annual tests of controls are done to complete the three control-risk rows of the worksheet. At the time Ms. Sachdeva was arrested, more than 22,000 items were confiscated from her home that had been purchased using Koss Corporation funds.
administrative office. I talked to Ted Tom about the change and that Gardner said, 'Fine, I will help in any way I can.' Ted said Gardner sent over copies of analyses of fixed assets and equity accounts, which Ted gave to me. Management's responsibility to evaluate risks of fraud 3. For
simplicity, only three accounts are included. Management is also required by Section 404 to publicly report on the operating effectiveness of those controls. This increases the likelihood that improperly recorded information is included in the records—perhaps buried in a large amount of other information. Because of the need to complete some
reperformance and recalculation tests, many auditors perform them as a part of the original tests of controls. They are called Statements on Standards for Accounting and Review Services. Terms a. (c) the condition of each bus, using established
guidelines. For example, if inventory storeroom MADOFF COnvICTED In LARGEST InvESTOR FRAUD 342 On March 12, 2009, Bernie Madoff pled guilty to the largest investor fraud ever, in a Ponzi scheme with losses estimated at almost $21 billion. Another staff person has stated that this is common practice in the firm. She also believes that online
shopping and discount bookstores prevent the company from rapidly expanding its non-book items, such as magazines, candy, music, DVDs, and many other items sold. And most importantly, if you have any ideas that will help the client, bring them up. For example, a decline in gross margin percentages over time may indicate increasing competition
in the company's market area and the need to consider inventory pricing more carefully during the audit. The company also plans to make a considerable investment in modifications to the property on which the plant will be built. Recorded sales are supported by authorized shipping documents and approved customer orders (C2). (4) unaudited
financial statements. Which of the following internal controls will best detect the theft of valuable items from an inventory that consists of hundreds of dollars? For larger businesses, it is usually practical to incur costs to reduce information risk. Nefret's auditors selected a
sample of 8 of the 2,500 items for direct confirmation. Investigate collectibility of account balances. Twelve of the items were supported by examining the advertisements placed, and eight were supported by examining the advertisements placed, and eight were supported by ABC debit memos charging the vendors for the promotional allowances. Is he correct? 320 Accounting principles X X A member shall follow the
professional audit reporting standards promulgated by bodies designated by Council in issuing reports about entities' compliance with generally accepted accounting principles. Companies with their stockholders, regulators, and customers. An audit of a
Singaporean public company that is a subsidiary of a Japanese company that will be used for reporting by the parent company in Japan. Several of the other audit seniors follow the same practice." ethical Dilemma Using the same practice." ethical Dilemma Chapter 4 / Professional ethiCs 105 resolving the ethical Dilemma Using the same practice."
this situation that deal with the ethical issue and how the issue will likely be resolved: 1. 516 Part 3 / APPlicAtion of nonstatistical audit sampling We will now examine the application of nonstatistical audit sampling in testing transactions for control
deviations and monetary misstatements. 2nd 1100 (1974). (4) Cash transactions are electronically processed and recorded, leaving no paper audit trail. Many private and not-for-profit organizations have prescribed policies, contractual agreements, and legal require ments that may require compliance auditing. Obtain evidence in support of the
specific controls that contribute to the auditor's assessed control risk (that is, where it is reduced below the maximum), including integrated audits of internal control. It is not appropriate for the auditor to use a preliminary
judgment about materiality of $250,000 for both income before taxes and current assets. Input Controls are designed to ensure that the information entered into the computer is authorized, accurate, and complete. (2) List out some factors which may affect your determination of initial sample size. For example, a CPA firm may assist in
the installation of a client's information system as long as the client makes necessary management decisions about the design of the system. The parts of the audit most affected by the tests of controls and substantive tests of transactions for the sales and collection cycle are the balances in accounts receivable, cash, bad debt expense, and allowance
for doubtful accounts. Of course, it is difficult to prove nonreliance on the financial statements. For example, to obtain knowledge of the client's business and industry, auditors may tour the client's business and industry, auditors may be a client of the client's business and industry, auditors may be a client of the client's business and industry, auditors may be a client of the client's business and industry, auditors may be a client of the client's business and industry, auditors may be a client of the client's business and industry.
cost less because there are no second requests and no follow-up of nonresponses. Other areas of Fraud risk Although some accounts are more susceptible than others, almost every account is subject to manipulation. The total misstatement should include a projected misstatement and an estimated allowance for sampling risk. Professional
competence. Inherent risk and control risk are based on auditors' expectations or predictions of client conditions. The perpetrators held file-stuffing parties to create the fictitious policies. The process followed by auditors in assessing control risk for integrated audits of the
financial statements only is summarized in Figure 12-11. Management is responsible for identifying and measuring fraud risks, taking steps to mitigate identified risks, and monitoring internal controls that prevent and detect fraud. This procedure is not useful in discovering cash receipts that have not been recorded in the journals or time lags in
making deposits, but it can help Chapter 14 / Audit of the SAleS And ColleCtion CyCle 505 Figure 14-5 Control risk Matrix for Hillsburg Hardware Co. — Cash receipts DeFICIeNCY CONtrOLS accountant independently reconciles bank account (C1). 9-27 (Objective 9-8) The following questions deal with audit risk and evidence. These provisions were
adopted following the United States v. Acceptable risk of overreliance (ARO) b. The auditor has concluded a low risk of misstatement in the financial statement in the financial statem
entities. The following are examples of changes that affect consistency and therefore require an explanatory paragraph if they are material: 1. Some clients, such as fast-food restaurants, may generate sales mostly on a cash basis, resulting in a negligible accounts receivable balance. Which of the following is likely to be Donalds' best defense? The
major area of difficulty is inventory, where estimated misstatement including allowance for sampling risk of $47,250 is significantly greater than performance materiality of $36,000. Understand interview techniques and other activities after fraud is suspected. To help decide the number of shipments to select for testing, you decide to stratify on the
number of items shipped after excluding all shipments with fewer than 100 items. TB — Agreed to trial balance, Prohibiting contingent fees for attestation services and tax return preparation is important because of the importance of independence and objectivity. Foot g. 3-10 (Objective 3-4) The client changed from FIFO to LIFO inventory valuation
in the current year and reflected this change in their financial statements. If the seller will inform the customer now; otherwise, the seller will wait to see if the customer complains. Cast the balances of the Accounts Receivable Trial balance and trace
this to the General Ledger. Recently, there have been major consolidations in the wholesale hardware industry. Touche (1931), which established the Ultramares doctrine. Trace a sample of shipping documents to entry in the sales journal. Compute the point estimate of the total misstatement. Take a sample in which the probability of selecting any
individual population item is proportional to its recorded amount. Audit-related fees are for services such as comfort letters and reviews of SEC filings that can only be provided by CPA firms. In such a situation, the auditor is likely to increase assessed inherent risk and the extent of testing for the occurrence transaction-related audit objective for
sales. Jackson subscribed to $300,000 of the Clarion public stock offering. Circumstances provide an opportunity for management or employees to misstate financial statements. Documentation is needed for both statistical and nonstatistical and nonstatistical and nonstatistical and nonstatistical sampling to evaluate the combined results of all tests and to defend the audit if the need arises. The section of
the AICPA Code dealing with principles of professional conduct includes a general discussion of characteristics required of a CPA. Which of the following attributes is likely to be unique to the audit work of CPAs as compared to the work performed by practitioners of other professions? • The dollar amount of bad debt expense has not changed
significantly but has decreased as a percent of sales. (2) the auditor's report state whether or not the financial statements conform to generally accounting principles. Waseem, CPA, is Yosef's supervisor. His research focuses on audit firm practices and he served as the team leader for the American Accounting
Association Auditing Section PCAOB research synthesis teams on audit confirmations and audit sampling. Liquidity During 2016, our working capital requirements were primarily financed through our line of credit, under which we are permitted to borrow up to the lesser of $7,000,000 or 75% of accounts receivable outstanding less than 30 days
Because most auditors use attributes sampling for reasonably large populations, the reduction of sample size for smaller populations is ignored here. Payments are made by the accounts department via bank transfer on a weekly basis. This step is critical because it affects the auditor's decisions about both tests of controls and substantive tests.
Obtain prelisting of cash receipts and trace amounts to the cash receipts journal, testing for names, amounts, and dates (15). Operators follow the production schedule prepared by Cullen, who consults with user departments to develop the schedule. For example, a recorded accounts payable of $400,000 might be understated by more than $1 million
which may affect several totals, including gross margin, net earnings, and total assets. For example, auditors may visit inventory locations or test accounts that were not tested in prior periods. Each of these options includes a potential consequence, including possible termination by the firm. The extent of testing is affected by the effectiveness of
controls and results of the inquiries. Coster duped McKesson's auditors, and the investing public, into believing that the company had a huge drug inventory, worth multimillions of dollars, that didn't exist. A sequentially numbered goods received note is then generated which will be sent to the accounts payable department. A credit sale must be
approved by the supervisor from an approved credit list after the salesclerk prepares the three-part invoice. We believe that the most fundamental concepts in auditing concern determining the nature and amount of evidence the auditor should gather after considering the unique circumstances of each engagement. Payroll time cards 11. For
acquisitions only, use an Excel spreadsheet to select random numbers for the largest sample size in the acquisitions sampling data sheet. There are differences in the nature and account titles for a service industry, a retail company, but the key concepts remain the same. 11-29 (Objectives 11-3, 11-4) Your new audit client,
Hardwood Lumber Company, has a computerized accounting system for all financial statement cycles. Compliance audits for federally funded grant programs are often done by CPAs and are discussed in detail in Chapter 26. These procedures can either support the preliminary assessment or cause the auditor to make changes. How would you, as the
auditor, suggest ways to improve their system? 16-10 (Objective 16-4) What is a positive confirmation, including blank confirmation and invoice confirmation? Waseem: Maybe, but remember that this is a fairly new business. The audit program indicated that a sample of all items over $20,000 should be selected, plus a judgmental sample of smaller
items. Review changes to price file throughout the year for proper approval (reperformance and inspectations, or other • Job applicant screening for employees rewards inconsistent with expectations. Chapter 2 / The CPA Profession 69 3 Chapter Audit Report Was Timely, But at What
Cost? Obtain and document understanding of internal control design and operation Assess control risk Design, perform, and evaluate tests of controls Decide planned detection risk and substantive tests Flowchart An internal control flowchart is a diagram of the client's documents and their seguential flow in the organization. Merchandise received,
counted, and receiving report (3 copies) prepared based on count and purchase order. summAry This chapter concludes our discussion of the audit planning process. Chapter 25 describes this new type of service and distinguishes it from compilation and review engagement requirements. Unusual trends not observable at the aggregate level may be
detected when the data is analyzed in greater detail. 13-8 (Objectives 13-2, 13-4) Evaluate the following statement: "Tests of sales and cash receipts transactions are such an essential part of every audit that I like to perform them as near the end of the audit as possible. (4) The auditor has a greater burden of defense under the Securities Act of 1933
than the Securities Exchange Act of 1934. Before doing batch processing jobs, the operators generate an input listing report that summarizes the number of online input entries submitted during the day for processing, i. An example of an indirect ownership interest is the covered member's ownership of a mutual fund that has an investment in a
client. Patel, CPA (Signed) 96 Part 1 / THE AUDITING PROFESSION Other information • Bellamy is a private corporation and is presenting comparative financial statements. However, the cost of that approach makes having reasonable ARIA and ARIR a more desirable goal. (3) completeness of input. Such key performance indicators may include
market share, sales per employee, unit sales growth, unique visitors to a Web site, same-store sales, sales by country, and sales per square foot for a retailer. As Figure 15-4 illustrates, SER exceeds EPER for attributes 2, 4, 5, and 8. (2) Management does not correct internal control weaknesses that it knows about. † the number in parentheses after
each test of control and substantive test of transaction refers to an audit procedure in the performance format audit procedure in the performance format audit procedure and asked them to accept a major
shipment of goods before year-end. The GAO's primary responsibilities as a CPA firm. Create a new file of shipments summarized by customer. Assess control risk by linking key controls and control deficiencies to transaction for Congress, and it has many of the same audit responsibilities as a CPA firm.
Hillsburg's Objective 8-4 Perform preliminary analytical procedures. 14. The auditor is responsible for reasonable, but not absolute, assurance for several reasons: 1. Auditors use risks. Interpret your results. The online customer ordering
process is not integrated with the company's accounting system. The extent of partner review of key accounts will be extensive. As the audit progresses, they will likely use that information when making decisions about tests of details of balances. The following nine services are prohibited: 1. For many small firms, such services are far more important
to their practice than auditing, as most of their revenue may be generated from tax services. Critically evaluate her audit work on the sales and collection cycle. Bob Lake's firm encouraged the use of statistical coordinator for each office. 14-3 (OBJeCtIVe 14-3)
2) Explain the important aspects of billing customers. The four types of procedures are as follows: Objective 12-3 Describe the process of designing and performing tests of controls. When the financial statements are fairly stated but the auditor should issue
a(n) (1) adverse opinion. Auditor independence requirements and the AICPA Code are further discussed in Chapter 4. bal. Evidence obtained from within. Chapter 12 / Assessing Control risk And reporting on internal Controls 433 c. In general and without regard to the facts in this
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case, discuss the nature of generalized audit software and list the various types and uses. Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform initial audit planning Understand the client's business and industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform initial audit planning Understand the client's business and industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform preliminary industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assessand Identify significant risks due to fraud or error and industry Perform preliminary industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify significant risks due to fraud or error and industry Identify signifi
inherent risk Understand internal control and assess control risk Finalize overall audit strategy and audit plan • We conducted our audits in accordance with auditing standards generally accepted in the United States of America. How can information risk be reduced? Which of the following is least likely to be the appropriate auditor response? ARO
and sample size b. Throughout the rest of this book, we consider how the auditor plans and performs audits for detecting both errors and fraud. Most CPA firms provide certain services that enable their clients to operate their businesses more effectively. Others use numerical probabilities such as 1.0, 0.6, or 0.2. Again, the control risk matrix is a
useful tool for making the assessment. I believe the client prepared it, but I audited it. Describe any risks of material misstatement at the financial statement at the financial statement level. Prepare an audit schedule similar to the one illustrated in Figure 16-10 (p. However, a CPA firm can do tax returns and provide management services without being independent. Maintain
professional Skepticism and exercise professional Judgment Auditors are responsible for maintaining professional judgment throughout the planning and performance of the audit. After hearing this, Trent blew his stack. The difference between a business failure and an audit failure 2. In considering materiality
for planning purposes, an auditor believes that misstatements aggregating $10,000 will have a material effect on an entity's income statement, but that misstatements will have to aggregate $20,000 to materially affect the balance sheet. The rise of consulting has once again raised concerns by regulators. Although Nefret had poor internal controls,
Abdul & El-Emir selected a sample of 50 for confirmation of the several thousand vendors who did business with Nefret. For those who fail, more probing will be needed to understand why they failed and how they can pass in the future." 12 Chapter Learning Objectives After studying this chapter, you should be able to 12-1 Obtain and document an
12-2 12-3 12-4 12-5 12-6 12-7 understanding of internal control. You determine that document number sare as follows: Document First number 13/10 23/108 Check 12376 37318 Purchase order 31/82 17/200 Chapter 15 / Audit SAmpling for teStS of trAnsactions 56/11 23/108 Check 12376 37318 Purchase order 31/92 17/90 Chapter 15/94 33/108 Check 12376 37318 Purchase order 31/94 17/90 Chapter 15/94 33/108 Check 12376 37318 Purchase order 31/94 37318 Purchase order 31/94 33/108 Check 12376 37318 Purchase order 31/94 37318 
required a. The majority of universities generate a significant portion of their revenue from tuition. When auditors want to know the exception rate. Nay converted the customers' funds to his own use. (4) the maximum rate of exception that the auditor would be willing to
accept in the population without altering the planned reliance on the attribute. 3-3 (Objective 3-1) What are the purposes of the opinion paragraph in the auditor's report? For example, average operating income for a 3-year period may be used as the benchmark. In testing for the other four transactionrelated audit objectives, the direction of tests is
usually not relevant. The same is true for all other audit areas. The system does not backorder for undershipments smaller than 25%. 76). Part 1 / THE AUDITING PROFESSION IESBA CODE OF ETHICS FOR PROFESSIONAL Conductants is
also a principles-based framework consisting of three parts. Assume, for example, that a carefully developed procedure for counting inventory requires two employees to count independently. Provide instances where AICPA exempts their members from the above rule. Chapter 11 / Internal Control and CoSo Framework 379 COSO Internal Control
Objectives and Components O pe ra tio ns p Re t or in g C om ia pl nc e Entity Division Operating Unit Function Figure 11- 2 Control Environment Risk Assessment Risk 
Web site, other problems require students to examine recently issued financial statements or other corporate filings, or they expose students to best practices thought papers as part of the assignment. Is there any mechanism to internally verify if cash and credit sales transactions are charged to the correct general ledger account? Auditors
measurement methods are too imprecise to permit an accurate quantitative measure of the combined evidence. —In two cases the wrong price was used but the errors were under $200 in each case. 72 $ $228 SD 5 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle 169 4,761 7,225 10,000 729 1,681 1 576 1,369 10,404 3,025
5,184 $45,124 $45,124 2 100 ($2.26)2 99 SD 5 $21.2 630 5 $9,040 tabLe 17-14 Calculation of Confidence Limits (Cont.) Step 5. He examined additional transactions involving this customer and found that they had been handled the same way. Two months after the audit report was published, Coco Audio filed for bankruptcy. Basis for Adverse Opinion
(Same wording as the Basis for Qualified Opinion paragraph in Figure 3-10) Adverse Opinion In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly the financial position of Ajax Company as of December 31, 2016, or the results of
its operations and its cash flows for the year then ended. Figure 10-3 summarizes the profile of the fraud perpetrators in 348 actual fraud cases examined by KPMG. Others are closely related to accounting, such as income tax regulations and antifraud legal provisions. Appropriateness Audit standards require the auditor to accounting, such as income tax regulations and antifraud legal provisions.
appropriate evidence to support the opinion issued. Let's examine the three variables methods individually. A similar relationship exists for the completeness transaction-related audit objective. required 14-28 (OBJeCtIVeS 14-3, 14-5) The following are common audit procedures for tests of sales and cash receipts: 1. Chapter 7 / Audit EvidEnCE 249 7
22 (Objectives 7-5, 7-6) The following questions concern the use of analytical procedures during an audit. The accounts, separated by strata: Stratum Criteria 1 > $25,000 $5,000-$15,000 $4 The SEC requires management to include its report on internal control in
its annual Form 10-K report filed with the SEC. To compensate for these potential overlaps of duties, it is important for companies to separate major IT-related functions. Table 2-1 provides revenue and other data for some of the largest accounting firms in the United States. Assume that the auditor decided to
stratify as follows: Stratum 1 2 3 Stratum Criteria >$15,000 $5,000-$15,000 2n, where SD is the population standard deviation and n is the Sales Accounts Receivable Ending balance Sales transactions Cash receipts transactions
Audited by TOC Audited by TOC Audited by SAP Audited by STOT Audited by SAP Audit
(SAP) Audited by SAP Tests of details of balances (TDB) Sufficient appropriate evidence The amount of additional evidence required for tests of controls depends on two things: 1. Trace five accounts receivable master file to the aged trial balance. there is a lack of internal verification for the possibility of sales invoices being
recorded more than once (D1). Staff auditors are responsible for their own judgments documented in the audit files and should not change those conclusions at the request of supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors on the engagement unless the staff auditor agrees with the supervisors of the engagement unless the staff auditor agrees with the supervisors of the engagement unless the staff auditor agrees with the supervisors of the engagement unless the engagem
net income. Qualified Opinion adverse Opinion Disclaimer of Opinion Chapter 3 / Audit Reporting decisions. tabLe 10-5 Year Ended March 1, 1987 b 9 Months Ended March 3, 1985 Sales $352,523 $262,268 $136,319 Cost of sales (272,255) (194,371) (103,421) Gross profit
80,268 67,897 32,898 Gross profit percentage 22.8% 25.9% 24.1% year-end inventories 109,072 59,864 26,543 a 2.50 3.20 5.20b Inventory turnover a Year Ended March 2, 1986 Inventory turnover a Year Ended March 2, 1986 Inventory turnover a Year Ended March 2, 1986 Inventory turnover calculated as Cost of sales/Ending inventory turnover a Year Ended March 2, 1986 Inventory turnover a Year En
unlimited class of users that the auditor should have reasonably been able to foresee as being likely users of the financial statements. The general ledger accounts payable, and inventory accounts to the respective general ledge
accounts. Changes because of substantially different transactions or events, such as new endeavors in research and development or the sale of a subsidiary Items that materially affect the comparability of financial statements generally require disclosure in the footnotes. Auditing standards define materiality as the magnitude of misstatements that
individually, or when aggregated with other misstatements, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements. He then files it with all other paid invoices. For example, management can outsource certain operations, such as transferring cash collections from company personnel to
a bank lockbox system. In planning tests of inventories, Sessions used the audit risk model included in auditing standards to determine the number of inventory items BRS&B would test at year-end. Attributes of interest and exception conditions for audit sampling are taken directly from the auditor's audit procedures. Jacob Bunge, Scott Patterson,
and Julie Steinberg, "Peregrine CEO's Dramatic Confession," The Wall Street Journal (July 14-15, 2012) (www.wsj.com); 3. (2) adherence to specific rules (4) internal control. Performance materiality for accounts receivable is included at the bottom of the worksheet. (1) (2) (3) (4) expected amount of Misstatements Measure of tolerable Misstatements
No Yes No Yes No Yes Yes No Yes Yes No C. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit objectives related to the existence and
completeness of receivables. The clerk's tests do not include testing the quantity or description of the merchandise received. When controls are not considered effective or when the auditor finds deviations, substantive tests can be expanded in this phase or in phase III, along with considering the implications for the auditor's report on internal controls
over financial reporting in an integrated audit. Automated controls can be tested using the computer assisted auditing techniques described in Chapter 12. Every audit procedure obtains one or more of the following types of evidence: 1. Your firm has an employee who reads and saves articles about issues that may affect key clients. Unqualified
Opinion The auditor will issue an unqualified opinion on internal con- trol over financial reporting when two conditions exists between completeness and accuracy. • Systems development. ABC refused to John & Peter to obtain written
confirmations supporting the credits. The difference in the extent of testing is displayed graphically in Figure 12-8. Many internal auditors pursue certification as a certified internal auditors pursue both the CPA and CIA designations. The numbers in parentheses are a cross reference between the two tables. report of
Management Management's report on internal Control over Financial reporting. Visit the PCAOB Web site (pcaobus.org) and refer to the "Standards" tab. • There is a deviation in the statements' preparation in accordance
with GAAP and another accounting principle was applied on a basis that was not consistent with that of the preceding year. Recklessness in the case of an audit is present if the auditor knew an adequate audit was not done but still issued an opinion, even though there was no intention of deceiving statement users. and publicly disclosing the data at
the firm level. She divided all the invoices of the company into five strata, i.e. below £50, £51-£100, £101-£500, £501-£1000, and above £1000. To address sampling risk, auditors can use either nonstatistical methods for all three types of tests. The internal controls over acquisitions, cash disbursements, and perpetual records are
considered effective. Ten national chains exist in the geographic area in which Hillsburg Hardware Co. operates. Select the last 20 sales transactions from the current year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the first 20 from the subsequent year's sales journal and the subsequent year's sales journal and the subsequent 
Figure 14-7 illustrates the major accounts in the sales and collection cycle and the types of audit these accounts. For sales, the occurrence transaction-related audit objective affects the existence balance-related audit objective.
shipment is a sale or a consignment. 98 Part 1 / THE AUDITING PROFESSION 3-26 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. m. required 11-30 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. m. required 11-30 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. m. required 11-30 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. m. required 11-30 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. m. required 11-30 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner on the engagement independent situations are the audit partner of the engagement independent situations are the engagement independent situati
on cybersecurity; yet, incidents on cyberattacks have still been proliferating in the media. Moreover, the segregation of duties between the shipping and the billing function also enhances the likelihood of recording transactions in the proper period. Prepare an adjusting entry to correct the financial statements for the year ending June 30, 2011.
Auditing standards require the engagement partner and other key engagement team members to discuss the susceptibility of the client's financial statements to material misstatement. 8-18 (Objectives practice. Figure 12-4 Identify Deficiencies, Significant Deficiencies, and Material Weaknesses Evaluating Significant Control Deficiencies
SIGNIFICANCE Material Meakness LIKELIHOOD Remote Reasonably Possible Immaterial "Sectionin404 in the Annual Report," Journal of 2004, pp. 10-21 (Objective 10-6) The following questions address fraud risks in specific audit areas and accounts.
such as a tax-related engagement, may provide important knowledge about unique or nonroutine transactions that indicate a heightened risk of material misstatement. ASIC published Regulatory Guide 187: Auditor Rotation in 2007 which explains how ASIC exercises relief power in modifying auditor rotation requirements. For each substantive
analytical procedure or test of details of balances procedure, identify the balance-related audit objectivity and Objectivity 
free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. The IRS, under the direction of the Commissioner of Internal Revenue, is responsible for enforcing the federal tax laws as they have been defined by Congress and interpreted Part 1 / THE AUDITING PROFESSION by the courts. He
recognized the risk for improper recording of sales, and he insisted that his staff confirm all receivables at yearend directly with customers. Auditors should follow these steps carefully to ensure proper application of both the auditing and sampling requirements. An auditor of a large public company identifies a material weakness in internal control.
Substantive tests of transactions are used to verify transactions recorded in the journals and posted in the journals and posted in the journals and posted in the journals are used to verify transactions recorded in the journals and posted in the journal posted in th
business functions and leaders in the oversight of day-to-day operations. phase IV: Complete the audit report, and perform other forms of
communication. The Form 10-K can be a rich source of information about a company's business, the risks it faces, and the operating and financial results of the fiscal year. A larger sample size is needed for a low TER than for a high TER. The auditor must have a sufficient understanding of the client's business to recognize whether a specialist is
needed. During your audit of Raceway.com, Inc., you conclude that there is a possibility that inventory is materially overstated. Based on the analytical procedures calculated in parts a. At all stages of any engagement, an effort is made to involve professional staff at appropriate levels in the accounting and auditing decisions. What is your conclusion
about the fairness of the recorded balance in accounts payable for Pinnacle Manufacturing as it affects the income statement and balance sheet? Chapter 9 provides expanded coverage of the auditor's performance of risk assessment procedures used to assess the risk of material misstatement due to fraud or error and how the auditor responds to
risks of significant misstatement with further audit procedures. For each assertion about classes of transactions and events, an assertion about account balances, or an assertion about account balances, or an assertion about presentation and disclosure. By doing so, we find the likelihood of finding a sample with at least one exception is 1 - .0769, or 92.31
percent. Changes are periodically added to the information herein. 189.) 6-31 (Objectives 6-8, 6-9) The following are specific transaction-related audit objectives applied to the audit of cash disbursement transaction on the financial statements. Most users have neither the competence
nor the time for such an evaluation. All significant differences were identified for follow-up. WHY the DELay? This assessment is a measure of the auditor's expectation that internal controls will prevent material misstatements from occurring or detect and correct them if they have occurred. Additionally, that chapter also highlights forthcoming
changes in Statements on Standards for Attestation Engagements (SSAEs) resulting from the AICPA's Clarity Project affecting attestation standards, which was recently voted for final issuance by the ASB. 520 Commissions and referral fees X A member in public practice shall not receive or pay a commission or referral fee for any client if the
member also performs for the client an audit, review, or certain compilations of financial statements, or an examination of prospective financial statements. To assist the board in its oversight, the board creates an audit committee that is charged with oversight responsibility for financial reporting. Existence deals with potential overstatement;
completeness deals with unrecorded amounts (understatement). 248 Part 2 / The AudiT Process 7-12 (Objective 7-5) At the completion of every audit, Roger Morris, CPA, calculates a large number of ratios and trends for comparison with industry averages and prior-year calculations. It includes all information entered into the system and information
for each transaction, such as customer name, date, amount, account classifications or classifications, salesperson, and commission rate. Explain the two "in accordance" GRI guideline reporting options. Of particular importance are requirements for CPA firms to follow several practices to increase the likelihood of independence of all personnel. These
latter three steps, as shown in the second bracket in Figure 8-5, are part of evaluating the results of audit tests. Accounts vere confirmed on December 31, 2015, and at that date the receivables consisted of approximately 200 accounts with balances totaling $956,750. Later, when discussing the issue with Martha, she says, "Charles does
this on all of his jobs. Examples of this qualification are given later in this chapter. Inherent risk 336 Part 2 / The AudiT Process account or accounts affected relevant audit Objectives Assessing And Responding to FRAud Risks Accounting Scandal Rocks Public Trust The accounting profession was under fire. Many auditors use a control risk matrix to
assist in the control risk assessment process at the transaction level. Evaluate whether the Item1 and Item 7 information between Coca Cola Co. and PepsiCo Inc. For example, the association currently offers specialty designations in business valuation, financial planning, information technology, financial forensics, and global management accounting
As part of this understanding, the auditor studies the client's industry and external environment and evaluates management objectives and business risks that could affect the financial statements, including accounts receivable. While John's firm has a number of valuation specialists as part of its staff,
John decided not to request their assistance in making an independent assessment of goodwill impairment given that the client's documentation was extensive and it would take too much time to have the firm's valuation specialists complete an independent assessment. Auditing guidance for auditors in investigating new clients will be discussed in
Chapter 8. Software programs enable the auditor to download the client's ending general ledger balances into a working trial balance file. The auditor considers confirmations ineffective evidence because response rates will likely be inadequate or unreliable. For example, if products sold, units shipped, or unit selling prices are wrong in billing
customers for sales, both sales and accounts receivable will be misstated. On the last day of the audit, you discover that one of your supervisors assigned to the audit has a material investment in Munich. As a result, a low level of evidence is needed. Specific review procedures are designed to bring to the auditor's attention any subsequent events that
audits is designed in three additional parts: tests of controls and substantive tests of transactions, substantive analytical procedures, and tests of details of balances. State the objectives 2. The auditor should review and abstract the documents early in the engagement to gain a better perspective of the organization and to better assess risk. Compare
the prelisting with the duplicate deposit slip (16). Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts Receivable Detail
tie-in Figure 16-7 Medium Medi
applicable Not applicable Substantive analytical procedures Good results Good resul
Medium Low High High Low Acceptable audit risk Performance materiality $265,000 Fran Moore, the audit senior, prepared the evidence-planning worksheet in Figure 16-7 as an aid to help her decide the extent of planned tests of details of balances. 4-7 (Objective 4-5) Explain how the rules concerning stock ownership apply to partners and
professional staff. Mary due to her disability has never served in the management of the company. Obtain the accounts receivable aged trial balance and trace the balance to the general ledger. The Federal Bureau of Investigation was involved in the investigation and ultimately, U.S. authorities concluded the North Korean government was involved
in the cyberattack in an effort to stop the film "The Interview" from being released to the public. Failure to appropriately document planning analytics, and control testing. Table assumes a large population. A common example in a small business is the
active involvement of the owner. (b) whether all of the buses are owned by Danville Bus Services. (f) Trace the balance in the duplicate sales invoice to the sales journal and accounts receivable master file for customer name, amount, and date. Observe unrecorded cash at a point in time (4). Yue was sentenced to a one year jail term and fined
RM400,000, in default of six months of imprisonment because of the offence. Materiality must be considered in relation to the member person's wealth and income. Rights are always associated with assets and obligations with liabilities. The court held that the accountants had been negligent but ruled that accountants would not be liable to third
needed is determined by the quality of internal controls. The client changed from a privately held company to a publicly held company to a privately held company to a publicly held co
1934 narrowed it. Failure to Record a Sale One of the most difficult frauds to detect is when a sale is not recorded and the cash from the sale is stolen. Are sales and earnings targets unrealistic, and are employees encouraged to take aggressive actions to meet those targets? P.J. Huffstutter, "Peregrine Boss Wasendorf Gets 50 Years Jail for Fraud,"
Reuters (January 30, 2013) (www.reuters.com); 2. The financial statements are presented fairly in all material respects in accordance with U.S. generally accepted accounting principles or other appropriate accounting framework. We have all worked in the auditing profession involving both large international audit firms and regional firms. Use you
judgment to estimate sampling risk, considering the size of the population and the amounts tested. For example, detailed standards have been developed for reports on prospective financial information in forecasts and projections. If the results of tests of controls support the design and operation of controls as expected, the auditor uses the same
assessed control risk as the preliminary assessment. Understand important auditor considerations related to the risk of material misstatement due to fraud. Define the audit risk model and explain each term in the model. required Chapter 3 / Audit RepoRts 101 4 Chapter Professional ethics Learning Objectives The United U-Li Corporation Berhad
Case After studying this chapter, you should be able to Auditors are always aware of the exact earnings information in the client's minutes of the board of directors meetings that are likely to be relevant to the auditor. If the auditor determines that the
presumption is not applicable to a particular audit Objective 9-3 Understand important auditor considerations related to the risk of material misstatement due to fraud. Each firm should document its quality control policies and procedures. Auditors use three Part 2 / The Audit Process approaches to test the effectiveness of automated controls when
and quantities on sales invoices indicate that those procedures are not being followed, the auditor should increase substantive tests of transactions for the accounts receivable subsidiary records and to the general
tests of controls. results of previous audit, because many types of misstatements found in the previous year's audit have a high likelihood of occurring again in the current year's audit, because many types of misstatements found in the previous year's audit, because many types of misstatements found in the previous year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again in the current year's audit have a high likelihood of occurring again year again and high likelihood of occurring again again again a
analytical procedures are used in Phase II. and Phase II. Chapter 8 / Audit PlAnning And MAteriAlity 285 8-8 (Objective 8-3) Define what is meant by a related party. The first is an analytical procedure for which sampling is
inappropriate. An SEC investigation was critical of the evidence gathered by ABC's audit firm, John & Peter, in testing accounts payable and the supplier credits. (2) Evaluate whether preparation of a proof of cash receipts is effective as an audit procedure for the cash collection cycle. The demand for assurance services continues to grow as
Assessment Control Activities Information and Communication Monitoring COSO's five components of internal control discussed in the preceding sections, and the related principles, are summarized in Table 11-1. Their main consideration is the extent to which they plan to reduce assessed control risk as a basis for the extent of tests of details of
balances. Study Table 18-5 (p. Throughout an audit, the auditor continually evaluates whether evidence gathered and other observations made indicate material misstatement due to fraud. For you to appreciate how auditing areas. In what ways do they
differ? Jason decided to rely on the contracts and sales transactions documentation to conclude that the sales were properly stated, given that the other information was only included in emails. Fourteen of the items were supported by examining the ads placed, and sixteen were supported by Nefret debit memos charging the vendors for the
promotional allowances. (4) Trace a sample of initial sales orders to sales recorded in the sales journal. 268) summarizes the four major parts of audit planning discussed in this chapter and the key components of each part, with a brief illustration of how a CPA firm applied each component to a continuing client, Hillsburg Hardware Co. There are four
additional parts of audit planning that are discussed in subsequent chapters. The presentation and disclosure-related audit objectives are identical to the management in the allocation, subject to the following two arbitrary requirements established
by Berger and Anthony, CPAs: allocation Illustrated • Performance materiality for any account cannot exceed 60 percent of $442,000 = $265,000, rounded). Judgment required to Correctly record account Balances and transactions Many account balances such as certain investments recorded at fair value
allowances for uncollectible accounts receivable, obsolete inventory, asset impairments, liability for warranty payments, major repairs versus partial replacement judgment related to valuation. Generalized audit software is used to test automated controls. It is
more difficult to decide how much of the materiality allocated to a given account should in turn be allocated to one or two objectives. In 2008, about US$320 million was circulated within eight days and such amount surged to about US$320 million was circulated within eight days and such amount surged to about US$320 million was circulated within eight days and such amount surged to about US$320 million in 2012. To provide relevant information, accountants must have a thorough understanding of the
principles and rules that provide the basis for preparing the accounting information. The order is filed in the customer order file. Which of the following controls would be most effective in detecting a failure to record cash received from customers paying on their accounts? An example is the use of storerooms for inventory to guard against theft.
Describe the structure of CPA firms. Note that the misstatements should be projected separately for each stratum. Which method do auditors usually follow? Companies may also manipulate earnings, to meet analysts' forecasts or benchmarks such as prioryear earnings, to meet debt covenant restrictions, to achieve a bonus target based FigUre 10-1
The Fraud Triangle Incentives/Pressures Opportunities Attitudes/Rationalization Chapter 10 / Assessing And Responding to FRAud Risks 339 tabLe 10-1 Examples of Risk Factors for Fraudulent Financial Reporting Three Conditions of Fraud Incentives/Pressures Opportunities Attitudes/Rationalization Management or other employees have incentives
or pressures to materially misstate financial statements. Typically, when negative confirmations are used, the auditor puts considerable emphasis on the effectiveness of accounts receivable, and assumes that the large majority of the
recipients will provide a conscientious reading and response to the confirmation request. For each internal control, identify the transaction-related management assertion(s) to which it applies. Indicate the three main types of audits. Outlook During 2016 we experienced another year of noticeable improvement, despite the economic environment.
Many privately held companies also create an effective audit committee. 227). Decide the Materiality for each Condition when a condition requiring a departure from a standard unmodified opinion exists, the auditor evaluates the potential effect on the financial statements. At the completion of an operational audit, management normally expects
recommendations for improving operations. Coso CoMponents of Internal Control COSO's Internal Control of the united States and the world. Customer name and account number on the invoice differ from the information
recorded in the sales journal. Suggest testing to evaluate the adequacy of the Sales Return Allowance. Using an appropriate sample selection method increases the likelihood of representativeness. The types of assurance services that CPAs can provide are almost limitless. Cloud computing is a computer resource deployment and procurement model
that enables an organization to obtain IT resources and applications from any location via an Internet connection. Occasionally, when a small change is identified for an application program, Cullen asks the day shift operator to implement that change is identified for an application program, and individual in a position to influence the attest
engagement, such as individuals who supervise or evaluate the engagement to meet earnings objectives. The bottom row of Figure 12-3 labeled "Assessed control risk" shows the auditor's conclusions about assessed control risk for Hillsburg Hardware. The Order
finds that Stewart, Harbor and Chopping engaged in improper professional care and sufficient professional statements, by failing to exer cise due professional care and sufficient professional statements, by failing to exer cise due professional statements, by failing to exer cise due professional statements, by failing to exer cise due professional statements.
ing to adequately plan the audit, as required by GAAS. 10-31-16 Perform cutoff tests. It is worth keeping in mind that at the end of the audit risk
and the legal liability of auditors. Auditing standards require that the auditors must carefully define the characteristics (attributes) being tested and the exception conditions. Document how you selected the numbers. The cost of inventory
includes raw materials (acquisition and payment cycle), direct labor (payroll and personnel cycle), and manufacturing overhead (acquisition and payment cycle), and manufacturing overhead (acquisition and payment cycle).
hardware and software and determining whether the hardware and software can handle the needed volume of transactions. In some instances, the auditor may confirm individual transactions rather than entire account balances, particularly for large transactions recorded close to year-end. As Table 2-1 (p. For example, the intentional or unintentional or unintention
inclusion of several large, subsequent period sales in the current period — or the exclusion of several current period sales returns and allowances — can materially overstate net earnings. Section 10 and Rule 10b-5 are often called the antifraud provisions of the 1934 act, as they prohibit any fraudulent activities involving the purchase or sale of any
security. 5-20 (Objective 5-5) The CPA firm of Bigelow, Barton, and Brown was expanding rapidly. If it does NOT agree with your records, please report any exceptions directly to our auditors BERGER & ANTHONY, CPAs Gary, Indiana who are conducting an audit of our financial statements as of December 31, 2016. When asked about the missing
documentation, the controller suggested this was an isolated clerical mistake. Without admitting or denying the allegations made in the SEC complaint, Xerox agreed to pay a $10 million fine, at that time the largest ever for a public company. Types of fraud Objective 10-1 Define fraud and distinguish between fraudulent financial reporting and
misappropriation of assets. Note the unshaded ovals with the words "Audited by TOC." For simplicity, we make two assumptions: Only sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances in cash and accounts receivable were audited in the previous year and are sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions are sales and cash receipts transactions and three general ledger balances make up the sales and cash receipts transactions are sales and cash receipts are sales are sales and cash receipts ar
considered correct. Inquiry as an audit evidence technique should be tailored to the purpose for which it is being used. He indicated that the scheme began out of financial desperation as he was unable to obtain capital. By briefly comparisons
and relationships ratio or Comparison possible Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory or cost of goods sold or obsolescence of raw material inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory or cost of goods sold or obsolescence of raw material inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory or cost of goods sold or obsolescence of raw material inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales commissions divided by net sales Misstatement of inventory Sales Commissions divided by net sales Misstatement of Sales Commissions divided by net sales Misstatement of Sales Commissions divided by net sales Misstat
returns and allowances or unrecorded returns or allowances subsequent to year-end Bad debt expenses as a percent of total manufacturing expenses as a percent of total manufacturing expenses within a total detail of the preceding
period, auditors often isolate information that needs further examination. revise ter or arO This alternative should be followed only when the auditor has concluded that the original specifications were too conservative. Lean Corp. Part 2 / The Audit process Part 3 Application of the Audit process to the sales And collection cycle Chapters 14-17 the
four chapters of Part 3 apply the concepts you learned in Part 2 to the audit of sales, cash receipts, and the related income statement and balance sheet accounts in the cycle. She calculated the gross margin based on the total sales. Business Operations and processes Understand Client's Business and Industry Industry and External Environment
Business Operations and Processes Management and Governance Objectives and Strategies Measurement and Performance 268 The auditor should understand factors such as major sources of revenue, key customers and suppliers, sources of financing, and information about related parties that may indicate areas of increased client business risk.
Discuss how materiality and risk are related and integrated into the audit process. For each of the preceding questions, identify the nature of the potential financial misstatements. When auditors must decide which type of test to select for obtaining sufficient appropriate evidence, the cost of the evidence is an important consideration. Assessing fraud
risk will be the focus of Chapter 10. case 8-38 (Objectives 8-2, 8-3, 8-4) John Peter was an audit partner in the firm of Banana, Orange & Company. Each population exception rate and sample size has a unique sampling distribution. A printout of the accounts receivable master file shows, by customer, the beginning balance in accounts receivable, each
sales transaction, sales returns and allowances, cash receipts, and the ending balance. To illustrate, assume a population with a mean of $40 and SD = $15), from which we elected to take many random samples of 100 items each. Source: Based on International Ethics Standards Board for Accountants, Code of
Ethics for Professional Accountants (www.ifac.org). Therefore, a report on both years' statements is needed. The Sarbanes-Oxley Act requires auditor's conclusions, for a period of not less than seven
years. General controls apply to all aspects of the IT function, including IT administration; separation of IT duties; systems development; physical and online security over access to hardware, software, and related data; backup and contingency planning in the event of unexpected emergencies; and hardware controls. Of course, the auditor has to
verify the appropriateness of the percentages used and be careful to modify the calculations for changed conditions. Perform analytical procedures and tests of details of balances (Phase III) d. tabLe 6-2 Cycles applied to Hillsburg Hardware Co. General Ledger accounts Included in the Cycle (See Figure 6-5) Cycle Journals Included in the Cycle (See
Figure 6-4, p. General Corporation The advantage of a corporation is that shareholders are liable only to the extent of their investment in the corporation. The management, including a number of newly joined board members, decided to implement a new system on highlighting potential suspicious transactions. Explain. Seek protection from
nonmeritorious litigation 2. Auditors can use one of several nonprobabilistic sample selection methods. State the four-step approach to designing tests of transactions. There are several reasons for this: remoteness of information, biases and motives of the provider, voluminous data, and the existence of complex
exchange transactions. The auditor may make a combined assessment of the risk of material misstatements or the auditor can separately assess inherent risk and control risk. Often, auditors refer to the term audit assurance (also called overall assurance) instead of acceptable audit risk. In the past, extensive tests of control wereast of control wereast of control risk.
used and there was limited substantive test for the audit. Sales are recorded on the correct dates. 6-21 (ObjeCtive 6-3) The following questions deal with errors and fraud. • Competence of management. Part 3 includes rules for all other members. For each of the potential misstatements in part c., list a substantive audit procedure to determine
whether a material misstatement exists. During this year, Al&Bee started expanding its business and established a number of shops in various Asia Pacific countries including Taiwan and Hong Kong. These include accounts such as long-term debt, stockholders' equity accounts, goodwill, and fixed assets. Because the methodology for cash receipts is
similar to that for sales, our discussion is not as detailed as detailed as our discussion is not as detailed as detailed as detailed as detailed as detailed a
assessing inherent risk: • Nature of the client's business • Results of previous audits • Initial versus repeat engagement • Related parties • Complex or nonroutine transactions • Makeup of the population • Factors related to fraudulent financial reporting • Factors related to
misappropriation of assets Nature of the Client's Business Inherent risk for certain audit objectives is affected by the nature of the client's business. The chapter also emphasizes conditions affecting the type of report the auditor must issue and the type of audit report applicable to each condition under varying levels of materiality. We review some of
commerce website. One common use of assessment inquiry is to corroborate management responses to earlier inquiries by asking questions of other employees. That client has not furnished financial statements to trade creditors in the past. An entity that can be controlled by any of the covered members listed above or by two or more of the covered
individuals or entities operating together For example, a staff member in a national CPA firm could own stock in a client corporation and not violate the land eposits made to the bank during the same period. The CPA had scienter (knowledge and intent to deceive).
approximately 10.5% and 8.5% respectively. Give two examples of each. One major limitation in the application of the audit risk model is the difficulty of measuring the components of the model. Part 2 / The AudiT Process auditor is less concerned with controls that affect the efficiency and effectiveness of company operations, because such controls that affect the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the difficulty of measuring the components of the audit risk model is the audit risk model in the audit risk model is the audit risk model in the audit risk model is the audit risk model in the audit risk model is the audit risk model in the audit risk model is the audit risk model in the audit risk model is the audit risk model in the a
may not influence the fair presentation of financial statements. As the story at the beginning of this chapter illustrates, the auditor will likely be held responsible if an incorrect audit report is issued. Notice how both a higher gross profit percentage and lower accounts receivable turnover ratio in the most recent two years that include the fraud helped
signal fictitious accounts receivable. 402 Part 2 / The AudiT Process †3. Checks are restrictively endorsed (C3). This chapter describes the opportunity for fraud to be perpetrated, including the risk of management override of internal controls. 570 Part 3 / APPlicAtion of the
Audit Process to the sAles And collection cycle are substantive tests, they reduce the extent to which the audit of the sales and collection cycle for Hillsburg Hardware Co., the direction of testing in audit procedures 12 through 14
in Table 15-2 (p. 348 Part 2 / The AudiT Process training All new employees should be trained about the company's expectations of employees' ethical conduct. KRIs can provide timely and relevant information for effective risk oversight. For each cash receipts transaction-related audit objective, identify one or more existing controls. Henderson
transactions by performing substantive tests of transactions. Fictitious revenues 2. The new auditor might need time to understand the workings of the financial statements. As a result of advancements in IT, even relatively small businesses use
personal computers with commercial accounting software for their accounting. In other words, acceptable audit risk of 2 percent is the same as audit assurance of 98 percent. If management and salespeople are compensated based on achieving this goal, there is increased incentive to record sales before they have been earned or record sales for
there something else the CPA firm could have done to detect this fraud during the audit? Chapter 5 ends this part with an investigation of auditors' legal liability. Covered members include the following: 1. The situation is totally different when the amounts are of such significance that the financial statements are materially affected as a whole.
struCture of CPA firms CPA firms CPA firms CPA firms certain and authorization for shipment. D. Collier responds by saying she believes that internal control cannot be adequate in many of the small companies she audits;
therefore, she simply ignores internal control and acts under the assumption of inadequate controls. The auditor assesses control risk for each objective by evaluating the controls and deficiencies for each objective. Some small clients lack the personnel or expertise to use accounting software to maintain their own accounting records. Inspection
Reperformance Compare—A comparison of information in two different locations. This ruling is known as the
                                                                                                                                                                   __. A $10,000 misstatement might be material for a small company but not for a larger one. For an annual audit, the end of the accounting period is the balance sheet date. May result in underbilling clients in the current and future
engagements. If the CPA firm concludes that acceptable audit risk is low but the client is still acceptable, the firm may accept the engagement but increase the fee proposed to the client. Explain the auditor's responsibility for discovering material misstatements due to fraud or error. Think about out time budget but bear in mind we have a reduced
audit fee!" Here minded Francis. Individuals in multiple offices of the firm may be involved, including offices outside the United States, if the client has operations in numerous locations around the world. Use the methodology discussed in this chapter. Information about the CPA examination can be found in The Uniform CPA Examination Candidates.
Bulletin and the Content and Skill Specifications for the Uniform CPA Examination, both of which can be downloaded from the CPA Examination site found on the AICPA Web site (www.aicpa.org). The main warehouse and administrative office are in the same 475,000 square-foot building. Jacob Bunge, "Peregrine CEO Arrested," The Wall Street
   burnal ( July 13, 2012) (www.wsj.com); 4. If Thompson alleges and proves constructive fraud (that is, gross negligence on the part of Doyle and Jensen), she will be able to recover her loss. In the past, county taxes have made up deficits, but in the past year, the county has also been incurring deficits because of high unemployment. Enough
is the risk that the auditor or audit firm will suffer harm after the audit is finished, even though the audit report was correct. accuracy—recorded transactions and is one part of the accuracy assertion for classes of transactions. When
properly applied under appropriate conditions, substantive analytical procedures can potentially identify a materially identify a materially threatened by the entity's financial performance. Respect includes notions such as civility, courtesy, decency, dignity, autonomy,
tolerance, and acceptance. N/A N/A N/A Figure 12-5 for Hillsburg Hardware includes two control deficiencies. For example, information about management's integrity and honesty obtained during client acceptance procedures, inquiries and analytical procedures done in connection with the auditor's review of the client's quarterly financial
statements, and information considered in assessing inherent and control risks may lead to auditor concerns about the likelihood of misstatements due to fraud. As an example, management asserts that all material transactions with related parties have been disclosed in the financial statements. Figure 7-3 illustrates the contents and organization of a
typical set of audit files. The audit committee's independence from management and knowledge of financial statements prepared by management. Read the minutes of the meeting of February 15, 2013. The walkthrough is normally applied to
one or a few transactions and follows that transaction through the entire process. The plaintiff loaned the company money, suffered a subsequent loss, and sued the auditor for recovery. What is meant by determining the degree of correspondence between information and established criteria? Similarly, $60,000 was assigned to other current assets
and to accrued payroll and payroll and payroll tax, both of which are large compared with the recorded account balance. The courts concluded that the CPA firm's written audit program was in conformity with auditing standards in existence at that time. Yosef: I think it's a bit suspicious. The gen- eral objectives are the same for any class of transactions, but the
specific objectives vary for sales, cash receipts, or any other classes of transactions. Chapter 5 / LegaL LiabiLity 157 5-7 (Objective 5-4) Why is it important for a CPA firm to get an engagement letter from their client before starting their duties? Except for substantive analytical procedures and risk assessment procedures, all four evidence decisions
apply to each type of test. The auditor will evaluate whether the recorded population is overstated or understated. Assume that in a population of sales invoices, 5 percent have no shipping documents attached as required by the client's internal controls. Part I is to perform preliminary analytical procedures as part of the audit
planning process. The engagement in-charge, Fran Moore, made the following decisions in the audit of Hillsburg Hardware Co.: tests of Details of Balances evidence-planning (ERP) system for your audit client. Select the last 20 sales transactions from the current
year's sales journal and the first 20 from the subsequent year's and trace each to the related shipping documents, checking for the date of actual shipment and the correct recording (14). Each state also has rules of conduct that are required for licensing by the state. Each day, accounting department clerks print submitted orders from the online
system. Just a few months earlier, she graduated from State University and had already passed three parts of the CPA examination. The inclusion in the audit files of a well-designed audit program completed in a conscientious manner is evidence of a high-quality audit. (3) maintain public confidence in the profession. Using the illustrative guidelines
in Figure 8-6, let's examine a preliminary judgment about materiality for Hillsburg Hardware Co. The guidelines are as follows: Illustrative Guidelines application to hillsburg hardware preliminary judgment about Materiality (rounded, in thousands) Minimum Earnings from operations Current assets Total assets Current liabilities Maximum
percentage Dollar amount percentage Dollar amount 3 $221 6 $442 3 1 3 1,531 614 396 6 3 6 3,062 1,841 793 If the auditor for Hillsburg Hardware decides that the general guidelines are reasonable, the first step is to evaluate whether any qualitative factors significantly affect the materiality judgment. • The introductory and opinion paragraphs
also refer to the framework used to evaluate internal control and that the audit was conducted in accordance with PCAOB standards. Thompson does not have a contract with Doyle and Jensen. If the estimated net overstatement amount for inventory had been $28,000 ($18,000 plus $10,000 allowance for sampling risk), the auditor probably would not
have needed to expand audit tests because it would have met both the tests of performance materiality ($2,000 + $18,000 + $28,000 = $48,000 < $50,000). Causes of Information risk 30 As society becomes more complex, decision makers are more likely to receive unreliable information.
Notice that the ARO judgment is numerical (5 percent) in the attributes sampling application (Figure 15-8). Because of the nature of computer processing, automated controls, if properly designed, lead to consistent operation of the controls. Which audit objectives require the greatest amount of evidence and which require the least? 444 Part 2 / The
AudiT Process acl PrOblem 12-35 (Objective 12-7) This problem requires the use of ACL software, which can be accessed through the textbook Web site. Financial Statement audits Fraud examiners perform a variety of forensic investigations such as examining books and records to detect and trace fraudulent transactions, interviewing suspects to
obtain information and confessions, writing investigation reports, testifying at trials, and understanding factors that motivate individuals to commit fraud. 6-7 Describe why the auditor obtains assurance by auditing transactions and ending balances, including presentation and disclosure. IMpaCt of It InfrastuCture on Internal Control Virtually all
entities, including small, family-owned businesses, rely on IT to record and process business transactions. There are different ways of segmenting an audit. It is possible to have a sample size that is not equal to those provided for in the attributes sampling evaluation tables. Segmenting that way is usually inefficient. Most firms use the name of one or
more of the owners. Implementation of new warehouse technology designed to increase productivity and reduce stocking and distribution costs. perform Walkthrough, the auditor selects one or a few documents of a transaction type and traces them from initiation through the entire accounting process.
Meanwhile, its now the worlds biggest online publishing firm of eBooks that focuses on short andfunctional novels, IT, business and literature for engineering, etc.. This chapter should help you make correct inferences about populations using either statistical or nonstatistical methods. If the risk of material misstatements (the combination of inherent
risk and control risk) is high for certain audit objectives for an account, the reviewer will likely spend more time making sure the evidence was appropriate and correctly evaluated. The trial judge overturned the jury verdict on the grounds that the CPA firm could not be held liable for damages under Rule 10b-5 unless there was proof that the CPA
firm had actual knowledge of the misstatement. • Bellamy Corporation is the defendant in litigation where there is a reasonable possibility that Bellamy may be required to pay a substantial amount of cash, which might require the sale of certain fixed assets. The major types of information that are often confirmed, along with the source of the
confirmation, are indicated in Table 7-3. An advance payment of $2.500 made by us in November 2015 should cover the two invoices totaling $1.350 shown on the statement attached. The times interest earned ratio shows whether the company can comfortably make its interest payments, assuming that earnings trends are stable, terms related to
Contract Law Breach of contract Failure of one or both parties in a contract to fulfill the requirements of the contract. Fraudulent financial reporting harms users by providing them incorrect financial statement information for their decision making. 17 What's new In thIs edItIon Current Coverage AICPA Clarity Projects Coverage of Revised AICPA
Code of Professional Conduct Expanded Coverage of Professional Skepticism and Auditor Judgment 18 Preface New auditing standards are released without regard to textbook revision cycles. The contract was partially completed as of year-end and had a material effect on the financial statements. As a result, the formats of audit reports for public
and nonpublic entities currently differ, although the overall substance of the content in the report is similar under both AICPA and PCAOB auditing standards. Cases of fraudulent financial reporting involving accounts payable are relatively common although less frequent than frauds involving inventory or accounts receivable. Ratios and other
analytical procedures are normally calculated using spreadsheets and other types of audit software, in which several years of client and industry data can be maintained for comparative purposes. Segregation of the purchasing, receiving, and cash disbursements functions.
prenumbered checks, properly accounted for Use of prenumbered receiving reports, properly accounted for Internal verification of documents and signing of checks by an independent, authorized person 7. Statement is not correct concerning analytical procedures.* Required 7-33
(Objective 7-5, 7-6) Following are the auditor's calculations of several key ratios for Cragston Star Products. The transactions were not in the usual form of dealings between First Securities and its customers. An important element of the control environment is an ongoing internal audit program. People outside of the profession need to understand
that accounting and auditing are arts, not sciences. This chapter studies assessing control risk and designing tests of transactions in the sales and collection cycle. However, the investigation disclosed that ABC's president made telephone calls to some suppliers who had received
confirmation requests from John & Peter and told them how to respond to the request. Because of the two aforementioned processes, we have managed to maintain a repeat-customer base. The auditor may tour the plant to obtain a general impression of the client's facilities, or watch individuals perform accounting tasks to determine whether the
person assigned a responsibility is performing it properly. Description of Significant Accounting Policies and Business Hillsburg Hardware is a wholesale distributor of high-quality power tools, hand tools, electrical equipment, landscaping equipment, residential and commercial construction equipment, and paint products. The auditor's approach to
obtaining evidence related to presentation and disclosurerelated audit objectives is consistent with the approach described in this chapter. Mobil Oil 21. What is a "bill and hold" transaction? Members of our author team have been involved in
standards setting activities of the Auditing Standards Board and the PCAOB. The AICPA Professional Ethics Division is responsible for investigating violations of the Code and deciding disciplinary action. This organizational structure has also become less popular as other forms of ownership that offer some legal liability protection became authorized
under state laws. Because he is so knowledgeable about the business and each customer, he grants credit, authorizes all sales allowances, and charges off uncollectible accounts. As an example, if the client manually compares a purchase order, receiving report, and vendor's invoice before approving payment to a vendor, an auditor may select a
sample of recorded purchases throughout the year and verify the documents were properly matched and approved for payment. Audit SAmpling for teStS of detAilS of BAlAnceS Both Statistical and Nonstatistical Sampling Are Acceptable Under Auditing Standards, But Whichever Is Used, It Must Be Done Right Bob Lake was the manager on the
audit of Images, Inc., a specialty retailer that had shops throughout the Midwest. Batch input controls are described in Table 11-3. Even though the control is not operating effectively, the invoices may still be correct, especially if the person originally preparing the sales invoices did a conscientious and competent job. The principles related to
reporting note that the auditor is responsible for expressing an opinion in the form of a written report about whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial statements are presented fairly, in all material responsible for expressing an opinion in the form of a written report about whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial statements are presented fairly, in all material respects, in accordance with the applicable financial statements are presented fairly, in all material respects, in accordance with the applicable financial statement and it is a statement an
part of an organization's operating procedures and methods. The right side of the audit program also includes the balancerelated audit objective 7-3 Specify the characteristics that determine the persuasiveness of evidence. Upon the eve of completion of
the placement, it was aborted when one major investor withdrew. What theory or theories of liability, if any, are available to Whitlow & Company's customers and shareholders under common law? However, an awareness of common fraud conditions and other fraud detection techniques increases an auditor's likelihood of identifying misstatements
due to fraud. Combine the information obtained to reach an overall conclusion as to whether the financial statements are fairly presented. Our coverage in Chapters 11 and 12 of internal controls, including coverage of IT general and application controls, has been restructured to reflect key elements of COSO's 2013 revision of its Internal Control.
Integrated Framework and to better integrate the auditor's consideration of both manual and automated controls. He inputs all sales invoice information into the firm's computer, which provides a complete printout of all input and summaries. A member in public practice shall also not prepare an original or amended tax return or claim for a tax
refund for a contingent fee for any client. We also rent a second warehouse for which rental fees are $312,000 annually. 3-14 (Objective 3-5) Distinguish between a report qualified due to a GAAP departure and one qualified due to a scope limitation. If a material weakness is identified prior to the end of the fiscal year, the auditor can still issue an
unqualified opinion if the material weakness has been remediated and the revised control has been tested to ensure it is designed, implemented, and operating effectively. However, some companies record invoices at the time of shipment, or
subsequent to shipment. It might seem that the audit of returns for compliance with the federal tax laws is a simple and straightforward problem, but nothing is farther from the truth. Perform the audit procedures. Observe whether shipping documents are forwarded daily to billing and observe when they are billed (observation). Chapter 5 / LegaL
LiabiLity 163 required 5-25 (Objective 5-6) The SEC Enforcement Division investigates possible violations of securities laws, recommends SEC action when appropriate, either in a federal court or before an administrative law judge, and negotiates settlements. No exceptions noted. For an audit of internal control over financial reporting, the criteria
will be a recognized framework for establishing internal control, such as Internal Control, such
On one occasion, one of the biggest instances of fraud occurred in an Asian multinational company. The conviction was not based on the alteration of charges as nonrecurring in its third quarter 2001 earnings release, in which the company announced a loss of
$618 million. Inquire of management whether any receivables are pledged or factored (7). The need for ethics in society is sufficiently important that many commonly held ethical values are incorporated into laws. assess risks of Material Misstatement To adequately perform the audit, the audit tor is responsible for assessing the risks that the
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financial statements contain material misstatements and then performing further audit procedures in response to those risks to determine if material misstatements as of the balance sheet date. Add all customer balances in the
accounts receivable trial balance and agree the amount to the general ledger. Reviews are conducted every tabLe 2-3 peer review Elements of Quality within the firm ("tone at the top") The firm should promote a culture that quality is essential
in performing engagements and should establish policies and procedures that support that culture. We believe that our audits provide less assurance and are normally only done when internal controls are effective. Throughout the following
discussion of the eight balance-related audit objectives, we make references to a supporting schedule or electronic file, such as the list of accounts receivable just discussed. 16-24 (Objective 16-3) You have asked your audit trainee Sharizat to perform the following tasks. effect of results of tests of
controls And suBstAntive tests of trAnsActions ObjeCtive 14-7 Understand the effect of tests of controls and substantive tests of transactions on substantive tests of transactions of transacti
gross margin, and other profitability measures. Employees with excessive financial obligations, or those with drug abuse or gambling problems, may steal to meet their personal needs. This is not a request for payment; please do not send your remittance to our auditors. Names such as Marshall Audit Co. or Chicago Tax Specialists are permissible if
they are not misleading. You conclude the turnover is only present at the higherlevel positions. Receiving reports are prenumbered and accounted for on a daily basis. You ask management for a tour of the Solar-Electro facilities. The accounts payable contained similar discrepancies. Auditors should consider these factors along with any other
information used to assess the risks of fraud. Additionally, Henderson Energy expanded its investment risks. The accounting system will not post a sales transaction to the sales journal without a valid bill of lading number
The company has recently expanded from 8 to 60 stores by borrowing from several large financial institutions and from a public offering of common stock. A variety of software is available to assist auditors. When auditors embrace the responsibility to maintain a questioning mind and to critically evaluate evidence, they significantly reduce the
likelihood of audit failure throughout the audit. 90 Cash 90 Final 122 AJEs (90) (90) A-1 Final 5 96 21 122 A-4 Bank Reconciliation A-4/1 Confirmation A-4/2 O/S Check List amounts for the lead schedule were taken from the general ledger. The understatement of sales and accounts receivable is best uncovered by substantive tests of transactions for
shipments made but not recorded (completeness objective for tests of sales transactions) and by substantive analytical procedures. To satisfy the requirements of auditing standards, it is more important for the auditor to assess the risks and to respond to them than it is to categorize them into a risk type. Objective 6-1 Explain the objective of
conducting an audit of financial statements and an audit of internal controls. What factors should the auditor consider to determine if a risk is a "significant risk"? Acl proBlem 14-35 (OBJeCtIVeS 14-3) This problem requires the use of ACL software, which can be accessed through the textbook Web site. required Chapter 13 / Overall audit Strategy
and audit PrOgram 481 cAses 13-33 (Objectives 13-3, 13-4) OnePlus Technology is non public company, based in Frankfurt, Germany, manufacturing IT products ranging from computer monitors to optical storage devices. Test whether the cutoff was correct. Cancellation of documents prior to signing of the check 8. Hardwood Lumber relies on the
operating system software to restrict online access to individuals. For example, if the internal control is to examine the customer order for proper initials. For example, the auditor may increase sample sizes when testing revenue transactions. After credit
authorization is verified with the credit card agency, the accounting department enters the sale into the sales journal. She also periodically prepares reports of cash disbursements and e-books to customers through the company's Web site.
(Filter) Part 2 / The AudiT Process 11 Internal Control and CoSo Framework Chapter Cyberattacks: A New Reality Learning Objectives When Michael Lynton, Chief Executive Officer of Sony Pictures, answered his phone at 6:00 a.m. on a late November 2014 morning, he had no idea of the magnitude of the crisis that was developing. The cash
disbursements clerk is prohibited from handling cash. (4) The board of directors is active in overseeing the entity's financial reporting policies. In its decision, the court stated that "an auditor owes no general duty of care regarding the conduct of an audit to persons other than the client" and reasoned that the potential liability to auditors under the
foreseeable user doctrine would be distinctly out of proportion to any fault. At the end of August, Cho & Tam planned for the audit on a timely basis, it is often necessary to confirm the accounts at an interim date. Objective 4-5 Apply the AICPA Code rules and interpretations on
independence and explain their importance. Examples of explanatory information the auditor may report as an emphasis of a matter include the following: emphasis of other Matters • The existence of material related party transactions • Important events occurring subsequent to the balance sheet date • The description of accounting matters
affecting the comparability of the financial statements with those of the preceding year • Material uncertainties disclosed in the footnotes such as unusually important litigation or regulatory action • A major catastrophe that has had or continues to have a significant effect on the entity's financial position CPAs often rely on a different CPA firm to
perform part of the audit when the client has widespread operations. These categories are similar in that they both involve three phases: 1. Most auditors use some type of template to document each sampling application. An overstatement of an asset account will therefore have the same effect on the income statement as an understatement of a
liability account. After careful review of all key controls over financial reporting, our Chief Executive Officer and Chief Financial Officer implemented new controls to strengthen processes surrounding revenue recognition. The purpose of such a framework is to help identify the ethical issues and decide an appropriate course of action using the
person's own values. Discuss the major strengths and shortcomings in Morris's use of ratio and trend analysis. Physical and online security Access to software and data files, and encryption and firewalls protect data and programs from external parties. (3) unmodified opinion. File
description 1. As a result, auditors often rely on substantive analytical procedures to test the completeness of revenue. International auditing Standards Relation of U.S. and International Auditing Standards on Auditing Standards on Auditing Standards on Auditing Standards on 
AICPA Auditing Standards PCAOB Auditing Standards Applicable to entities outside the United States Applicable to private entities in the United States. Verbal cues, such as those
outlined in Table 10-6, may indicate the responder's nervousness, lack of knowledge, or even deceit. "Clarified Statements on Auditing Standards" (www.aicpa.org); 3. Four factors determine the initial sample size for both statistical and nonstatistical sampling: population size, TER, ARO, and EPER. (4) The client's financial reporting system has been
in place for 10 years. Although the same journals are used for transactions in the acquisition and repayment cycles, it is useful to separate capital acquisition and repayment cycles, it is useful to separate transactions into a separate transaction cycle. Statements are Not in Conformity with Gaap When the auditor knows that the
financial statements may be misleading because they were not prepared in conformity with GAAP, and the client is unable or unwilling to correct the misstatement, he or she must issue a qualified or an adverse opinion, depending on the materiality of the item in question. The client lacks receiving reports and a policy as to the proper timing to record
acquisitions. In fact, the call had been placed to an officer of ABC. These situations require greater investigation because of a greater likelihood of misstatement than occurs with more typical transactions. In each case, the standard report paragraphs, including the opinion paragraph, are presented without changes in wording, and a separate
explanatory paragraph follows the opinion paragraph. For example, a disbursement that does not have evidence of proper approval may have been properly authorized and recorded. If the auditor's opinion must be qualified. The court answered yes
on both counts. Observe whether accountant compares master file total with general ledger account. Assume that the shipping documents 5428 through 5430. Are there substantive differences in the objective of an audit as defined by these two sets of standards? required inTegraTed Case appliCaTion—
pinnaCle manufaCTuring: parT iii 10-35 (Objectives 10-2, 10-3) In Parts I (pp. The auditor can also test for the proper cancellation of shipping documents. "Also, the online sales are immaterial and I want to finish this job as soon as possible so that I can spend more time on other complicated jobs. However after the audit, one creditor complained that
the company paid HK$100 less on one invoice. In recent years, the SEC has temporarily suspended a number of individual CPAs from doing any audits of SEC clients. The effectiveness of manual controls depends on both the competence of the people performing the controls and the care they exercise when doing them. However, the confidentiality
requirement in the Code of Professional Conduct requires that the predecessor auditor obtain permission from the client before the communication for excellent medical services and deficient record keeping. The extent of the testing for detail tie-in depends
on the number of accounts involved, the degree to which the master file has been tested as a part of tests of controls and substantive tests of transactions, and the extent to which the auditor. For example, the auditor makes an assessment of the
occurrence objective for sales and a separate assessment of the completeness objective. Prepare a proof of cash receipts (18). This objective relates to internal and external financial reporting as well as nonfinancial reporting; however, in this chapter we focus our discussion on the reliability of external financial reporting. Audit procedures are
indicated on them in the same manner as on other schedules. We will discuss those responses further in Chapter 10 / Assessing And Responding to FRAud Risks 359 auditing standards. Chapter 11 / Internal Control and CoSo Framework 403 11-27 (Objectives 11-3, 11-4) Pure Pharmaceuticals, a company engaging in research on drugs, is
having operations in the United Kingdom, Asia-Pacific region and the USA. The price list is stored in the inventory master file and can be changed only with authorization of the vice president of sales. Most states have revised their laws to allow accounting firms to practice in different organizational forms, including limited liability organizations that
provide some protection from litigation. Agrees with December 31, 2016, general ledger and working trial balance. In complex environments, management may establish IT steering committees to help monitor the organization's technology needs. Why is it important for audit procedures to be carefully worded? Figure 8-7 illustrates the allocation
approach used to establish different performance materiality levels across segments of the financial statements for the audit of Hillsburg Hardware Co. It summarizes the balance sheet, combining certain accounts, and shows the allocation of total materiality of $442,000 (six percent of earnings from operations). Hogan Currently, you could easily to
check out every book by online and also downloadwithout investing great bargains time for seeing publication stores. Third-party beneficiary A third party who does not have privity of contract but is known to the contracting parties and is intended to have certain rights and benefits under the contract. For a sample of customer accounts receivable
balances at December 31, 2016, examine subsequent cash receipts in January 2017 to determine whether the customer paid the balance due. Is there a mechanism for proper cancellation of shipping documents? Elder, Mark S.Beasley, Chris E. With replacement means an element in the population can be included in the sample more than once. Unit
selling prices are obtained from the price list master file of approved prices (C7). Auditing standards. The most common themes in the inspection findings for the 29 countries participating in the survey relate to deficiencies in auditing fair value measurements, internal control testing, and revenue recognition. We were unable to obtain sufficient
appropriate evidence about the carrying amount of Laughlin Corporation's investment in XYZ Company as of December 31, 2016, and Laughlin's share of XYZ Company's net income for the year then ended because we were denied access to the financial information, management, and the auditors of XYZ Company. Normally, verification of the
accounts written off takes relatively little time. "What we are looking at here is an example of superbly complex financial reports. What are the Elijah Watts Sells awards? After the relevant assertions have been identified, the auditor can then develop audit objectives for each category of assertions. 467) illustrates a performance format audit program
for sales and cash receipts for Hillsburg Hardware. Although it is difficult to quantify a measure of materiality, auditors are responsible for obtaining reasonable assurance that this materiality threshold has been satisfied. Chapter 4 explains ethical dilemmas, professional ethics, and independence, and it features the newly revised AICPA Code of
Professional Conduct. Reject and End of Life items that were supposed to be scrapped were recorded as good inventory in the system. tabLe 17-11 Calculated Sampling Distribution from a Population with a Known Mean and Standard Deviation (1) (2) (3) (4) Number of Standard errors of the Mean (Confidence Coefficient) Value [(1) × $1.50] range
around X<sup>-</sup> [$40 +/- (2)] percent of Sample Means Included in range 1 $1.50 $38.50 - $41.50 $38.50 - $41.50 $35.50 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $37.00 - $43.00 $3
Frequency values in percent Sampling distribution—Normal Population distribution—Skewed Value of -x in dollars 2. The partner was convicted of criminal charges for his role in sustaining the fraud. Because of management's greater authority and control over organization assets, embezzlements involving top management can involve significant
amounts. To address this need, the AICPA Auditing Standards Board (ASB) embarked on its Clarity Project to redraft existing AICPA auditing standards to align them with the ISAs and to make them easier to read, understand, and apply. Because of the planned changes, several key accounting personnel quit several months ago for alternative
employment. You would therefore (1) find it impossible to determine the acceptability of the balance. Identify client's reasons for audit There are two primary reasons. Calculate Busch Corporation's annual costs under each loan agreement, including interest and costs for the CPA firm's services. Both employees are equally competent. Use the
information and your assumptions to complete the following rows of the planning worksheet: Acceptable audit risk, Inherent risk, and Analytical procedures. If the client refuses to correct the statements, the auditor must issue a qualified or an adverse opinion, depending on the
materiality of the misstatement. 368 Part 2 / The AudiT Process The embezzlement was concealed by overstating assets, expenses, and cost of sales and understating liabilities and sales, through the collusion of two employees in the accounting department. The Sarbanes-Oxley Act established the Public Company Accounting Oversight Board
(PCAOB), appointed and overseen by the SEC. When the client fails to include information that is necessary for the fair presentation of financial statements or in the audit report and to issue a qualified or an adverse opinion. The client
acquired a new subsidiary located in Italy: Control risk IDNC Acceptable audit risk Inherent risk IDNC Acceptable audit or believes the audit evidence will be most effective and when audit staff is available. After completing tests of controls and substantive tests of transactions, the
auditor should complete rows 3 through 7 of the worksheet. Palatin, its former chairman and chief execu tive officer, and evidence of asset impairment that was not recorded on Cronos' books and records. He subsequently left public accounting. Explain the relationship of performance materiality, inherent risk, and control risk to planned tests of
details of balances. For example, to provide some assurance for the accuracy objective), the auditor might examine sales transactions in the sales journal for unusually large amounts and also compare perform tests of Controls and
Substantive tests of transactions (phase II) perform Substantive analytical procedures and tests of Details of Balances (phase III) Chapter 6 / Audit Responsibilities And objectives 191 total monthly sales with prior years. 15-2 (Objective 15-2) What are the three main phases of audit sampling? Adequate documents are essential for correct recording of
transactions and control of assets. The other report paragraphs will be included using standard wording. No expansion of tests of controls or substantive tests. Oct. For example, consider the potential consequences if Bryan decides to work the additional hours and not report them. TER can have a significant impact on sample size. (3) assurances that
informative disclosures in the financial statements are reasonably adequate. Which of the following is the least persuasive type of evidence? (3) professional skepticism. Most public companies' audited financial statements can be accessed over the Internet from the Securities and Exchange Commission (SEC) EDGAR database or directly from each
company's Web site. Design and perform tests of details of balances for accounts receivable. However, it is likely to be inefficient to do the audit procedures as they are stated in the design format of Table 14-2. Internal documents include duplicate sales invoices, employees' time reports, and inventory receiving reports. If the control is working
effectively, the proposed sales order should be rejected. Credit must be properly authorized before a sale takes place. Customers may return parts for full refund if returned within 30 days of submitting the order online. Only the last sentence of the auditor's responsibility paragraph would be modified as shown next.) We believe that the audit evidence of the auditor's responsibility paragraph would be modified as shown next.)
we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion. Second, there was a copy of the contract written in French. 13-24 (Objectives 13-1, 13-2, 13-5) The following are audit procedures from different transaction cycles: 1. Another common comparison of client data with expected results occurs when the
auditor calculates the expected balance for comparison with the actual balance. multiple choice questions from cpa examiNations 4-17 (Objectives 4-5, 4-6) The following questions concern auditor independence. Read the minutes of a board of directors meeting and summarize all information that is pertinent to the financial statements in an auditor independence.
file. In previous years, you have had relatively few adjusting entries. Add the sales journal for the month of July and trace amounts to the general ledger. Safeguards created by the profession, legislation, or regulation. (Conversely you could download the Annual Report at mgl/global/shared/about/investors/results/2015/Macquarie Bank FY15 Annual
Report.PDF) Then answer the following questions. Cross Reference Paragraph Chapter 3 / Audit Reports 77 PCAOB CONSIDERING CHANGES TO THE AUDIT REPORT The PCAOB has proposed changes to the audit report for audits of financial statements of public companies. A fraud survey conducted by the Association of Certified Fraud
Examiners found that asset misappropriations are the most common fraud scheme, although the size of the fraud is much greater for fraudulent financial reporting. Set performance materiality for the three relevant accounts such that the preliminary judgment about materiality does not exceed $5,000. Similarly, a small sample of only one or two
pieces of highly appropriate evidence also typically lacks persuasiveness. audit Circumstance 1. If the misstatements are between $221,000 and $442,000, a more careful consideration of all facts will be required. Which quarter will you select the largest number of samples if stratified sampling method is chosen? Sean Xi Lin, CPA, provides tax
compliance services, secretarial services, and bookkeeping services and also conducts audits for the entity may have knowledge relevant to the auditor's assessment of the risk of material misstatements, especially the impact of
noncompliance on financial reporting. Operational audits tabLe 1-2 CPAs perform three primary types of audits, as illustrated with examples in Table 1-2: 1. 183). If the credit was for a bad debt write-off or a credit memo, or if the account was still unpaid at the time of the audit, this could indicate an inappropriately recorded sales transaction. A lack
of controls over payments to vendors, or payroll systems, can allow employees to create fictitious vendors or employees and bill the company for services or time. How can Gordon improve the quality of his analytical procedures? The computer system also automatically totals the journals and posts the totals to the general ledger. Inquiries of
Management Auditing standards require the auditor to make specific inquiries about fraud in every audit. Many of the risk assessment procedures that the auditor performs during planning to assess the risk of material misstatement may indicate a heightened risk of fraud. Collectively, these statements constitute generally accepted auditing
standards (GAAS) and are often referred to as auditing standards, SASs, or GAAS. The chapter described the way auditors gather information to assess fraud risks, after considering the effectiveness of management's antifraud programs and controls. The company then compares
its own data with those of other companies. The payroll checks that are not directly deposited into employees' bank accounts are manually signed by the chief accountant and given to the foreman. A representative sample is one in which the characteristics in the sample are approximately the same as those of the population. Some auditors use the
same acceptable audit risk for all segments based on their belief that at the end of the audit, financial statement users should have the same level of assurance for every segment of the financial statement users should have the same level of assurance for every segment of the financial statement users should have the same level of assurance for every segment of the financial statements. Why are PCAOB assertions in international and AICPA auditing standards? (2) Different interests may exist between the
company preparing the statements and the persons using the statements. 27 responses were received, and 21 were recorded to ABC's records. There are alternative ways to resolve ethical dilemmas, but care must be taken to avoid methods that are rationalizations of unethical behavior. Foreseeable User The broadest interpretation of the rights of
third-party beneficiaries is to use the concept of foreseeable users. Auditors must maintain a level of professional skepticism as they consider a broad set of information, including fraud risk factors, to identify and respond to fraud risk factors, to identify and respond to fraud risk. If $132,500 had been assigned to each of those two accounts, more evidence would have been 280 Part 2 / The AudiT
Process required in inventories, but the confirmation of the balance in notes payable would still have been necessary. Privity of contract (see breach of $173,000 to $187,000. But because the objectives and methodology for auditing sales returns and
allowances are essentially the same as for sales, we do not include a detailed study of them. the company requires their corporate auditing system to be strong and footings are checked (initials and correct amounts) (procedure 13b). (4) incorrect
acceptance. This decline in gross margin should be a concern to the auditor if a decline is not expected. Assume a client's internal controls require a clerk to attach a shipping document to every duplicate sales invoice, but the clerk fails to follow the procedure exactly 3 percent of the time. • Substantive tests of transactions results. Observe whether
personnel responsible for handling cash have no accounting responsibilities and inquiry as His Criminal Trial Ends," The New York Times (June 25, 2010); 2. Part 2 / The AudiT Process 7-35 (Objectives 7-4, 7-7) Use AICPA
looking for anything, you don't find anything." Sources: 1. physical Control Over assets and records To maintain adequate internal control, assets and records must be protected. The firm and its employee benefit plans 6. Higgins 55 Chairman of the Board Christopher J. So, in addition to the primary 276 Part 2 / The AudiT Process preliminary
 judgment about materiality of $100,000, the auditor will also need to plan the audit with the $250,000 preliminary judgment about materiality for misclassifications of current assets. An aged trial balance since the balance sheet date, including individual customer balances outstanding and a
breakdown of each balance by the time passed between the Summation of accounts receivable agrees with the Master File and the General Ledger Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable agrees with the Master File and the General Ledger Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance for Hillsburg Hardware Co. Accounts Receivable 571 Figure 16-3 Aged Trial Balance f
Aged Trial Balance 12/31/16 Schedule Prepared by Client Approved by Date 1/5/17 Aging, Based on Invoice Date Account Number Customer Balance 12/31/16 01011 01044 01100 01191 01270 01301 Adams Supply Argonaut, Inc. For audit 1, recommend an evidence mix for the five types of tests for the audit of inventory and cost of goods sold.
pervasiveness. In your audit of Teklas, part of your task is to assess whether accounts receivables are corrected reported in the ledger. Imagine, for example, what would happen if we couldn't depend on the people we deal with to be honest. A five-step approach can be used to identify deficiencies, significant deficiencies, and material weaknesses:
At what level do practitioners conduct themselves in practice? For other attest clients, the covered member should apply the conceptual framework to assess whether the threat to independence is at an acceptable level. State your opinion of the positive and negative effects of the increased litigation on CPAs and on society as a whole. • Only tests of
details of balances involve physical examination and confirmation. As part of understanding the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business, the auditor should perform ratio analysis or review the client's business.
the sample, what can you conclude? Bruce Cantwell (1999) Dramatic Cast Changes at Livent: Year In Review 1998, Encyclopædia Britannica, Inc. these trends suggest providing assurance on corporate responsibility reporting will continue to be an area of significant growth for accounting firms. Chen was promoted to audit senior a year earlier than
normal for assistants. Cash receipts tests of controls and substantive tests of transactions audit procedures are developed around the same framework used for sales, but of course the specific objectives are applied to cash receipts. In addition, an active and objective board can reduce the likelihood that management overrides existing controls.
Therefore, the extent of testing will vary. However, the extent of testing will depend on the assessment of controls and substantive tests of transactions audit procedures in the sales and collection cycle: 1. Figure 5-3 summarizes a
widely known example of a lawsuit dealing with the failure to uncover fraud in unaudited financial statements. For each sales transaction-related audit objective, identify one or more existing controls. The point estimate of the auditor will not select
more sample items to audit. Part 2 / The Audit Process Auditors often prepare common-size financial statements for one or more years that display all items as a percent of a common base, such as sales. (3) Monthly statements are sent to customers and any discrepancies are resolved by someone independent of cash handling and accounting. The
teaching awards. These substantive analytical procedures are often done in conjunction with other audit procedures. If an expanded sample continues to produce unacceptable results, additional substantive tests will still be necessary. Mean-per-unit estimation is rarely used in practice because sample sizes are typically much larger than for the two
previous methods. Chapter 10 / Assessing And Responding to FRAud Risks 357 be accomplished by not recording accounts payable until the subsequent period or by recording fictitious reductibles is such that large firms are essentially
self-insured for losses of many millions of dollars. The introductory paragraph also indicates that the financial statements are be responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements are be management and that the financial statements are the responsibility of management and that the financial statements are be management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are so management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and that the financial statements are the responsibility of management and the financial statement and the financial statement and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management and the financial statement are the responsibility of management are the financial statement are the financial statement are the financial statement are the financial statem
highest level of materiality exists when users are likely to make incorrect decisions if they rely on the overall financial statements. Gross profit after deducting the cost of the product. These analytical procedures are used in planning to understand the client's business and
industry and also used throughout the audit to identify possible misstatements, reduce detailed tests, and assess going-concern issues. Prepare an audit file listing the nine controls or get them online. Waseem: Yes, but I think that your worries about that supplier are unfounded. It is common to have one or more auditors from each level on larger
engagements. Inherent risk can still be low for all other objectives. 14-23 (OBJeCtIVeS 14-2, 14-3) Auditing standards require the auditor to obtain an understanding of the entity and its environment as a basis for assessing the risks of material misstatements. A simple example of an ethical dilemma is finding a diamond ring, which necessitates
deciding whether to attempt to find the owner or to keep it. The Professional Ethics Executive Committee and collusion at Koss
Corporation" on page 338 highlights the fraud at Koss Corporation, where the principal accounting officer, Sujata ("Sue") Sachdeva, embezzled approximately $31 million over 5 years to fund her lavish lifestyle. Before we study assessing control risk and designing tests of controls and substantive tests of transactions for each class of transactions in
detail, we will cover two related topics. The information varies greatly in the extent to which it persuades the auditor whether financial statements are fairly stated. Explain the concept of professional skepticism and identify its two elements. Write-offs of accounts receivable are approved by the controller. hiring and promoting appropriate employees
To be successful in preventing fraud, well-run companies implement effective screening policies to reduce the likelihood of hiring and promoting individuals with low levels of honesty, especially those who hold positions of trust. Identify changes in manual procedures that could be made to minimize risks, without having to reprogram the current
online system. The others are specialized forms. The AICPA Code of Professional Conduct and the IESBA Code of Ethics for Professional Conduct both define independence as consisting of two components: independence of mind and independence as consisting of two components independence of mind and independence as consisting of two components.
precise measurement, responding to these risks properly is critical to achieving a high-quality audit. Auditors perform both planning and substantive analytical procedures for the entire sales and collection cycle, not just accounts receivable. What is the role of the two staff auditors in the brainstorming session? To assist members in such
circumstances, the Code includes the following conceptual framework approach for the member to evaluate threats to compliance with the Code. In this sense, operational auditing is more like management consulting than what is usually considered auditing. Test data must be eliminated from the client's records. The TV presents the live picture and
no record is maintained. Management is responsible for establishing and maintaining the entity's internal controls. The company has developed a financial and internal control reporting package. Typically, the interviewee's initial response will omit useful information. Fifty of these accounts, with balances totaling $650,725, were selected for
confirmation. To identify the deficiencies, use the methodology that was discussed in this chapter. The university considered it too expensive to have two employees handle parking, and it was difficult to count the paid vehicles in a lot because some cars were parked by university employees with passes. 330) is an example of horizontal analysis and it was difficult to count the paid vehicles in a lot because some cars were parked by university employees with passes.
applied to the condensed income statement for Hillsburg Hardware. Similarly, an increase in the balance in fixed assets may indicate a significant acquisition that must be reviewed. Compute the precision interval. Posting and summarization Classification Sales transactions are properly classified. The major control for preventing this
fraud is proper authorization of the write-off of uncollectible accounts by a designated level of management only after a thorough investigation of the reason the customer has not paid. Disclosures related audit objective(s) to which it applies required
14-29 (OBJeCtIVe 14-5) The following is a list of possible errors or fraud (1 through 5) involving cash receipts and controls (a. This 16th edition continues his outstanding legacy in audit education. Other company products not shown on the Web site listing are unavailable for online sale. required 10-31 (Objectives 10-2, 10-3, 10-4, 10-6) Fateen
Shakran, store supervisor, is responsible for creating a summary of the store's transactions at the end of each day. Shipping documents are prenumbered and accounted for weekly by the accountant (C5). Kickbacks and Secret Commissions Employees may not receive payment or compensation of any kind, except as authorized under organizational
remuneration policies. Qualifications of individuals providing the information controls and application controls reduce information technology risks. (4) sample exception rate plus the allowance for sampling risk exceeds the tolerable
rate. Foot acquisitions and cash disbursements journals for a test month and trace postings to the general ledger. Other controls, such as reconciliations and exception reports, may operate on a weekly or monthly basis. (1) Property and equipment are usually sold at a loss before being fully depreciated. accounts receivable master file and test for
amount, date, and invoice number. risk Factors Auditing standards require the auditor to evaluate whether fraud, opportunities to carry out fraud, or attitudes or rationalizations used to justify a fraudulent action. For one of the engagements, Kinross-Kennedy failed to adequately test
revenues and cost of goods sold, and also relied upon documents he could not read, either because they were written in Chinese or illegible. Investigating new clients and reevaluating existing ones is an essential part of deciding acceptable audit risk. $12.75 2. Identify the most important information included in the scope paragraph. Are batch totals
of cash receipts compared with computer summary reportof the cash receipts journal by data control clerk? Policy to re-order raw materials when the inventory level drops below 200 units. (The only way to know if a sample is representative is to subsequently audit the entire population.) However, auditors can increase the likelihood of a sample
being representative by using care in designing the sampling process, sample selection, and evaluation of the terms of the audit engagement. Prices used to value inventories are materially correct. Normally, such explanatory information should be included in a separate paragraph in the report. For each audit
procedure, indicate which of the first four parts of audit planning the procedure primarily relates to: (1) accept client and perform initial audit planning; (2) understand the client's business and industry; (3) perform preliminary analytical procedures; (4) set preliminary judgment about materiality and performance materiality. In other cases, the
computer approves the transactions by comparing quantities of inventory on hand to a master file of reorder points and automatically submits purchase orders to authorized suppliers in the vendor master file. The individual items making up the total population also affect the auditor's expectation of material misstatement. Chapter 14 / Audit of the
SAleS And ColleCtion CyCle 499 Figure 14- 4 Direction of tests for Sales Customer order Shipping document Completeness Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Duplicate sales invoice Sales journal General ledger 5 Accounts receivable master file Occurrence Start Sales are accurately recorded The accurate properties of the sales invoice Sale
ordered • Accurately billing for the amount of goods shipped • Accurately recording the amount billed in the accounting records Auditors typically do substantive tests of transactions in every audit to ensure that each of these three aspects of accurately billing for the amount of goods shipped • Accurately recording the amount billed in the accounting records Auditors typically do substantive tests of transactions in every audit to ensure that each of these three aspects of accurately billing for the amount of goods shipped • Accurately recording the amount billed in the accounting records Auditors typically do substantive tests of transactions in every audit to ensure that each of these three aspects of accurately billing for the amount of goods shipped • Accurately billing for the amount billed in the accounting records Auditors typically do substantive tests of transactions in every audit to ensure that each of these three aspects of accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the amount of goods shipped • Accurately billing for the accurat
audit practice alerts to highlight new, emerging, or otherwise noteworthy circumstances. Similarly, because internal auditors typically have exposure to all aspects of the client's business and operations, they may have important information about risks at the overall financial statement level or assertion level. In the first procedure, when the auditors typically have exposure to all aspects of the client's business and operations, they may have important information about risks at the overall financial statement level or assertion level. In the first procedure, when the auditors typically have exposure to all aspects of the client's business and operations, they may have important information about risks at the overall financial statement level or assertion level.
traces from duplicate sales invoices to shipping documents, it is impossible to find unbilled shipments. (1) Tax services for executives involved in financial reporting (2) Internal audit outsourcing (3) Tax planning not involved in financial reporting (2) Internal audit outsourcing (3) Tax planning not involved in financial reporting (2) Internal audit outsourcing (3) Tax planning not involved in financial reporting (3) Tax planning not involved in financial reporting (4) Bookkeeping and other accounting services c. Table 13-7 shows analytical procedures are performed before
and after the balance sheet date. 257-259) and II (pp. As a percentage of net sales, selling expenses increased by 0.52% since 2015 and decreased by 0.03% from 2014 to 2015. The auditor also performs preliminary analytical procedures that may indicate increased by 0.03% from 2014 to 2015. The auditor also performs preliminary analytical procedures that may indicate increased by 0.03% from 2014 to 2015.
Decide the acceptability of the population. Classification—amounts Included in the Client's Listing are properly Classification involves determining whether items included in the correct general ledger accounts. Even within a given audit, variations may occur from cycle to cycle. Figure 6-2 International
Business Machines Corporation's report of Management REPORT OF MANAGEMENT International Business Machines Corporation and Subsidiary Companies Information presented in this Annual Report rests with IBM management Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with IBM management
The U.S. Supreme Court reversed the court of appeals, concluding that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the interpretation of Rule 10b-5 required the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court's opinion that the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court of the "intent to deceive, manipulate or defraud." Justice Powell wrote in the Court of the Court
understood terminology of intentional wrongdoing—and when its history reflects no more expansive intent, we are quite unwilling to extend the scope of the statute to negligent conduct. The account balance increased materially from the preceding year without apparent reason: Control risk IDNC Acceptable audit risk IDNC Inherent risk ID
representative sampling. 600 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle Figure 16-9 Replies to Requests for Information (Cont.) STATEMENT FROM REMINGTON SUPPLY Pinnacle Manufacturing Detroit, MI Amounts due as of December 31, 2016: Invoice No. 141702 142619 142811 143600 144927 Date 11-11-16 11-
19-16\ 12-04-16\ 12-21-16\ 12-21-16\ 12-21-16\ 12-21-16\ 12-29-16\ (2) Amount $23,067.00 12,000.00\ 7,100.00\ 27,715.24\ 53,529.00 Balance Due $ 23,067.00 42,167.00\ 69,882.24\ 123,411.24\ (1) Auditor's notes: (1) Agrees with accounts payable listing. provides the most useful data for evaluating the potential for misstatements. Most practitioners conduct themselves at a
high level. Auditors should change these requirements only after careful consideration. He approves all write-offs of uncollectible items and forwards the list to Khalid, who writes them off. There has been a significant increase in the demand for Morehead's products.
approach to a significant risk consists only of substantive procedures, the procedures should include tests of details. Some account balances, are the result of complex calculations. Explain the importance of each. The bank account is reconciled by another person even though the clerk has sufficient expertise and
time to do it. Internal control strength for the sales and collection cycle. The auditor's understanding of internal control performed as part of risk assessment procedures provides the basis for the auditor's initial assessment of control risk. Membership in the AICPA is restricted to CPAs, but not all members are practicing as independent auditors. An
audit of a Hong Kong stock broker registered with the Hong Kong Stock Exchange d. High financial stability or profitability define
the population in advance, consistent with the objectives of the audit tests. In the opinion of our legal counsel the suit is without merit. As a result, they may have few staff dedicated to systems development or the librarian function. 366 Part 2 / The AudiT Process disCussion QuesTions and problems 10-22 (Objective information: 10-2) During audit
planning, an auditor obtained the following 1. (2) Inspecting employee time cards for proper approval by supervisors. However, physical examination is not sufficient evidence to verify that existing assets are owned by the client (rights and obligations objective), and proper valuation for financial statement purposes usually cannot be determined by
physical examination (accuracy and realizable value objectives). Each store was responsible for making daily deposits into a local bank account and providing a daily sales report to the central office. Figure 6-2 presents selected sections of the report to the central office.
Each component contains many controls, but auditors concentrate on those designed to prevent or detect material misstatements in the financial statements. In this situation, many auditors use a haphazard or block approach, because it is simpler than other selection methods. Excess labor cost may also be capitalized as fixed assets in these 358 Part
affected by acceptable audit risk, results of tests of controls and substantive tests of transactions, substantive analytical procedures, and the relative significance of Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle accounts receivable in the financial statements. Decisions about how 60 Part 1 / THE AUDITING PROFESSION
much and what types of evidence to accumulate for a given set of circumstances require professional judgment. Those trying to deceive may try to continue the auditor that they are telling the truth. It violates due care to leave the original assessment unchanged if the auditor knows it is inappropriate. In addition to
determining SER for each attribute and evaluating whether the true (but unknown) exception rate is likely to exceed the tolerable exceptions to determine the breakdown in the internal controls that allowed them to happen. "CHANGE" allows the employee to update the contents of the program or file
One way for the auditor to do this is to identify controls to satisfy each objective. Determine Whether Cash receipts 504 The most difficult type of cash embezzlement for auditors to detect is when it occurs before the cash is recorded in the cash receipts journal or other cash listing, especially if the sale
and cash receipt are recorded simultaneously. the alert describes important impediments to professional skepticism, noting that auditors are often challenged in maintaining a questioning mindset and critical assessment of audit evidence as a result of subconscious human biases and other circumstances. Source: Report to the Nations on
Occupational Fraud and Abuse, Association of Certified Fraud Examiners, 2014. What should John do? If any person in an 384 Part 2 / The AudiT Process organization could acquire or expend assets at will, complete chaos would result. The precision interval is calculated by a statistical formula. Unfortunately, auditors are human and thus are subject
to natural biases to trust individuals they know and with whom they interact on a regular basis. As part of our audit process, we will request from management written confirmation concerning policy required that the recorded allowance for patient
receivables be set to equal the total amount of receivables over 180 days past due. The United U-Li Corporation Berhad case was a landmark case in Malaysia where the Securities Commission Malaysia had charged one of the auditors for abetting a public listed company for making a false statement to the Malaysian bourse, Bursa Malaysia. Japan is a
country that is prone to many natural disasters like typhoons, earthquakes and landslides. (2) the competency of the client's internal audit staff. 3 By requisition no. Chapter 4 / Professional ethiCs 107 Difference Between Cpa Firms have a different
relationship with users of financial statements than most other professionals have with their customers. Say, for example, auditors want to sample a client's cash disbursements for the year. According to charges filed by the Securities and Exchange Commission, the former chairman and CEO and the former president together coaxed several of their
longtime company associates, including the CFO and IT manager, to participate in a multifaceted scheme to manipulate profits. A CPA firm may use any name as long as it is not misleading. 324 Part 2 / The AudiT Process 9-4 (Objective 9-1) Assume that you are concerned that your client has recorded revenues that did not occur. Use audit software to
examine journal entries in the sales, cash receipts, purchases, cash disbursements, payroll, and general journals for any entries with unusual account coding. required Other than COSO, what other standards and frameworks may be relevant to help organizations address cyber risks? Figures 15-2 through 15-
6 illustrate the type of documentation commonly found in practice. Source: Rusch Factors, Inc., v. Chapter 10 / Assessing And Responding to FRAud Risks 341 tabLe 10-2 Examples of Risk Factors for Misappropriation of Assets Three Conditions of Fraud Incentives/Pressures Opportunities Attitudes/Rationalization Management or other employees
have incentives or pressures to misappropriate material assets. In fact, Groupon had to amend its registration statement eight times before it eventually went public in November 2011. The cost of this audit is higher because tests of controls and substantive tests of transactions were performed but cannot be used to reduce tests of details of balances
AUDITING PROFESSION Figure 2-2 AICPA Principles Underlying an Audit Purpose of an Audit • Provide an opinion about the financial statements • Maintain professional skepticism and exercise professional judgment Performance • Obtain
reasonable assurance about whether financial statements are free of material misstatement • Plan work and supervise assistants • Determine and apply materiality level or levels • Identify and assess risks of material misstatement appropriate audit
evidence Reporting • Express opinion on financial statements in a written report • Whether financial statements are presented fairly in accordance with financial reporting framework Principles related to the auditor's responsibilities in the au
understanding of internal control, which were studied in Chapter 12, focus on both the design and implementation of internal control is included in more than
one row in Table 14-2 if there is more than one C for that control on the control on the control risk matrix. (d) Small performance materiality as a percent of account balance because most of the balance is in land and buildings, which is unchanged from the prior year and need not be audited further this year. Recompute f. ix: 2. When should the auditor include
explanatory paragraph in an unmodified opinion audit report? Explain the reasons for the difference. In contrast, the direction of testing for audit procedures 10 and 11 proceeds from the shipping documents to the sales journal. 474 Part 2 / The AudiT Process 13-14 (Objective 13-4) Explain the relationship between the methodology for designing
tests of controls and substantive tests of transactions in Figure 13-4 (p. amounts are Immaterial When a misstatement in the financial statements exists but is unlikely to affect the decisions of a reasonable user, it is considered to be immaterial. A company's size has a significant effect on the nature of internal control and the specific controls that are
implemented. There are six bases of comparison. ""tHErE SHE IS, MISS aMErICa. Specify the conditions required to issue the standard unmodified opinion audit report. Describe the process of designing and performing tests of controls. One approach is to treat every account balance on the statements as a separate segment. Chapter 15 / Audit
SAmpling for teStS of ControlS And SubStAntive teStS of trAnsAction and one exception in attribute 6. Use the format that follows. The sample size of a test of controls varies inversely with: expected population exception rate tolerable exception rate (1) No
Yes (2) Yes No (3) No No (4) Yes Yes 15-23 (Objectives 15-5, 15-7) The following items concern determining exception rates using attributes sampling from large populations using attributes sampling. Current Year (unaudited) Cash Accounts receivable, net of allowance Inventory Total current assets Property, plant, and equipment, net Other assets
Total assets required performance Materiality prior Year (audited) $ 397,565 2,583,991 $10,000 25,000 $ 356,122 2,166,787 1,953,845 4,935,401 1,556,342 15,000 1,555,782 4,078,691 1,458,963 153,000 20,000 149,828 $6,644,743 $5,687,482 a. In contrast, the firms tend to use audit software to determine sample sizes for substantive tests
of details. 228). "N/A" indicates the defense generally would not be applicable. Unmatched shipping documents are accounted for on a daily basis. In addition, judging from previous auditors' information, the auditors have not observed any serious errors and problems with the reliability of interim financial statements. The substantive tests 502 Part 3
/ APPlicAtion of the Audit Process to the sAles And collection cycle of transactions are not directly related to the key control or test of controls, and any internal control deficiencies for the transaction-related audit
objective. Recorded sales are for the amount of goods shipped and are correctly billed and recorded (accuracy). These users are often called an unlimited class. Discuss with the client's legal counsel as to the probability of losing the court case as well as the likely compensation amount for the dispute. required 514 a. Safety Envelope Co. 26. The
subsequent SEC investigation uncovered that the fax was returned to the audit firm by Trent, not the customer. The worksheet was partially completed on page 282 in that chapter for materiality and risk considerations (part of phase I) and was further completed as a part of the study of tests of controls and substantive tests of transactions on page
504 in Chapter 15 (phase II). Sales to major customers often involve special terms or side-agreements for the return of goods that may affect the amount and timing of revenue to be recognized from the sale. 9-14 (Objective 9-5) Describe which two factors of the audit risk model relate to the risk of material misstatement at the assertion level.
Auditing standards require each CPA firm to establish quality control policies and procedures. Three key aspects are introduced here and are discussed in subsequent chapters. Auditors also audit more subjective information, such as the effectiveness of computer systems and the efficiency of manufacturing operations. Monthly reconciliation of
accounts payable master file with the general ledger 2. Holley, Virginia Commonwealth University Steve Hunt, Western Illinois University of North Carolina- Greensboro David S. processing and recording Sales returns and allowances
Writing Off Uncollectible accounts receivable providing for Bad Debts When a customer is dissatisfied with the goods, the seller often accepts the return of the goods or grants a reduction in the charges. 10-3 (Objective 10-2) Give examples of risk factors for fraudulent financial reporting for each of the three fraud conditions: incentives/pressures,
opportunities, and attitudes/ rationalization. Many companies record these transactions in the sales journal rather than in a separate journal. Six months after the stock offering, Machinetron announced that its revenues for the prior year were overstated as a result of improperly recorded sales, including the sale supported by the fax confirmation.
Siegel, Troy University Robert R. It was a classic case where a trusted, long-time employee was able to commit and conceal fraud for an extended period of time. When the auditor determines that the results of the tests are unacceptable, the auditor must follow one of four courses of action: Generalize from the Sample to the population analyze
exceptions Decide the acceptability of the population Chapter 15 / Audit SAmpling Function Year-end: 12/31/16 Pop. Specify acceptable risk of incorrect acceptance. The COSO Framework describes five
components of internal control that management designs and implements to provide reasonable assurance that its control objectives will be met. (2) There are four established criteria which must be evaluated and reported by Haraldsson: existence of the buses on the night of August 31, 2008, ownership of each bus by Danville Bus Services, physical
condition of each bus and fair market value of each bus. Naturally, the peer reviewers must keep the information obtained confidential and cannot use the information for other purposes. Systematic sample selection (also called systematic sampling), the auditor calculates an interval and then selects the items for the
sample based on the size of the interval. The auditor should also identify whether a responsibility exists to report the identified or suspected noncompliance to parties outside the entity, such as regulatory authorities. 86 Part 1 / THE AUDITING PROFESSION discussion of conditions requiring a modification of opinion You should now understand the
relationships among the conditions requiring a departure from an unmodified opinion audit report, the major types of reports other than the standard unmodified opinion report, and the three levels of materiality. Monozukuri disasters in
the future. In practice, because of the complexity of auditing, it is difficult to determine when the auditor has failed to use due care. Unless actual fraud on the part of Doyle and Jensen can be shown, Thompson cannot recover her loss. What is the GRI guidance on assurance for "in accordance" reports? Figure 11-4 Objective 11-4 Explain how general
controls and application controls reduce information technology risks. In legal cases, there are well-defined rules of evidence enforced by the judge for the protection of the innocent. The creditors would press for payment thus creating a crunch in the cash flow of the company. Rank the relative time required for your tasks in the three audit
engagements. For example, some have argued for universities to include more courses in ethics. Common examples include sales or purchase transactions between two companies owned by the same person, and loans to officers. posting and
Summarization—recorded transactions are properly Included in the Master Files and are Correctly Summarized This objective deals with the accuracy of the transfer of information from recorded transactions in journals to subsidiary records and the general ledger. These firms have decided to have stricter requirements than the minimums set by the
rules of conduct. Each detailed account on the lead schedule is, in turn, supported by proper schedules supporting the audit work performed and the conclusions reached. (Sampling/Calculate Sample Size; select "Record" radio button.) c. Cutoff—transactions Near the Balance Sheet Date are recorded in the proper period In testing for cutoff of
account balances, the auditor's objective is to deter- Understand objectives and responsibilities for the audit Divide financial statements Know general audit objectives for classes of transactions, accounts, and disclosures Know specific audit objectives for classes of transactions, accounts, and disclosures Know management assertions about financial statements into cycles Know management assertions about financial statements into cycles Know management assertions.
accounts, and disclosures mine whether transactions are recorded and included in account balances in the general ledger. Careful questioning of appropriate personnel helps auditors evaluate whether employees understand their duties and do what is
described in the client's control documentation. Examples are assessing the accuracy objective for sales transactions as low and the occurrence objective as moderate. Risk assessment specifically related to financial reporting involves management's identification and analysis of risks relevant to the preparation of financial statements in conformity
with appropriate accounting standards. It is possible that the payroll transactions are routine, while considerable complexities exist in recording and valuing inventory. The relationship of transaction-related audit objectives and the selection and design of audit procedures for substantive tests of financial statements.
balances are discussed and illustrated in Chapter 13. Several remittance advices were batched together for inputting. Goods are removed from inventory for unauthorized orders, trace the total from the cash receipts journal to the bank statement, testing for a delay in deposit. In a qualified, adverse, or disclaimer report, the auditor either has not
been able to perform a satisfactory audit, is not satisfied by Calvin Chan, who has worked for the shop, the cash register is then staffed by Calvin Chan, who has worked for the shop for more than 20 years. How can each be determined? Examples include confirmation of customer balances for
accounts receivable, physical examination of inventory, and examination of the client's business and industry is one of the most important steps in audit planning. 16-9 (Objective 16-4) The customer of your client Nikesh Pte Ltd was very unhappy with the balance stated in the
letter of confirmation of accounts receivable. How do the COSO principles help an organization assess whether internal controls are designed and operating effectively? 8-20 (Objective 8-6) Assume that Rosanne Madden, CPA, is using 5% of net income before taxes, current assets, or current liabilities as her major guidelines for evaluating materiality
"D" in the figure indicates a direct relationship between a component risk and planned evidence. Our goal in the current year is to further improve the results of operations and create value for shareholders. Therefore, estimates are evaluated constantly based on our analyses of historical trends and our understanding of the
general business environment in which we operate. Ineffective board of director or audit committee oversight over financial reporting. Thus, it is often difficult for auditors to embrace the possibility that even their clients may lack competence or may try to deceive them throughout the entire audit process. • Profits (losses) in previous years. The
profitability measures indicate that Hillsburg is performing fairly well, despite the increased competition from larger national chains. In addition to performing analytical procedures on the activity during the intervening period, it may be necessary to test the transactions occurring between the confirmation date and the balance sheet date. Balance-
related audit Objectives transaction-related audit Objectives presentation and Disclosure audit risk level, the auditor could (1) decrease detection risk. analysis of audit 4 The original plan on this audit was to follow the approach used in Audit 2. It is
used to verify whether cash received was recorded and deposited at the correct amounts and on a timely basis. Autonomy—the self-direction, moral independence, and conviction to decide for oneself, rather than accepting the claims of others 6. To gather audit evidence that uncollected items in customers' accounts represented existing trade
receivables, the auditor would select a sample of items from the population represented by the (1) customer order file. The auditor must identify the key internal controls and deficiencies for sales, also shown in Figure 12-3. Section 404 reporting requirements types of Opinions Based on the auditor's assessment and testing of internal control, the
auditor is required to prepare an audit report on internal control over financial reporting for accelerated filer public companies subject to Section 404(b) reporting applies. Make a preliminary judg ment about what amounts to
consider material. Figure 9-3 summarizes factors that determine each of the risks, the effect of the three component risks on the determination of planned audit evidence, mack 51 Vice President sales and marketing mary R. For example, the auditor may select one sales transaction for a
system walkthrough of the credit approval process, then follow the credit approval process from initiation of the sales transaction through the granting of credit. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice
reviews described in (3) above. 11-19 (Objective 11-5) An audit client is creating an online, Web-based sales ordering system for customers to purchase products using personal credit cards for payment. Date MEDIUM-SIZED MANUFACTURING COMPANY Prepared by FLOWCHART OF RAW MATERIALS PURCHASING FUNCTION Approved by
ACCOUNTS PAYABLE MANUFACTURING DIVISION STORES PURCHASE OFFICE A Purchase requisition 1 2 Purchase requisition 1 Purchase requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purchase requisition 1 Purchase requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 2 B By requisition 1 Purchase requisition 1 Purcha
"Deloitte Auditors Work Toward Overtime Settlement" (March 10, 2015) (overtime paylaws.org); 3. Guidance developed by the AICPA identify corporate governance and other control environment factors that reduce fraud risks. The law makes the knowing and willful
destruction of audit documentation within the seven-year period a criminal offense subject to financial fines and imprisonment up to ten years. When a material change occurs, the auditor should add an explanatory paragraph after the opinion paragraph aft
change. It is difficult in concept and practice to separate fraud risk, and control risk, and control risk, and control deviation occurred at a certain time of the month or only with certain types of
documents, a systematic sample can have a higher likelihood of failing to be representative than a simple random sample. Figure 7-1 shows the relationships among auditing standards, types of evidence, and the four evidence decisions. related Financial Interest Issues Normal Lending procedures Generally, loans between a CPA firm or covered mem-
bers and an audit client are prohibited because it is a financial relationship. Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary analytical procedures Set preliminary judgment of materiality and performance materiality Identify significant risks due to fraud or error Assess inherent risks
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Understand internal control and assess control risk Finalize overall audit strategy and audit plan Chapter 9 / Assessing The Risk of MATeRial MissTATeMenT 307 engagement, the auditor must document his or her conclusions in the working papers. Simon, which occurred in 1969. They will then use information about the client and industry obtained

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through risk assessment procedures to assess risk of material misstatement for specific audit objectives, including any significant risks whether due to fraud or error. Job tasks are specific to the individual and no responsibilities overlap with other departments. assessment, planned detection risk in the audit risk model is increased, and planned
substantive tests can therefore be reduced. SEC Litigation release 21915, april 5, 2011 (www.sec.gov); 3. For example, if the client is expanding sales by taking on new customers with poor credit ratings, the auditor will assess a higher risk of misstatement for net realizable value of accounts receivable and plan to expand testing in this area. Therefore be reduced.
are six transaction-related, eight balance-related, and four presentation and disclosurerelated audit objectives, all of which are listed in Table 13-6. Expand the year-end procedures extensively in evaluating allowance for uncollectible accounts. multiple choice Questions from cpa examiNations 1-12 (Objectives 1-1, 1-3, 1-5) The following questions
deal with audits by CPA firms. For example, the calculation of inventory turnover before invento
analytical procedures before they are performed. The auditor guarantee the accuracy of financial statements, and some users even believe that the auditor guarantees the financial viability of the business. For example, data about recent
write-offs of accounts receivable is a key performance indicator for accounts receivable collection. After the check number and the date the check number an
fictitious supplier credits that further reduced accounts payable. After an employee is hired, continuous evaluation of employee compliance with the company's values and code of conduct also reduces the likelihood of fraud. Results of the peer review are included in a public file by the AICPA. It was therefore more efficient to allocate $265,000 to
inventories and a small amount to notes payable. risk Factors for Fraudulent Financial prospects. The total effect on current assets is now 8.3 percent ($250,000 divided by $3,000,000) and 12.5 percent on net
income before taxes ($250,000 divided by $2,000,000). Do you believe that a $10 million misstatement will be material? The extent of procedures may also be changed to obtain more evidence decisions for the three audits described in Figure 13-3 on
page 441: Audit A Ineffective client internal controls Audit C Somewhat effective client internal controls Audit C Somewha
company allows us to return any unsold goods without penalty. Owners of the company wondered how they had ended up in this situation, considering the results they had showed at year-end. the revision will be based on a comprehensive analysis and extensive research process that incorporates feedback and participation from relevant stakeholders
to determine the knowledge and skills required of newly-licensed CPas. This section must include the heading "Opinion" preceding the final paragraph in the standard report, which states the auditor's conclusions based on the results of the audit. Low turnover and extensive training of our salespeople enhance this service. Johnson, proprietor
$30,000 40,000 $70,000 8-23 (Objective 8-7) Provide two examples of when an auditor might set a lower level of performance materiality for a particular class of transactions, account balance, or disclosure. Chapter Learning Objectives After studying this chapter, you should be able to 7-1 7-2 7-3 7-4 7-5 7-6 7-7 7-8 Contrast audit evidence with
evidence used by other professions. We think the charge is excessive. It is especially important in those areas of the audit that involve significant management judgments or transactions outside the normal course of business, and it is important in the consideration of fraud. Numerical Match documents Check prices Check extensions Compute
discounts Prepare voucher Cash disbursement transaction file Print reports Key enter and process purchase transaction file Voucher document package* Print reports Acquisitions journal Voucher document package 2 Cash disbursements journal Check Update accounts payable master file To vendor; signed by treasurer
(reviews support) Accounts payable master file *Includes voucher, vendor's invoice, receiving report, purchase order, and purchase requisition. Quality audits require that auditors obtain appropriate evidence and make appropriate judgments about the evidence. Opinion In our opinion, based on our audit and the report of the other auditors, the
financial statements referred to above present fairly, in all material respects, the financial position of Washington Felp Corporation as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Objective 12-6
Describe the differences in evaluating, reporting, and testing internal control for nonpublic and smaller public companies. The auditor should identify client controls to mitigate the risk, and design substantive
procedures to determine whether material misstatements occurred due to the significant risk. While actual financial statements' real data has fluctuated over the subsequent years, the company has built an enviable reputation of quality and service. To provide a frame of reference for understanding the material in this chapter, let's assume we're
dealing with a wholesale merchandising company. Communications among audit team Auditing standards require the audit team, including the engagement partner and key engagement team members, conduct discussions to share insights from more experienced audit team members and to "brainstorm" ideas that address the following: 1. The
division is likely to require the member to attend a specified number of hours of continuing education courses to improve technical competence. Section 11 of the Securities Act of 1933 only, 240). It is a highly subjective decision. A "tone at the top" based on honesty and integrity provides the foundation upon which a more detailed code of conduct
can be developed to provide more specific guidance about permitted and prohibited behavior. For each audit procedure, identify whether it is a test of control or a substantive test of transactions. the Client has rights to accounts receivable ordinarily cause no audit problems because the receivables
usually belong to the client. Arens: The author team of Randy Elder, Mark Beasley, and newest member of the author, Al Arens, in this 16th edition of Auditing and Assurance Services: An Integrated Approach. Relationship of Performance Materiality and
Risks to Planned Evidence PLANNED AUDIT EVIDENCE PERFORMANCE MATERIALITY AND RISKS Acceptable audit risk D Inherent risk I D I Planned detection risk I I Planned audit evidence D I Control risk Performance materiality D Direct relationship; I Inverse relationship; I Inverse relationship Chapter 9 / Assessing The Risk of MATERIALITY AND RISKS Acceptable audit risk D Inherent risk I D I Planned detection risk I D I Planned audit evidence D I Control risk Performance materiality D Direct relationship; I Inverse relationship Chapter 9 / Assessing The Risk of MATERIALITY AND RISKS Acceptable audit risk D Inherent risk I D I Planned audit evidence D I Control risk Performance materiality D Direct relationship; I Inverse relationship Chapter 9 / Assessing The Risk of MATERIALITY AND RISKS Acceptable audit risk D Inherent risk I D I Planned audit evidence D I Control risk Performance materiality D Direct relationship; I Inverse relationship; I Inverse relationship Chapter 9 / Assessing The Risk of MATERIALITY AND RISKS Acceptable audit risk D Inherent risk I D I Planned audit evidence D I Control risk Performance materiality D Direct relationship; I Inverse relationship Chapter 9 / Assessing The Risk D Inherent risk I D I Planned audit evidence D I Control risk D Inherent risk I D I Planned audit evidence D I Control risk D Inherent risk I D I Planned audit evidence D I Control risk D Inherent risk I D I Planned audit evidence D I Control risk D I Planned audit evidence D I Control risk D I Planned audit evidence D I Control risk D I Planned audit evidence D I Planned 
cOncept check 1. Make client acceptance decisions and perform ini tial audit planning. If control risk is assessed at maximum, only substantive tests of transactions will be used, assuming the audit is of a smaller public company or a nonpublic company or a nonpublic company. The auditor should also control the sample after the client provides the documents. was a theatre
production company in Toronto, Canada. 2nd 449 (1982). Claimed had been misunderstood by the staff auditor. †11. accounting principles or other financial data of any entity are presented in conformity with generally accepted accounting principles or
(2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data in order for them to be in conformity with generally accepted by bodies designated by Council to establish such principles
that has a material effect on the statements or data taken as a whole. • In United States v. Typically, the CPA is engaged to provide written assurance about the reliability of an assertion made by management. This working paper also effectively documents the auditor's expectation that is required by auditing standards for substantive analytical
procedures. John's concern about the contract was that to recognize income in accordance with accounting standards, the contract had to be enforceable. He or she defers recording the cash receipts from one customer and covers the shortages with receipts of another. The auditor uses the information obtained from the risk assessment procedures.
to design further audit procedures, which consist of tests of controls, substantive tests of tests of details of balances. A trusted certificate to individuals and companies engaging in e-commerce. The staff in warehouse department also checks that the quality of
the goods received is satisfactory. This can result both from the honest belief that the auditor failed to conduct an adequacy of the adequacy of the adequacy of the audit program Auditing standards require a
written audit program for every audit. These fraudulent practices resulted in over A$20 million. For example, the correct accounting treatment of the acquisition of one entity by another poses relatively difficult accounting problems, especially as it
relates to fair value estimations. In these audits, a low risk might be .5, medium .8, and high 1.0, if the risks are quantified. (2) timing of audit procedures, by perhaps performing them at year-end rather than an interim date. If the CEO or other top managers display a significant disregard for the financial reporting process, such as consistently
issuing overly optimistic forecasts, or they are overly concerned about meeting analysts' earnings forecasts, fraudulent financial reporting is more likely. When preparing the audit, Johnny found that the company is still keeping cassette tape decks as part of the inventory and the amounts are substantial. The realizable value of accounts receivable
equals gross accounts receivable less the allowance for uncollectible accounts. This is one of the few notable difference estimation is shown at the end of this chapter on pages 612-615. Depreciation is calculated on a straight-line basis over estimated
useful lives of the assets. (.87) 8. Expanded Coverage on Risk Assessment Procedures and Understanding Internal Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage of Financial Instruments Service Organization Controls (SOC) Reports Preface 19 New Coverage Organization Contr
Material Data Analysis Problems Hillsburg Hardware Annual Report Pinnacle Manufacturing Integrated Case 20 Preface The issuance of SSARS No. 21 introduced a new type of nonattest engagement service that allows nonissuers to engage a CPA to help management prepare monthly, quarterly, or annual financial statements without providing any
assurance on the financial statements or issuing a report, even if the financial statements are expected to be used by, or provided to, a third party. The statements were sent periodically to the tenants. To determine whether the internal controls operated effectively to minimize instances of failure to invoice a shipment, the auditor would select a
sample of transactions from the population represented by the (1) customer order file. He engaged Wilfred Hanson to perform an Objective 13-4 Design an audit program. If the CPA firm had notified the client (preferably in writing) of a deficiency in internal control that would have prevented the theft but management did not correct it, the CPA firm
would have a defense of contributory negligence. Auditors are often liable when they are presented with information is needed to conduct more detailed analytical procedures related to receivables and allowance for doubtful accounts? In planning tests of details of balances,
the auditor usually predicts few or no exceptions will occur in tests of controls, substantive tests of transactions, and substantive tests of transactions, and substantive tests of transactions and reliable evidence about inventory. The chart illustrates that we have
considerable opportunity for sales growth. For example, software tools can be used to search for fictitious revenue transactions by searching for duplicate sales invoice numbers, or by reconciling databases of shipping records to ensure that all sales are supported by evidence of shipping. This chapter deals with the
eighth and last step in the planning phase of an audit. Auditors strive to maintain a high level of independence to keep the confidence of users relying on their reports. 7-15 (Objective 7-7) discuss the ownership of audit files. Auditors are responsible for communicating all significant matters identified during the audit to the audit committee. The
pervasiveness of these potential misstatements must also be considered. The 1931 Ultramares case described in Chapter 5 (p. There are three underlying principles related to control activities; developing control activities that mitigate risks to an acceptable level, developing general controls over technology, and Control activities Chapter 11 /
Internal Control and CoSo Framework 383 establishing appropriate policies, procedures, and expectations. Based on the accounts accounts are the overall financial statements accounts are the overall financial statements accounts and ignoring other accounts, are the overall financial statements accounts and ignoring other accounts, are the overall financial statements accounts and ignoring other accounts and ignoring other accounts.
initials indicating verification of pricing, extensions, and footings. Examples of potential AQIs include measures of engagement team experience and industry expertise; measures related to time spent on the audit engagement team experience and industry expertise; measures related to time spent on planning versus year
end audit procedures); workloads for individual staff, including average number of hours per week; and findings from the firm's assets are all subject to the damages that arise. The most common are certified public accounting
firms, government accountability office auditors, internal revenue agents, and internal auditors. For example, if the auditor is concerned about the occurrence objective but tests in the wrong direction (from shipping documents to the journals), a serious audit deficiency exists. For example, a decline in earnings may threaten the company's ability to
obtain financing. What is your assessment of the IT operations function at Jacobsons? Controls Over Classes of transactions and processing extensions function at Jacobsons? Controls Over classes of transactions and processing extensions.
(transactions). The chapter also included a discussion of the differences in the audit of nonpublic and smaller public companies because they are not subject to Section 404(b) and PCAOB requirements to report on internal control over financial reporting. Existing accounts receivable are included. In auditing Part 3 / APPlicAtion of the Audit Process to
the sAles And collection cycle tabLe 17-1 Population Item 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 Illustrative Accounts Receivable Population Recorded Amount $ 1,410 9,130 660 3,355 5,725 8,210 580 44,110 825 1,155 2,270 50 5,785 940 1,820 3,380 530 955 4,490 17,140 Population Item (cont.) Recorded Amount (cont.) 21 22 23 24 25
26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 $ 4,865 770 2,305 2,665 1,000 6,225 3,675 6,250 1,890 27,705 935 5,595 930 4,045 9,480 360 1,145 6,400 100 8,435 $207,295 accounts receivable, any client misstatement in a customer balance included in the auditor's sample is a misstatement. Use professional judgment in deciding on the preliminary
judgment about materiality for earnings, current assets, current liabilities, and total assets. Shipping clerks compare goods received from warehouse with details on shipping documents. Before the sale is authorized, YourTeam.com obtains credit card authorization codes electronically from the credit card agency. Some of these stories are based on
public information about real companies, whereas others are fictitious. Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary judgment of materiality and performance materiality Identify significant risks due to fraud or error Assess inherent risk
Understand internal control and assess control risk Finalize overall audit strategy and audit plan Continuing Clients Many CPA firms evaluate existing clients annually to determine whether there are reasons for not continuing to do the audit. This defense is called an absence of causal connection. You set the preliminary judgment about materiality at
$50,000. When he asked Sarah about this, she responded with the following: "I called Gardner Smith (the responsible partner with Tom's prior audit firm) and left a voicemail message for him. Uncollectible accounts do not understand
the nature of misstatements that could occur in those accounts. Compare the Detail of a Total Balance with Similar Detail for the Preceding Year If there have been no significant changes in the client's operations in the current year, much of the detail making up the totals in the financial statements should also remain unchanged. Performance
measurement includes ratio analysis and benchmarking against key competitors. Auditing standards require the audit files the preliminary judgment about materiality and the basis used to determine it. Each quarter forms a subpopulation. Both sampling and nonsampling risks are therefore important for tests of controls,
substantive tests of transactions, and tests of details of balances. The company understated their accounts payable and inventory and has no effect on
income. †12. The overall increase from 2015 to 2016 was caused mostly by unexpected repairs needed to reattach and replace damaged shelving units in our main warehouse building. An audit of a Sony Electronics of Japan that is also listed in the United States and whose financial statements will be filed with the SEC. A criminal conviction against
an auditor can result when plaintiffs demonstrate that the auditor intended to deceive or harm others. 544) includes three rows for assessed control risk: one for cash receipts, and one for additional controls related to the accounts receivable balance.
that an organization must complete to execute and record business transactions for sales, cash receipts, sales returns and allowances, write-off of uncollection cycle—the categories of transactions for the sales and collection cycle in a typical company: sales, cash
receipts, sales returns and allowances, write-off of uncollectible accounts, and bad debt expense Design format audit procedures for each audit procedures resulting from the audit procedures for man audit procedures resulting from the audit procedures for each audit procedures for each audit procedures resulting from the audit procedures for each audit p
starting point for testing the occurrence and completeness transaction-related audit objectives; vouching from journals tests for occurrence and tracing from source documents to journals tests for completeness transaction-related audit objectives; vouching from journals tests for occurrence and tracing from source documents to journals tests for occurrence and tracing from source documents to journals tests for occurrence and tracing from journals tests for occurrence and tracing from journals tests for occurrence and tracing from source documents tests for occurrence and tracing from journals tests for occurrence and tracing fr
cash shortage Performance format audit program— the audit program eroof of cash receipts—an audit program eroof of cash receip
by reconciling the total cash receipts recorded in the cash receipts journal for a given period with the actual deposits made to the bank Sales and collection cycle—involves the decisions and processes necessary for the transfer of the ownership of goods and services to customers after they are made available for sale; it begins with a request by a
customer and ends with the conversion of material or service into an account receivable, and ultimately into cash review Questions 14-1 (OBJeCtIVe 14-2) Describe the following documents and explain their use in the sales and collection cycle: bill of lading, credit memo, remittance advice, and accounts receivable trial balance. Auditors and explain their use in the sales and collection cycle: bill of lading, credit memo, remittance advice, and accounts receivable trial balance.
typically evaluate general controls early in the audit because of their impact on application controls. Later in the audit because of the audit planning steps, relates to the audit planning steps, relates to the other three phases of the audit. Invoices are sent to co-participants in a fraudulent scheme, and sales are recorded for fictitious transactions
Identify related parties Transactions with related parties are important to auditors because accounting standards require that they be disclosed in the financial statements if they are material. A nonexistent part number was included in the description of goods on a shipping document. Due to competitive pressure, Parts for Wheels installed an
Internet-based sales system that allows customers to place orders through the company's Web site. Nefret refused to allow Abdul & El-Emir to obtain written confirmation supporting the credits. 15-3 (Objective 15-2) Explain the difference between probabilistic and nonprobabilistic sample selection. Assume the auditor selects sales invoices #18100
to #18199. Michael Travel partners with ABC Outing to provide hiking and rafting adventure vacations. elements of the Judgment process The Center for Audit Quality's Professional Judgment Resource outlines five key elements of the Judgment process. The Center for Audit Quality's Professional Judgment process.
Many of the large local firms are affiliated with associations of CPA firms use considerable caution in accepting new clients in newly formed, rapidly growing businesses. Define and describe attributes sampling and a sampling
distribution. However, independence may be affected if cross-claims between the auditor and client are filed that have a significant risk of a material loss to the CPA firm must assess the client's
willingness and ability to perform all management functions related to the engagement and must document the understanding with the client. Based on the number of days between each company's year-end and the date of the audit report, and your knowledge of each company's operations, on which audit do you think the auditors place the greatest
reliance on substantive tests of details of balances? The auditor uses the information obtained in understanding internal control to assess control risk. Describe the enforcement mechanisms for CPA conduct. This is called the direction of tests and is illustrated in Figure 14-4. The risk of shipping goods to customers who exceed their credit limit is
deemed to be a significant risk. Batch totals of cash receipts are compared with computer summary reports (C4). Auditors need to know when they should place less reliance on controls. (2) can be represented by no more than one monetary unit. No difficulties occur when the auditor
accumulates planned evidence and concludes that the assessment of each of the risks was reasonable or better than originally thought. The Act requires the CEO and CFO to certify the annual and quarterly financial statements filed with the appropriate
personnel related to the initial sale. eSSential termS Adverse opinion—a report issued when the auditor believes the financial position or the results of its operations and cash flows in conformity with GAAP Combined report on financial
statements and internal control over financial reporting—audit report on the financial statements and the effectiveness of internal control over financial reporting—audit report is not able to become satisfied that the overall
financial statements are fairly presented or the auditor is not independent Material misstatement—a misstatement in the financial statements Qualified opinion—a report issued when the auditor believes that the overall financial statements are fairly stated but that
either the scope of the audit was limited or the financial data indicated a failure to follow GAAP Separate report on internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial reporting—audit report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report on the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of internal control over financial report of the effectiveness of the effect
reporting framework Unmodified opinion audit report with emphasis-of-matter paragraph or nonstandard report wording—an unmodified opinion audit report in which the financial statements are fairly presented, but the auditor believes it is important, or is required, to provide additional information or the wording of other paragraphs of the report
require revision Chapter 3 / Audit RepoRts 93 review gUeStionS 3-1 (Objective 3-1) Explain why auditors' reports are important to users of financial statements and why it is desirable to have standard wording. We ended the chapter by emphasizing how auditors use evidence accumulated through the performance of a combination of procedures
including tests of controls, substantive tests of transactions, substantive analytical procedures, and tests of details to evaluate accounts receivable. Regardless of the diligence of credit departments, some customers do not pay their bills. A number of the problems in the text can be completed using Excel templates available on the text Web site.
Madoff was sentenced to a prison term of 150 years. "SEC Charges Satyam Computer Services with Financial Fraud," april 5, 2011 (www .sec.gov); 2. Are they related? Both classification systems are used in practice. 548 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle tabLe 15-9 Evaluating Sample Results Using Attributes
20.0\ 16.8\ 14.5\ 12.8\ 11.4\ 10.3\ 9.4\ 8.7\ 8.0\ 7.5\ 7.0\ 6.6\ 5.9\ 5.3\ 4.3\ 3.6\ 2.7\ 30.5\ 24.9\ 21.0\ 18.2\ 16.0\ 14.3\ 12.9\ 11.8\ 10.8\ 10.0\ 9.3\ 8.7\ 7.9\ 6.3\ 5.3\ 4.0\ 41.5\ 34.0\ 28.8\ 24.9\ 22.0\ 19.7\ 17.8\ 16.3\ 15.0\ 13.9\ 12.9\ 12.1\ 11.3\ 10.1\ 9.1\ 7.3\ 6.1\ 4.6\ 46.8\ 38.4\ 32.5\ 28.2\ 24.9\ 22.3\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 10.0\ 1
for the past five years but income for the current year has declined one percent, that change may be material. The AICPA Professional Ethics Executive Committee sets rules of conduct that CPAs are required to meet. Similarly, the International Auditing and Assurance Standards Board (IAASB) recently revised the auditor's report in the International
Standards on Auditing (ISAs) to require auditors to communicate "key audit matters." Key audit matters include communication of similar kinds of information as proposed by the PCAOB such as areas of higher assessed risk of material misstatement and the effects of significant events or transactions that occurred during the period. 4-16 (Objective
procedures. The cash register is physically positioned to monitor the entire store and the front door. Shelton Ltd. • These considerations (A, B, C) affect the auditor's decision about the appropriate nature, timing, and extent of evidence to accumulate (D). 436) identifies a test of control that might be performed to test its effectiveness. Figure 13-3
shows the relationship between substantive tests and control risk assessment (including tests of controls) at differing levels of internal control effectiveness. The accounting department has experienced a high rate of turnover of key personnel. Presentation by PCAOB Board Member Daniel L. More recently, CPAs have expanded the types of assurance
services they perform to include other information of interest to investors, customers, and other interest to investors, and other investors, and other interest to investors, and other invest
the fiscal year. For example, a violation of federal tax laws directly affects income tax expense and income tax e
statement accounts are closely related to balance sheet accounts and interest expense with notes payable. Required Classify each of the preceding items according to the eight types of audit evidence: (1) physical examination, (2) confirmation, (3) inspection,
(4) analytical procedures, (5) inquiries of the client, (6) recalculation, (7) re-performance, and (8) observation. As the opening story to this chapter demonstrates, audit professionals at all experience levels serve as valued advisors to their clients. Another acceptable approach is to assume that nonresponses are 100 percent overstatement amounts.
12 (ObjeCtive 6-8) Identify the three broad categories of management assertions. The company had to revise its fourth-quarter 2011 earnings release prior to issuing audited results for the year because they failed to sufficiently reserve for customer refunds on higher-priced items. accounts in the Sales and Collection Cycle Cash in bank Sales Cash
sales Sales on account Accounts receivable Beginning balance Sales on accounts Write-off of uncollectible accounts Write-off of uncollectible accounts Beginning balance Estimate of bad debt expense Sales returns and allowances Badowances Bado
debt expense Ending balance Chapter 14 / Audit of the SAleS And ColleCtion CyCle 487 1. Documenting analytical procedures, understanding of internal control, and assessing control risk are included in the current period audit files rather than in the permanent file by many CPA firms. Offsetting the reliability disadvantage, negative confirmations
are less expensive to send than positive confirmations, and thus more can be distributed for the same Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 579 Figure 16-6 Negative Confirmation AUDITOR'S ACCOUNT CONFIRMATION Please examine this statement carefully. An explanatory paragraph is
required for both voluntary changes and required changes due to a new accounting pronouncement. I'll then have to look into those 'odd' transactions. Select the table corresponding to the ARO. In the simplest form
of accelerated revenue recognition, sales that should have been recorded in the subsequent period are recorded as current period sales. Audrey Glover is a financial analyst in the financial reporting department of Technologies International, a privately held corporation. SOLE PRACTITIONER SANCTIONED FOR INSUFFICENT AUDIT EVIDENCE
AND DOCUMENTATION John Kinross-Kennedy was a sole practitioner CPA with six public company audit clients that were traded on the over-the-counter (OTC) market and OTC bulletin board, and at times was the independent accountant for as many as 23 public companies. Give one example of each for the acquisition and payment cycle. Sales
returns and allowances Journal This is the journal this is the journal used to record sales returns and allowances. The company was unable to pay their utility bills and the salary of their workers. Prepared at the time a transaction takes place, or as soon as possible thereafter, to minimize timing errors. For example, the prepaid portion of each insurance policy might
be compared with the same policy for the previous year as a part of doing tests of prepaid insurance. Throughout this book, we use the term "unqualified opinion" to represent the term "unqualified opinion" as in PCAOB auditing standards.
shipping documents sequentially, it is usually a simple matter to evaluate and test cutoff. It is unusual to use both a narrative and a flowchart to describe the same information. (Statistics) b. ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, requires the auditor's report to include
the following paragraphs under the headings "Basis for Opinion" and "Auditor's Responsibilities for the Audit of the Financial Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements": Basis for Opinion We conducted our audit in accordance with International Statements on Auditing (ISAs).
such as the misstatements discovered in prior years' audits and technology changes in the client's industry. Your best textbooks title is here! Youcould locate your book to assist you get creativity concerning the book you read. Book File: Auditing and Assurance Services (16th Edition) Book Author: by Alvin A. As stated earlier, audit procedures are the
detailed steps, usually written in the form of instructions, for the accumulation of the eight types of audit evidence. However, the PCAOB has been unable to conduct inspections of audit firms in certain countries, including several European Union countries, China, and Hong Kong, primarily because the PCAOB has been denied access under local
laws. Under this concept, any users who the auditor should have reasonably been able to foresee as likely users of the client's financial statements have the same rights as those with privity of contract. In most cases, Figure 12-2 Client Partial Internal Control Questionnaire for Sales Hillsburg Hardware Co. Auditor MSW Date Completed Audit Date
9/30/16 Reviewed by Objective (white box) and Question Sales FR 12/31/16 Date Completed 10/1/16 Answer Yes Remarks No N/A A. The letter should clearly define the intent of the engagement, the CPA's responsibilities, and any restrictions imposed on the CPA. You've made a real contribution on this audit, and I'd like you to be there." Jeanine tried
not to show her excitement too much, but she couldn't hide the smile on her face. Compliance with laws and regulations Despite management's ability to achieve its objectives. Several illustrations of typical fraud techniques highlighted areas subject to greater fraud risk and provided
examples of effective audit procedures to address those risk areas. The receiver of Livent Entertainment of Canada Inc. You need to know the sales and collection cycle classes of transactions and account balances in a typical company. 1.5 9 5 51 50 10 20 31.6 1 7 5 66 65 0 0 4.6 Description of Attributes 9. Auditors obtain copies of machinereadable
client databases or master files and use the generalized audit software to do a variety of tests of the client's electronic data. Independent Checks on performance The last category of control activities is the careful and continuous review of the other four, often called independent checks or internal verification. In redrafting SSARS, the ARSC used
similar redrafting standards as those used by the Auditing Standards Board. Later in this chapter, procedures for specific fraud risk areas are discussed. Complaints and disagreements that require correction. The engagement letter also serves the
purpose of informing the client that the auditor cannot guarantee that all acts of fraud will be discovered. 14-17 (OBJeCtIVeS 14-3, 14-7) State the relationship between the confirmation of accounts receivable and the results of the tests of controls and substantive tests of transactions. Because U.S. or international accounting standards provide
the criteria for evaluating whether the accounting information is properly recorded, auditors must thoroughly understand those accounting inventory. In such cases, providing the professional service would compromise the member's compliance with the rules
For example, if an auditor counts inventory, that evidence is more reliable than if management gives the auditor its own count amounts. and b., summarize your observations about Pinnacle's business, including your assessment of the client's business risk. A large sample of evidence provided by an independent party is not persuasive unless it is
relevant to the audit objective being tested. Use the following url disclosure/annual_financial to find the announcement of Annual Report for Macquarie Bank Limited for the period ended 31 March 2015. Once it is calculated, the auditor can consider CUER in the context of specific audit objectives. Similarly, the final evaluation of the adequacy of the
entire application of attributes sampling, including the adequacy of the sample size, must also be based on high-level professional judgment. The auditor identified a number of significant deficiencies in the internal controls over financial reporting. Certainly, the portion is below 10 percent. For each misstatement, suggest a control that may have
prevented or detected the misstatement. ARIA is a serious concern to auditors because of the potential legal implications of concluding that an account balance is fairly stated when it is misstated by a material amount. When a client engages a CPA to perform a compilation service, the CPA issues a compilation report; however, in a preparation
service no report is issued by the CPA, but the face of the financial statements must include a statement that "no assurance is provided." In a review service, the accountant performs inquiry and analytical procedures that the auditing
matters they have identified in the audit practice alert will continue to be relevant under the new accounting standard for revenue recognition. Operators have READ and RUN capabilities for live application programs. The cutoff objective is one of the most important in the cycle because misstatements in cutoff can significantly affect current period
income. Along with the scanning technologies, groceries use point-of-sale technologies that allow customers to swipe debit and credit cards for payment, while still maintaining the ability for customers to pay with cash. Those risk assessment procedures are a critical component to planning and designing an audit approach, which can be broken down
into several parts. PricewaterhouseCoopers LLP dated their report on 5 May 2015 instead of 28 February 2015which the financial end of the company. Existing sales transactions are recorded. For larger public companies, the auditor also issues a report on internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act
$14,000 from Georgio-Armani; 5. The combined result of these two cycles is inventory (inventory and warehousing cycle). State the effect on the financial statement or understatement or underst
others. Explain the relationships among audit services, and other assurance and nonassurance services provided by CPAs. b. Review the guidance in PCAOB auditing standards to provide examples of *Based on AICPA question paper, American Institute of Certified Public Accountants. Many auditors set performance materiality for
most tests as a standard percentage of the preliminary judgment about materiality for the financial statements as a whole. Assume that the company uses a periodic inventory system (i.e., inventory and cost of sales do not need to be adjusted). As a result, the calculated allowance for sampling risk is too small and the auditor concluded that the results
of these tests are unacceptable. A number of well-known companies, including Apple, Chevron, and FedEx Corporation, along with the U.S. Chamber of Commerce, have voiced opposition in comment letters to the PCAOB. However, in a subsequent trial of the Ultramares case, the court pointed out that had there been fraud or gross negligence on the
part of the auditor, the auditor, the auditor could be held liable to third parties who are not primary beneficiaries. Auditors perform tests of controls and substantive tests of transactions: • To determine whether the exception rate in the population is sufficiently low • To reduce assessed control risk and thereby reduce tests of details of balances • For larger
public companies, to conclude that the control is operating effectively for purposes of auditing internal control over financial reporting Unlike for tests of controls and substantive tests of transactions, auditors rarely use rate of occurrence tests in tests of transactions, auditors rarely use rate of occurrence tests of transactions, auditors rarely use rate of occurrence tests in tests of transactions, auditors rarely use rate of occurrence tests of transactions, auditors rarely use rate of occurrence tests of transactions, auditors rarely use rate of occurrence tests of transactions, auditors rarely use rate of occurrence tests of transactions, auditors rarely use rate of occurrence tests of transactions.
reporting? Compensating control—a control elsewhere in the system that offsets the absence of a key control deficiency—a deficiency—a deficiency in the design or operation of control elsewhere in the system that offsets the absence of a key control deficiency—a def
assess control risk by matching key internal controls and internal control deficiencies with transaction-related audit module approach—a method of auditing transactions with characteristics that are of interest
to the auditor; the auditor is then able to analyze these transactions on a real-time, continuous basis as client transactions are processed Flowchart—a diagrammatic representation of the client's documents and records and the sequence in which they are processed Generalized audit software (GAS)— computer programs used by auditors that provide
data retrieval, data manipulation, and reporting on internal control questionnaire—a series of questionnaire—a series of questionnaire—a series of questionnaire—a series of auditors Chapter 12 / Assessing Control risk And reporting on internal control that may
be inadequate Key controls—controls—controls that are expected to have the greatest effect on meeting audit objectives Management letter—an optional letter written by the auditor's recommendations for improving any aspect of the client's business—a significant deficiency in internal
control that, by itself or in combination with other significant deficiencies, results in a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected Narrative—a written description of a client's internal controls, including the origin, processing, and disposition of documents and records, and the
relevant control procedures Parallel simulation testing—an audit testing approach that involves the auditor's use of audit software, either purchased or programmed by the auditor to gather evidence about the design and
implementation of specific controls Significant deficiency—a control deficiency—a control deficiency, or a combination of control deficiency that is less severe than a material weakness, but important enough to merit attention by those responsible for oversight of the company's financial reporting Test data approach—a method of auditing an IT system that uses the
auditor's test data to determine whether the client's computer program correctly processes valid and invalid transactions Tests of controls—audit procedures to test the operating effectiveness of controls in support of reduced assessed control risk Walkthrough—the tracing of selected transactions through the accounting system to determine that
controls are in place review QuestiOns 12-1 (Objectives 12-1, 12-6) What is the auditor's responsibility for obtaining an understanding of internal control? McKesson-Robbins inflated assets and earnings by $19 million through the reporting of nonexistent inventory and fictitious sales. I won't select any sample for the online sales so that I can complete
all tests of control by November, ideally." Thomas trusted Francis' judgment and the internal control system of Pacific Products without much questioning and issued an unqualified audit report. A sales transaction, for example, should be recorded on the date of shipment. Currently, U.S. public companies are required to prepare financial statements
that are filed with the Securities and Exchange Commission (SEC) in accordance with generally accepted accounting principles in the firm. The population has 2,625,000. muLtipLe ChoiCe Questions From Cpa examinations 5-14 (Objectives 5-4
5-5) The following questions concern CPA firms' liability under common law. The PCAOB's proposal has been met with resistance. As a result, auditors may be exposed to legal liability related to their opinions on internal control. Identify the related accounts likely affected by the potential fraud misstatement. Tests of details of balances are specific
procedures intended to test for monetary misstatements in the balances in the financial statements. The ethics and integrity of service providers, as well as the design and functioning of their internal controls, need to be considered by management when selecting a service provider, and evaluated regularly. The purpose of Part V is to continue the
assessment of control risk by determining the appropriate tests of controls and substantive tests of transactions. An audit of a German multinational with businesses in 30 countries around the world. Use a confidence level of 90%, upper error limit of 6% (tolerable error rate or precision), and expected error rate of zero. This confirmation was
Thousands of investors and employees had suffered. accounts receivable master file is reconciled to the general ledger on a monthly basis (C9). (2) identify transactions and account balances where inherent risk is at the maximum. Credit approval is stamped on the order and sent to the accounting department. It was then discovered that the new
accounting system had interface problems with other systems and the financial reports generated were hardly reliable. Use the income statement information to prepare a common-size income statement for all three years. 20. When the sales is for cash, the customer pays the salesclerk, who marks all three copies "paid" and takes the money to the
supervisor. Inquire of management whether there is any obsolete inventory on hand at the balance sheet date. Which one or ones does the auditor reduce by performing an audit? Auditors should probe further to determine whether the use of the modifier indicates that there are exceptions to the processes or circumstances being examined.
(Realizable value) 8. 13-6 (Objective 13-1) Distinguish between substantive tests of transactions and tests of details of balances. In addition, he says the firm requires a careful evaluation of the system and a modification in the evidence accumulated based on the controls and deficiencies in the system. In almost all audits, overall assurance can be
increased by also auditing the ending balance of accounts receivable. Measurability The dollar amount of some misstatements cannot be accurately measured. Before we discuss the audit risk model components, review the illustration for a hypothetical company in Table 9-1 (p. • There is a scope limitation and there is substantial doubt about the
company's ability to continue as a going concern. 10-24 (Objectives 10-2, 10-6) The Art Appreciation Society operates a museum for the benefit and enjoyment of the community. Plan the Sample 1. General authorizations are often done automatically by computer. For all substantive tests of transactions, use a 4% TER and a 0% EPER. Chapter 17 /
Audit SAmpling for teStS of detAilS of BAlAnCeS 631 essential terms Acceptable risk of incorrect acceptance (ARIA)—the risk that the auditor is willing to
take of rejecting a balance as incorrect when it is not misstated by a material amount Basic precision—the minimum allowance for sampling risk when no misstatements are found in the sample Difference estimation—a method of variables sampling in which the auditor
estimates the population misstatement by multiplying the average misstatement in the sample by the total number of population items and also calculates sampling in which the auditor estimates the audited value of a population by multiplying the average audited value of the sample by
the population size and also calculates sampling risk Misstatement bound—an estimate of the largest likely overstatement bounds expressed in monetary unit sampling Monetary unit sampling method that provides misstatement bounds expressed in monetary unit sampling method that provides misstatement bounds expressed in monetary unit sampling method that provides misstatement bounds expressed in monetary unit sampling method that provides misstatement bounds expressed in monetary unit sampling method that provides misstatement bounds expressed in monetary unit sampling method that provides misstatement bound.
              cumulative monetary amount sampling, and sampling with proportional to size Point estimate—a method of projecting from the sample to the population are proportional to the misstatements found in the sample to the population are proportional to the misstatement found in the sample to the population are proportional to the misstatement found in the sample to the population are proportional to the misstatement found in the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate—a method of projecting from the sample to the population are proportional to size Point estimate and the projecting from the sample to the projecting from the sample to the population are projecting from the sample fro
Probability proportional to size sample selection (PPS)—sample selection of individual dollars in a population by the use of random or systematic sample selection Ratio estimation—a method of variables sampling in which the auditor estimates the population misstatement by multiplying the portion of sample dollars misstated by the total recorded
population book value and also calculates sampling risk Statistical inferences—conclusions that the elements in the total population are divided into two or more subpopulations that are independently tested and
evaluated Tolerable misstatement—the application of performance materiality to a particular sampling procedure Variables sampling techniques for tests of details of balances that use the statistical inference process review Questions 17-1 (Objective 17-1) What major difference between (a) tests of controls and substantive tests of
transactions and (b) tests of details of balances makes attributes sampling inappropriate for tests of details of balances? What are the advantages and disadvantages and disadvantages of each? Under common law, CPAs do not have the right to withhold information from the courts on the grounds that the information is privileged. Sarbanes-Oxley act and SeC provisions
addressing auditor Independence Bookkeeping and other accounting services Financial information systems design and implementation Appraisal or valuation services Actuarial services Financial information systems design and implementation Appraisal or valuation services Financial information systems design and implementation Appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services Financial information systems design and implementation appraisal or valuation services for the system of the
unrelated to the audit Any other service that the PCAOB determines by regulation is impermissible Chapter 4 / Professional ethiCs 117 CPA firms are not audit clients. What would the effect have been on the audit procedures and sample sizes for
requirement b.? (3) Making an independent estimate of the amount of a LIFO inventory. No indication of internal verification is included on the invoice. When analytical procedures are used as evidence to provide assurance about an account balance, they are referred to as substantive analytical procedures. moses 36 Vice President merchandising
Vanessa m. Part 2 / The AudiT Process As discussed in Chapter 9, auditing standards require that the auditor presume that there is a risk of fraud in revenue amounts due to the premature recognition of revenue transactions or the recording of
fictitious revenues. The SEC also requires companies to promptly disclose amendments and waivers to the code of ethics for any of those officers. Management designs systems of internal control to accomplish all three objectives and problems 17-22 (Objective 17-2) Your audit of Italian Hospital Group (IHG) includes examining
whether accounts receivable is misstated. Security plans should be in writing and monitored. As consulting revenue grows in importance, the audit practice may decrease in importance, and values at the core of the audit practice may decrease in importance. (4) $5,000. The auditor needs to retain adequate records of the procedures performed, the methods
used to select the sample and perform the tests, the results found in the tests, and the conclusions reached. Tests of details of balances focus on the ending general ledger balances for both balance sheet and income statement accounts. 9-32 (Objective 9-6) Bohrer, CPA, is considering the following factors in assessing audit risk at the financial
statement level in planning the audit of Waste Remediation Services (WRS), Inc.'s financial statements for the year ended December 31, 2016. Because of the many different areas in which operational audit. Average days to sell inventory were 108.6
and 120.9 in 2016 and 2015 respectively. However, opportunities are greater in companies with accessible cash or with inventory or other valuable assets, especially if the assets are small or easily removed. required Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable 603 17 Chapter Learning Objectives After
studying this chapter, you should be able to 17-1 Differentiate audit sampling 17-2 17-3 17-4 17-5 for tests of details of balances and for tests of controls and substantive tests of the independent auditor in the audit of financial statements?
financial statements Management's Responsibility for the Financial Statements To Our Shareholders: Hillsburg Hardware Company management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2016. 16-2 (Objective 16-1) Sharizat is a new audit trainee at Khairy and Jamaludin Chartered
Accountants. Risk assessment e. 12-7 (Objective 12-3) During the prior-year audits of McKimmon, Inc., a private company, the auditor's tests of controls can be done by the computer, often as a way to achieve more effective and efficient audits. (2) results in a
reasonable possibility that internal control will not prevent or detect material financial statement misstatements. (4) consider whether fraud was the result of a failure by employees to comply with existing controls. In cases in which the client had more than one branch in different industries, Gordon found the ratio analysis to be no help at all.
required Your audit staff drew the following conclusion for the results of population 3: "The CUER is determined to be 9.2 percent. Evidence obtained directly by the auditor through physical examination, observation, recalculation, and inspection is more reliable than information obtained indirectly. Current Files The current files include all audit
documentation applicable to the year under audit. Even worse, if a business failure happens and the financial statements are later determined to have been misstated, users may claim the auditor was negligent even if the audit was conducted in accordance with auditing standards. Assets were taken and the theft was covered by misstating assets. As
a subcommittee of the board of directors, the audit committee is ultimately accountable for mitigating the risk of fraud, as illustrated by Figure 10-7. The exception analysis is illustrated for Hillsburg in Figure 15-5 (p. In order to prove that the audit firm either did not believe their
own opinion, or had no basis for such opinion. (5) Assess planned detection risk. The phrase obtain reasonable assurance is intended to inform users that auditors do not guarantee or ensure the fair presentation of the financial statements. The bank has expanded its investment portfolio into a number of new types of instruments subject to fair value
accounting. A controversial part of the auditor's report is the meaning of the term present fairly. CPAs are prohibited from receiving attestation services from the CPA firm. Holmes hired two accounting students to conduct the audit and spent several hours telling them exactly what to do. Higgins Chairman of
the Board Christopher J. Review the receivables listed on the aged trial balance for notes and related party receivables. Identify key deficiencies for acquisitions and for cash disbursements. Under this approach, the in-charge auditor obtained an understanding of internal control as part of the risk assessment procedures, but control risk was assessed
at the maximum (100%). KRIs should be distinguished from key performance indicators (KPIs). There is a close relation and understandability presentation and disclosure objective. A control deficiency exists if the design and implementation or operation of controls
does not permit company personnel to prevent or detect misstatements on a timely basis in the normal course of performing their assigned functions. It is rare when only one type of evidence is available for verifying information. For ease of understanding, we'll discuss the terms in a different order than they occur in the description. To summarize,
the purpose of allocating the preliminary judgment about materiality to balance sheet accounts is to help the auditor decide the appropriate evidence to accumulate for each account on both the balance sheet and income statement. For nonpublic companies, auditors have the option of assessing a higher level of control risk, depending on the quality
of the client's internal controls and cost-benefit considerations. By viewing the physical facilities, the auditor can assess physical facilities and the auditor can assess physical facilities.
othermatter paragraphs. The beneficiaries are alleged to have received a percentage of the value of contracts signed with Petrobras as consideration for supporting the government in a congressional voting. Privacy and Confidentiality When handling financial and personal information about customers and others with whom the organization has
dealings, employees should collect, use, and retain only the information necessary for the organization's business; internal access to information should be limited to those with a legitimate business reason for seeking that information should be limited to those with a legitimate business; internal access to information should be limited to those with a legitimate business; internal access to information should be limited to those with a legitimate business reason for seeking that information should be limited to those with a legitimate business.
in Figure 4-3. Each of the first seven parts is intended to help the audit program. audit documeNtation Yuditing at and audit program. audit documeNtation Yuditing standards state that Audit documeNtation Yuditing Standards State Standards State Standards State Standards State Standards State Standards St
cannot be made if it is outside of the range set in the inventory system. As illustrated by the first shaded rectangle in the margin on page 286, the identify risks from factors such
as unused equipment or potentially unsalable inventory. This requirement exists because accounts receivable usually represent a significant balance on the financial statements, and confirmations are a highly reliable type of evidence. Credit risk management continues to be a challenge for ABC bank, and regulators continue to spend a lot of time on
credit evaluation issues. 16-20 (Objective 16-4) The following questions deal with confirmation of accounts receiving department completes an electronic receiving department completes an electronic receiving report when material is received, the accounts payable computer application can verify the quantity and description on the vendor's invoice
by comparing them with the information on the receiving report, with exceptions resolved by the accounts payable department. Patel also audited and reported on the Bellamy financial statements for the prior year. The ASB redrafted existing AICPA auditing standards to align them with the respective ISAs and in the future will develop new SASs in
conjunction with the IAASB as it develops new ISAs. When developing a new AICPA auditing standard, the ASB uses the new ISA as the base standard and modifies that base when appropriate for the U.S. environment. For proper application, attributes sampling requires auditors to use professional judgment in most of the steps. (1) Tests of details of
balances (3) Tests of controls (2) Substantive tests of transactions (4) Tests of transactions (4) Tests of transactions (5) Tests of transactions (6) Tests of transactions (7) Tests of transactions (8) Tests of transactions (9) Tests of transactions (1) Tests of transactions (1) Tests of transactions (2) Substantive tests of transactions (3) Tests of transactions (3) Tests of transactions (3) Tests of transactions (4) Tests of transactions (5) Tests of transactions (6) Tests of transactions (7) Tests of transactions (8) Tests of transactions (8) Tests of transactions (8) Tests of transactions (9) Tests of transactions (9) Tests of transactions (9) Tests of transactions (1) Tests of tr
For significant risks, including fraud risks, including fraud risks, the auditor should obtain an understanding of internal controls are suitably designed and implemented. The judgment may be reevaluated after current financial statements are available. Warning Signs of revenue Fraud Many potential
warning signals or symptoms indicate revenue fraud. How does the use of Technology Solutions impact First Community's internal controls? You should consider income statement accounts payable in selecting the analytical procedures. However, reperforming procedures such as the client's bank reconciliation are likely to take
considerable time. Backlogs are resolved promptly by authorizing overtime. • Outside documentation. Sales transactions are correctly classified (classification). Develop responses to identified fraud risks. You have been invited by the audit partner on the Pinnacle engagement to participate in the fraud brainstorming session conducted as part of audit
planning. When there are deviations, the operator doing the review leaves a copy for Cullen, highlighting the deviation. Objective 9-6 Assess acceptable audit risk. Relationship of Risk And materiality to Audit evidence The concepts of auditors'
legal liability? Identify a safeguard that Janes' firm could impose that would eliminate or mitigate the threat of each situation to Janes' independence. The controller informs Janes that she can also eat there any time. The relationship of types of evidence
to types of tests was summarized in Table 13-2 on page 438. After examining Table 9-2, it is easy to observe that the assessment of acceptable audit risk is also highly subjective. The CPA cannot vote or participate in any management functions. Which of the following best
describes what is meant by U.S. auditing standards? There are two ways to obtain such samples for each categories of general controls, with specific examples for each categories of general information, such as corporate data in the permanent files, in addition
to current files that contain documentation of the auditor's tests, the financial statements, and audit report. Given your answers in parts a. Critical evaluation of audit evidence Upon discovering information or other conditions that indicate a material misstatement due to fraud may have occurred, auditor's should thoroughly probe the issues, acquire
additional evidence as needed, and consult with other team members. For example, if the client account receivable from the trial balance and reconcile the balance with the control account in the general ledger. Observe
whether monthly statements are sent. What is the auditor's responsibility related to the report of management? Accounts receivable are properly classified 6. TestGen testing program. If the auditor decides not to confirm accounts receivable that are material, the justification for doing so must be
documented in the audit files. (2) remain the same. Part 2 / The AudiT Process Assessing Control risk And reporting on internal Controls Just Because The Computer Did The Work Doesn't Mean It's Right Allen, the senior auditor, is assigned to work on an audit of a subsidiary of an international UK financial institution, Robot Banks in Singapore. Step
3 occurs throughout the engagement, when auditors estimate the amount of misstatements in each segment as they evaluate audit evidence with evidence used by other professions. as the finance director in charge of operation in South East Asia.
Monetary unit sampling is the most common statistical method for tests of balances. If evidence is considered highly appropriate, it is a great help in persuading the auditor that financial statements are fairly stated. Stewart, Harbor and Chopping were aware of the disclosure and management integrity issues surrounding this disbursement because
the Management and Governance predecessor auditor had resigned the engagement when the company failed to provide audit evidence for the transaction. Similarly, examine vendors' invoices and contracts with vendors to determine whether any goods on the inventory listing are owned by vendors. • Constructed in a manner that encourages
correct preparation. The remainder of this chapter highlights these rules, which are summarized in Table 4-4 later in this chapter (p. The key consideration in all such suits is the likely effect on the ability of client, management, and CPA firm personnel to remain objective and comment freely. • Growing awareness of the responsibilities of public
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accountants by users of financial statements • An increased consciousness on the part of the Securities and Exchange Commission (SEC) for its responsibility for protecting investors' interests • The complexity of auditing and accounting functions caused by the increasing size of businesses, the globalization of business, and the complexities of
business operations and financing transactions • The tendency of society to accept lawsuits by injured parties against anyone who might be able to provide compensation, regardless of who was at fault, coupled with the joint and several liability doctrine (often called the deeppocket concept of liability) • Global recession and tough economic times
resulting in business failures, which prompt stakeholders to seek restitution from others, including external auditors • Large civil court judgments against CPA firms awarded in a few cases, encouraging attorneys to provide legal services on a contingent-fee basis, which offers the injured party a potential gain when the suit is successful, but minimal
losses when it is not • Many CPA firms being willing to settle legal problems out of court in an attempt to avoid costly legal fees and adverse publicity, rather than pursuing resolution through the judicial process Chapter 5 / LegaL LiabiLity 139 • The difficulty judges and jurors have understanding and interpreting technical accounting and auditing
matters Litigation costs for accountants are a concern because they are borne by all members of society. Most internal audit strategies. • Reach conclusions about the likely exception rate in the total population when the sample
exception rate equals 3 percent. Numerous potential comparisons of current- and prior-period data extend beyond those normally available from industry data. The central idea of the anti-retaliation provision in Sarbanes-Oxley was to motivate employees to blow the whistle by protecting them from retaliation in the workplace. Planned detection risk
would be approximately the same for each balance-related audit objective in the audit or accounts receivable for Hillsburg Hardware Co. if the only three factors the auditor needed to consider were acceptable audit risk, inherent risk, and performance materiality. Some of the more significant issues and interpretations involving independence are
discussed in the following sections. A CPA firm should decrease acceptable audit risk for audit clients when engagement risk is high. To illustrate these relationships, assume an auditor is verifying inventory that is a major item in the financial statements. Similarly, in a multiunit operation such as a retail chain, internal data comparisons for each unit
can be made with previous periods. In less complex organizations, the board may rely on regular reporting by a chief information officer (CIO) or other senior IT manager to keep management informed. Although it is generally agreed that no one is perfect, not even a professional, in most instances, any significant error or mistake in judgment creates
at least a presumption of negligence that the professional will have to rebut. List the eight types of audit evidence included in this chapter and give two examples of each. Meeting of February 15, 2013 Kamila Saleh, chairman of the board, called the meeting to order at 4:00 pm. The combined total of misstatements in the financial statements.
exceeding 6 percent is normally considered material. 183.) 6-30 (Objectives 6-8, 6-10) The following are specific balance-related audit objectives applied to the audit of accounts receivable (a. Explain why the interest rate for the loan that requires an audit report is lower than the interest rate for the other two loans. Stratification enables the auditor
to emphasize certain population items and deemphasize others. Specify what constitutes criminal liability for accountants. She left the program with Lake to carry out and said that she would be available to help evaluate the results after the tests were performed. In such cases, PCAOB auditing standards encourage a disclaimer of opinion, while the
AICPA auditing standards actually require a disclaimer of opinion or withdrawal from the engagement if the auditor is unable to perform alternative procedures to obtain sufficient appropriate evidence. 332) provides an example of the key contents of an effective code of conduct. account for a sequence of shipping documents. Give examples of key
performance indicators for the following businesses: (1) a chain of retail clothing stores; (2) an Internet portal; (3) a hotel chain. Therefore, no other reason for disclaiming an opinion should be cited. In addition, users need to understand that auditors do not guarantee the accuracy of the financial records or the future prosperity of an audited
company. Harry Morton Receive customer order 1 2 Prepare bill of lading Key sales transactions Order must be approved by Pres. What are the steps of the audit sampling process that differ across statistical and nonstatistical sampling approaches? For each of the 11 controls included in Figure 12-3, Table 13-1 (p. Risk assessment procedures,
including procedures to obtain an understanding of internal control, are not as costly as other audit tests because auditors can easily make inquiries and observations and perform planning analytical procedures. Do any vendors account for more than 5% of total purchases? For example, this is done for classes of transactions by applying the specificance and observations and perform planning analytical procedures.
transaction-related audit objectives introduced earlier, which were stated in general form, to each major type of transaction for the entity. Below is an extract of the internal controls for its purchasing cycle: 1. Even if holding one of these positions did not actually affect the auditor's independence, the frequent involvement with management and the
decisions it makes is likely to affect how statement users perceive the CPA's independence. Objective 10-5 Develop responses to identified fraud risks. Expand testing of sales returns after year-end and compare the level of returns with the prior year. The Accounting Principles Rule in the AICPA Code of Professional Conduct permits a departure from
generally accepted accounting principles when the auditor believes that adherence to these would result in misleading financial statements, although this circumstance is rare. The total of the amounts on the accounts receivable listing agrees with the general ledger balance for accounts receivable. The audit was improper in several respects. The
ASB concluded that it should move its standard-setting process to be more formally aligned with international standards on auditing and the international standard-setting process to the Audit Process to the Sales And collection cycle As Figure 15-4 (p. 14-20 (OBJeCtIVeS 14-3, 14-6) For each of the following types of
misstatements (parts a. Theft can occur before receipts are entered in the records or later. He did not spend an adequate amount of time on a task of this magnitude. Yosef: I know, but if this continues, they're the ones who will end up hurt by any repercussions of the theft. Cenco Incorporated v. The most important comparisons are to those of
previous years for the company and to industry averages or similar companies for the same year. Similarly, the relative costs of auditing different account balances often cannot be determined. Observe control-related activities. A John & Peter staff auditor noted the size of the credit memos were dated subsequent to year-end. 88) is
appropriate for an audit of a nonpublic entity in which the amounts were material but not pervasive and the auditor could not satisfy himself or herself by alternate procedures. In addition to the rules of conduct, the AICPA bylaws provide for automatic
suspension or expulsion from the AICPA for conviction of a crime punishable by imprisonment for more than one year and for various tax-related crimes. Systems analysts are not only responsible for the overall design of each application system, but they also coordinate the development, acquisition, and changes to IT systems by the IT personnel (who
are responsible for programming the application or acquiring software applications) and primary system users outside of IT (such as accounts receivable personnel). • The nature of communications about fraud made to management, the audit committee, or others. Subject to some restrictions, CPA firms may also provide internal auditing and other
extended auditing services to their clients as long as management maintains responsibility for the direction and oversight of the engaged to do an audit instead of only accounting, and was there negligence on the part of the CPA firm? relationships among Cycles Figure 6-6 illustrates the relationships of the
five cycles and general cash. Opinion Paragraph In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westbrook Company, Inc., as of December 31, 2016, in
conformity with accounting principles generally accepted in the United States of America. These are the steps used to develop specific audit objectives. For 2016, dividend payments totaled $1.9 million, which is $.38 per share. Carol scrutinized that it included proper revenue recognition policies in accordance with relevant accounting standards.
Unfortunately, a few notorious criminal cases have involved CPAs. Historically, one of the leading cases of criminal action against CPAs is United States v. Auditing standards were changed to require greater emphasis on procedures that the auditor must perform for events subsequent to the balance sheet date. By week's end, regulators had
discovered that approximately $215 million in customer money was missing, the futures trading firm had filed for Chapter 7 liquidating bankruptcy, and its fancy offices were closed. Reports differ in nature, but all must inform readers of the degree of correspondence between the information audited and established criteria. The annual report also
includes management's report on internal control required by Section 404a and the auditor's report required by Section 404b, consistent with PCAOB Auditing Standard No. 5. Now use ACL to calculate the upper error limit frequency. Section 11 of the 1933 act defines the rights of third parties and auditors, which are summarized as follows: • Any
third party who purchased securities described in the registration statement may sue the auditor for material misrepresentations or omissions in audited financial statement may sue the auditor for material misrepresentation statement. Management further asserts that all required disclosures related to cash are accurate and are understandable. prenumbered Documents
Prenumbering is meant to prevent both the failure to bill or record sales and the occurrence of duplicate billings and recordings. Risks increase when multiple users, including individuals outside of accounting, can access and update data files. It is also helpful for the auditor to use the five control activities (separation of duties, proper authorization
adequate documents and records, physical control over assets and records, and independent checks on performance) as reminders of controls. Only certain human resources staff with unique user ID and password can access to the system in order to change pay rates and deductions. In both a preparation service and a compilation service, the
accountant helps the client prepare financial statements without providing any assurance. Source: PCAOB Audit Practice Alert No. 11, "Considerations for Audits of Internal Control over Financial Reporting," October 24, 2013 (pcaobus.org). For these reasons, care must be taken to safeguard the audit files at all times. The goods received were
counted as part of the company's year-end physical inventory procedures. Distinguish between independence in appearance. Because the planning concepts covered in these chapters will be used extensively throughout the rest of the book, it is essential for you to master this material and fully understand the importance of
audit planning. If planned detection risk is reduced, the auditors employed by the companies they audit—usually report directly to top management and the board of directors, keeping the auditors independent of the operating units they audit. trace
selected credits from the accounts receivable master file to the cash receivable master file to the cash receivable are correctly classified. (3) A misstatement of accounts receivable are correctly classified. (3) A misstatement of accounts receivable are correctly classified.
the human resources function such that payroll staff cannot add and delete employees in the system. Auditor rotation can be avoided if the rotation requirements are burden to the auditor or the client or both. They probably ran into similar issues when they were preparing the internal audit and reviewing statements. To make such determinations
auditors depend on a thorough knowledge of the application of materiality. The next topic in each chapter is extensive coverage of nonstatistical sampling. Continuing with the previous example, declining economic conditions may increase the likelihood that the company may take inappropriate actions to meet sales targets or understate the
allowance for doubtful accounts, especially if the client does not have adequate controls over sales and collection of accounts receivable. The auditor might test the effectiveness of this control by comparing a sample of sales invoices to related shipping documents and customer sales orders, or by performing tests of the computerized controls related
to this process. This figure expands Figure 9-4 by including performance materiality. Boston Shoecase Co. 5. Management is responsible for the design and operating effectiveness of internal controls, and this includes controls that are outsourced to a service provider. Chapter 5 / LegaL LiabiLity 143 Figure 5-1 Four Major Sources of Auditors' Legal
Liability Source of Liability Example of Potential Claim Liability to clients Client sues auditor for not discovering a material fraud during the audit. Identify the transaction-related management assertion(s) to which the misstatement pertains. Write off the customer's account 3. However, they were highly critical of the auditor conducting the review,
who was inexperienced in audits of construction companies, for the failure to appropriately follow up on answers by management. Understand objectives and responsibilities for the audit Divide financial statements into cycles Know management. Understand objectives and responsibilities for the failure to appropriately follow up on answers by management assertions about financial statements Know management.
and disclosures Know specific audit objectives for classes of transactions, accounts, and disclosures assertions about presentation and Disclosure National disclosures assertions about presentation and disclosures assertions about presentation and disclosure have
increased in importance. We refer to this as the revised judgment about materiality. For example, it is discreditable to retain a client's records after a demand is made for them or whenever a member is found to have violated any federal, state, or local antidiscrimination laws. 49) are inspected annually. Assume for requirement b. I asked Ted why
they replaced Gardner's firm, and he told me it was over the tax contingency issue and the size of their fee. After the auditor has concluded that the accounts receivable master file to test whether the write-off was properly recorded. Deloitte & Touche
LLP, Gowling Lafleur Henderson LLP. The records of the finished goods store are in total disarray. (2) The customers' monthly statements are verified and mailed by a responsible person other than the bookkeeper who prepared them. http:// download.asic.gov.au/media/1241039/rg187.pdf and circumstances that require the CPA firm to change its
stance. 4-5 (Objective 4-4) What organization is responsible for developing ethics standards at the international level? multiPle choice Questions from cPa examinations 8-25 (Objectives 8-1, 8-3, 8-4) The following questions concern the planning of the engagement. Perform audit procedures Number of exceptions in sample and actual sample size
EVALUATE THE RESULTS Computed upper exception rate 1 12. What assurance does the auditor provide that errors and fraud that are material to the financial statements will be detected? They should be allowed to work only with test copies of programs and data so they can only make software changes after proper authorization. Part 3 /
APPlicAtion of the Audit Process to the sAles And collection cycle Figure 16-8 Pinnacle Manufacturing Sample of Accounts Payable Selected for Confirmation — December 31, 2016 High-Volume Items (>$250,000) 1. This information is useful in helping the auditor decide whether there are unusual changes in the current year's account balances that
should be investigated more extensively. Introductory paragraph. AICPA auditing standards are similar to international auditing standards and apply to the audits of private companies and other entities in the United States. The information presented in Table 14-2 is intended to help auditors design audit programs that satisfy the transaction-related
audit objectives in a given set of circumstances. Examples of misclassifying commercial sales as residential sales as revenue, and misclassifying commercial sales as residential sales as residential
additional purchased quantities are recorded on storage records. First, it fails to consider growth or decline in business activity. You just forget it; it's my concern, not yours." a. The appropriateness of audit evidence is determined by its relevance in meeting audit objectives and its reliability. Many financial statement users and the general public
confuse auditing with accounting. The starting point for most auditors is the assessment of entity-level controls. Apply monetary unit sampling is (1) the percentage of items in a sample that possess a particular attribute. (1) Maintain a perpetual inventory of only the more valuable items, with
frequent periodic verification of the validity of the perpetual inventory records. For a client with lower acceptable audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced staff or review the audit risk, auditors also often assign more experienced as a supplication of the review the audit risk, auditors also often as a supplication of the review that a supplication 
having the computer perform those tasks, well-controlled organizations separate key duties within IT. More specifically, audit documentation out. Their reasoning, as explained to you, is that the statements are confusing to their readers, so they prefer to leave the information out.
11-5 (Objective 11-2) What two aspects of internal control? So, the auditor assess when performing procedures to obtain an understanding of internal control? So, the auditor focuses on the upper exception rate (CUER) in tests of controls and substantive tests of
transactions. Much to his dismay, he found out that Ennis had left the firm, and worse, there was no statistically trained person to take her place. Based on the preceding ratios, which aspects of the company do you believe should receive special emphasis in the audit? These evidence concepts are more meaningful after you understand the form and
content of the final product of the audit. Inquiry is the obtaining of written or oral information from the client in response to questions from the auditor. This upset Tom, but the company agreed in order to receive an unmodified opinion. An operation deficiency exists if a well-designed control does not operate as designed or if the person performing
the control is insufficiently qualified or authorized. 8-9 (Objective Oxley Act? The auditor must assess the factors that make up the risk and modify audit evidence to take them into consideration. Sampling distributions allow the auditor to make probability statements about the likely representativeness of any sample that is in the distribution. Chapter
15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of trAnSACtionS 547 tabLe 15-8 Determining Sample Size for Attributes Sampling* 5 perCeNt rISk OF OverrelIaNCe estimated population exception rate (in percent) 0.00 0.25 0.50 0.75 1.00 1.25 1.50 1.75 2.00 2.25 2.50 2.75 3.00 3.25 3.50 3.75 4.00 5.00 6.00 7.00 tolerable exception
presented in the AICPA Code. Revenue Recognition: Revenue Recognition: Revenues are recognized when goods are shipped, title has passed, the sales price is fixed, and collectibility is reasonably assured. Alex Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountants firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the partners of a Certified Accountant firm Biscuit is one of the
should be located in the report. (1) Section 10b does not apply to them. 8-37 (Objectives 8-6, 8-7, 8-8) Following are statements of earnings and financial position for Wexler Industries. Publicly traded companies in the United States are required to have audits under the federal securities acts. Figure 8-3 Strategic Understanding of the Client's
Business and Industry Understand Client's Business and Industry Industry and External Environment Business Operations and Processes Management and Governance Chapter 8 / Audit PlAnning And MAteriAlity 267 Industry and external environment Understand Client's Business and Industry and External Environment Understand Client's Business and Industry Understand Client's Business Operations and Processes Management and Proc
Industry Industry and External Environment are: 1. Does it make sense to use negative confirmation to test for the
accuracy of accounts receivable balances for Teklas? The auditor can state that the interval estimate of the population exception rate is between 2 percent (3 percent ± 1) with a 10 percent risk of being wrong (and a 90 percent chance of being right). (2)
recipients usually respond only if they disagree with the information on the request. One exception, divided by a sample size of 30, is 3.3 percent. • Responding to fraud risks associated with revenue. Also, identify which audit risk model component is affected by the factor. In what situations does the integrated audit standard apply? It contains
certain financial information and requires auditor reviews of the financial statements before filing with the commission. 7625 Client unable to locate the duplicate sales invoice. When controls are likely to be ineffective and inherent risk is high, the use of the audit risk model causes the auditor to decrease planned detection risk and thereby increase
planned evidence. 162 Part 1 / THE AUDITING PROFESSION Ordinance, the employer must file an annual employer's return of remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the amount of salaries and other remunerations with the Inland Revenue Department ('IRD') to report the Inland Reve
 interests are included in the financial statements at appropriate amounts and any resulting valuation adjustments are appropriately recorded. For example, a CPA who, as an employee of an entity, makes false or misleading entries or representations in financial statements is in violation of the rules on integrity and objectivity. There are three auditors
assigned to the audit, including Bryan, Charles, and a more experienced assistant, Martha Mills. 17-13 (Objective 17-3) Assume that a sample of 100 units was obtained in sampling the inventory in Question 17-8. Periodically, faculty will be able to access electronic summaries and PowerPoint slides of the most recent changes to professional standards
and summaries of major issues affecting the auditing profession. Control deviations increase the risk of material misstatements in the accounting records, but do not necessarily result in misstatements in the accounting records, but do not necessarily result in misstatements. Decide whether there is a significant deficiency or material weakness. Examine file of batch totals for initials of data control clerk (8). The most likely
uses of the statements can be determined from previous experience with the client and discussions with management. Normally, an audit is not completed until several weeks or months after the end of the period. In other situations, the client may engage the CPA to provide some assurance on those statements by performing a review or even an
audit of the financial statements. In last year's letter we stated, "We are committed to increasing the efficiency and effectiveness of operations. Auditors calculate additional ratios to provide further insights into operations. It also publishes a variety of
materials, including journals such as the Journal of Accountancy, industry audit guides for several industries, periodic updates of the Codification of Statements on Auditing Standards, and the Code of Professional Conduct. When evaluating a sample for tests of controls and substantive tests of transactions, the auditor should evaluate sampling risk
inspections of audit engagements as well as the quality controls at audit firms performing those audits. State the assumptions that the auditor must make in doing so. Accounts receivable master file total is compared with general ledger by the controller on a monthly basis. By 1993, profits of Livent had plummeted, and there were disagreements
between the co-founders Garth Drabinsky and Myron Gottlieb and the company. There are definitely a lot of issues!" "Oh no," Allen thought to himself, "it means the audit on revenue recognition of loans will have to be tested extensively." Normally, the merger of two subsidiaries would mean more extensive testing of account balances. Companies
may also intentionally understate income when earnings are high to create a reserve of earnings or "cookie jar reserves" that may be used to increase earnings in future periods. In planning tests of details of balances audit procedures to satisfy these objectives, many auditors follow a methodology such as the one shown in Figure 13-6 for accounts
receivable. These are shown for sales for Hillsburg Hardware in Figure 12-3 (p. The loan is collateralized by accounts receivable, with the loan balance not to exceed 75% of current accounts receivable, with the loan balance not to exceed 75% of current accounts receivable. In this case,
precision is 1%, which will result in a large sample size. Further, the internal auditors of the Division checked the internal controls regularly. Describe assurance services provided by CPas. Substantive analytical procedures, discussed earlier in the chapter, include
evidence documenting the auditor's expectation of the balance in an account, as illustrated in Figure 7-2 on page 221. The timing and extent of audit procedures auditor's expectation of the Bagan plant will result in job losses in his hometown. Because fraud
perpetrators attempt to conceal fraud, even one unusual transaction in a sample should be investigated. The Auditing Standards Board (ASB) of the AICPA is responsible for issuing pronouncements on auditing matters in the U.S. for all entities other than publicly traded companies and broken
dealers registered with the SEC. Results of compliance audits are typically reported to management, rather than outside users, because management is the primary group concerned with the extent of compliance with prescribed procedures and regulations. In either case, the auditor has not sampled. The bylaws state that membership in the AICPA
can be terminated without a hearing for judgment of conviction for any of the following four crimes: (1) a crime punishable by imprisonment for more than one year; (2) the willful failure to file any income tax return on the CPA's of
client's behalf; or (4) the willful aiding in the preparation and presentation of a false and fraudulent income tax return of a client. For example, assume that prices on sales invoices are obtained from the master price list, but no indication of the control is documented on the sales invoices. Understand Client's Business and Industry Industry and
External Environment Business Operations and Processes Management and Governance Objectives and Strategies Measurement and Processes Management an
Measurement and Performance Perform Preliminary analytical Procedures As first introduced in Chapter 7, auditors are required to perform preliminary analytical procedures as part of risk assessment procedures to better understand the client's business and industry, and to assess client business risk. Chapter 14 / Audit of the SAleS And ColleCtion
CyCle 507 a few days later. 500). 12-13 (Objective 12-6) Explain how control risk assessment differs for an integrated audit versus a financial statement-only audit. Assume that the client's controls require an integrated audit versus a financial statement-only audit.
indicate performance. After studying this chapter, you should be able to The bankruptcy of Enron Corporation, at one time the nation's largest energy wholesaling company, represents one of the biggest corporate collapses in American history. DEvELOPInG AUDIT QUALITY InDICATORS Has audit quality improved since the passage and
implementation of the Sarbanes-Oxley Act? Chapter 13 / Overall audit Strategy and audit PrOgram 455 relationship Between tests of Controls and Substantive tests of Controls and
and substantive tests, let's examine how they differ. An illustration is used to demonstrate how a person might use this six-step approach to resolve an ethical dilemma. Analytical procedures Analytical procedures often signal revenue frauds, especially gross margin percentage and accounts receivable turnover. Prepare purchase order (6 copies).
Explain why the response indicates a misstatement. Example of audit Evaluate whether the computerized payroll processing for a Chinese subsidiary is operating efficiently and effectively Number of payroll records processed in a month
costs of the department, and number of errors made Company standards for efficiency and effectiveness in payroll records, and payroll processing costs Compliance audit Determine whether bank requirements for loan continuation have been met Company records. And payroll processing costs Compliance audit Determine whether bank requirements for loan continuation have been met Company records.
and calculations by the auditor Financial statements apple's financial statements apple's financial statements Generally accepted accounting principles Documents, records, and outside sources of evidence 36 Part 1 / THE AUDITING PROFESSION A compliance audit is conducted to determine whether the auditee is following
specific procedures, rules, or regulations set by some higher authority. Berger & Anthony, LLP Berger and Anthony, LLP Berger and Anthony, LLP Gary, Indiana March 21, 2017 210 The accompanying financial statements of Hillsburg Hardware Company have been prepared by management, which is responsible for their integrity and objectivity. Cancelled payroll checks 9
The AICPA and the PCAOB issue new statements when an auditing problem arises of sufficient importance to warrant an official interpretation. In general terms, how do auditors meet that objective? As a result, the use of invoice confirmation response rates. Rather, it is an indication of the need for care in using industry
data to develop expectations about financial relationships and in interpreting the results. Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. Investigation includes checking the employee's
background, former employers, and references. The solicitation or disclosure of Uniform CPA examination questions and answers without permission of the AICPA is also not permitted. If Danville Bus Services actually owns or is responsible for maintaining the buses. By now, new management was operating Cenco. 372 Part 2 / The AudiT Process
Yosef: Have you had a chance to look over my report for Gilgamesh yet? Even though obtaining and retaining clients is not easy in a competitive profession such as public accounting, a CPA firm must use care in deciding which clients are acceptable. One such worksheet is included in Figure 9-4 (p. 7-36 (Objectives 7-7, 7-8) You are the in-charge
auditor on the audit of Vandervoort Company and are to review the audit schedule shown below. The auditor develops the overall strategy for the audit, including engagement staffing and any required audit specialists. Approval by the purchasing director is done on-line. recorded sales are for shipments actually made to nonfictitious customers
(occurrence). In addition, unrecorded sales to a new customer are difficult to identify for confirmation because that customer is not included in the accounts Receivable ledger for any unpaid invoices above 90 days. Analytical procedures are also required during the completion phase of the
audit. reporting using the Global reporting Initiative (GrI) guidelines is increasingly standard, with 78 percent of reports issued by companies around the world prepared based on AICPA question paper, American Institute of Certified Public Accountants. required 15-33
(Objective 15-5) For the audit of the financial statements of Mercury Fifo Company, Stella Mason, CPA, has decided to apply nonstatistical audit sampling in Chapter 15 / Audit SAmpling for teStS of transactions [see Figure 15-2 (processes for transactions for sales transactions for sales transactions for sales transactions for teStS of transactions for sales transa
Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EZ, Inc., is based solely on the report of the other auditors." These sentences (1) assume responsibility for the other auditors. Prenumbered admission tickets should be issued upon payment of the
admission fee. perform the analysis and Identify potential alternatives The next element of the professional judgment process involves analyzing the issue based on the facts and information gathered and the relevant authoritative literature identified. Students of auditing need to understand the entire methodology for designing tests of details of
balances for accounts receivable and all other accounts halance, or are used to reduce tests of details of balances, the auditor must develop a sufficiently precise expectation to support the account balance. Human resource policies require an investigation of
an employment application from new employees. Case 5-26 (Objectives 5-5, 5-6) Part 1. A firewall is a system of hardware and software that monitors and controls the flow of e-commerce communications by channeling all network connections through controls that verify external users, grant access to authorized users, deny access to unauthorized
users, and direct authorized users to requested programs or data. The auditor should decide whether to increase sample size or to revise assessed control risk on the basis of cost versus benefit. If the client is an accelerated filer public company, the auditor must also plan to meet the objectives associated with reporting on the effectiveness of internal
control over financial reporting. That evidence examined supported the correct recording of sales in the current year. Reviews of program change requests and system test results are useful to identify program changes in application software. We will examine the flowchart of the sales and cash receipts function for Hillsburg Hardware Co. in Figure
14-3 (p. All transactions are recorded in the salesclerks' sales books. Companies also outsource their e-commerce systems to external Web site service providers, including those that offer cloud computing services as 396 Part 2 / The AudiT Process described above. Part 1 / THE AUDITING PROFESSION Quality control is closely related to but distinct
from auditing standards. Mary Wong is the auditor of Johnny's company. Some accounts will be included in more than one cycle. For each misstatement, identify evidence the auditor can use to uncover it. Trace a sample of receiving reports to the acquisitions journal. KPMG LLP, No. 11 Civ. You will not complete the actual results portion of the cash
disbursements sampling data sheet. For example, the auditor may identify declines in economic conditions that adversely affect sales and the collectibility of accounts receivable. For example, there are established procedures on larger audits when there is a dispute between management and the auditors. 324) provides examples of these fraud risk
factors for each of the three conditions of fraud for fraudulent financial reporting. Record a sales return or allowance 2. Control Environment Risk Assessment differs from but is closely related to the auditor's risk assessment discussed in Chapter 9. payroll
expenses Payroll is rarely a significant risk area for fraudulent financial reporting. In what ways are the reviews of cars on Top Gear similar to assurance services provided by CPA firms? Just for ABC offset this co-op revenue against advertising expense on its income statement, thereby increasing its net earnings. (2) the predictability of financial data
from individual transactions. Inherent risk measures the auditor's assessment of the susceptibility of an assertion to material misstatement, before considering the effectiveness of related internal controls. 1.5 9 Low 50 8. Other Information Auditors should consider all information they have obtained in any phase or part of the audit as they assess the
risk of fraud. Ken Tysiac, "SOX's Anniversary Marked with Congressional Debate on Benefits and Costs," Journal of Accountancy (July 26, 2012) (journalofaccountancy com); 4. Auditing standards require the auditor to obtain an understanding of the entity's controls relevant to significant risks to evaluate the design and implementation of those
controls, and the auditor must perform substantive tests related to assertions deemed to have significant risks. In other cases, dissatisfied employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees may steal from a sense of entitlement or as a form of attack against their employees.
predicting the likelihood of fraudulent financial reporting in an audit. In the ensuing lawsuit by the MacLain investors, Major will be able to avoid liability if (1) the misstatements were caused primarily by MacLain. How is the IAASB committed to transparency in the standard-setting process? Auditors sample for tests of details of balances to
determine whether the account balance being audited is fairly stated. Other application controls concern account balance and presentation and disclosure assertions. 10-17 (Objective 10-7) You have identified a suspected fraud involving the company's controller. ASIC has accepted an enforceable undertaking (EU) from Brisbane auditor, Mr. Simon balance and presentation and disclosure assertions.
Andrew Peter Green. How are they related to each other? The three least-expensive types of evidence are observation, inquiries of the client, and recalculation. Calculate at least five common ratios shown in Chapter 7 on pages 196-199 and document them in a format similar to the following: ratio 2016 2015 2014 Current ratio c. What should
covered members do if they become aware they are to receive an unsolicited financial interest in an attest client as a result of a bequest? (Summarize and Quick Sort) e. (Filter) f. For example, if the client failed to properly reduce inventory for obsolete raw materials, the auditor can propose an adjusting entry to reflect the realizable value of the
inventory. That was the case with Bristol-Myers Squibb and their largest pharmaceutical wholesalers such as D&K Healthcare Resources, Inc. You may develop an expectation for total revenue from rooms by multiplying the number of rooms, the average daily rate for each room, and the average occupancy rate. Figure 13-7 summarizes the discussion
about the approach to designing tests of details of balances applied to accounts receivable. Using a separate heading labeled "Cash Disbursements Substantive test of transaction-related audit objective for cash disbursements. Identify and apply the eight
types of evidence used in auditing. 500) illustrates, in the Hillsburg audit, the results for attributes 2, 4, 5, and 8 were unacceptable. reporting of Identified or Suspected Noncompliance with those charged with governance matters involving noncompliance with laws
and regulations that came to the auditor's attention during the course of the audit. Variations in format and presentation of financial information 4. (3) Suggest tests of controls, and the other half use a nonstatistical approach. (1) A consulting
service engagement to provide computer-processing advice to a client (2) An engagement to prepare federal and state tax returns (4) The preparation of financial statements from a client's financial records c. Does this mean that if 100 percent of the population were
tested, the true exception rate would be 6.6 percent? What audit procedures related to accounts receivables rely on access to the paper records of the client? What difficulties might Haraldsson encounter when performing this audit? 15-7 (Objective 15-3) Describe systematic sample selection and explain how an auditor will select 40 numbers from a
population of 2,800 items using this approach. Among these data are ratios and percentages computed by the auditor most likely would give
additional consideration to the implications of a deviation if it was (1) the only deviation discovered in the sample. Read the report carefully to determine what management states about its responsibilities. Fiberoptics 9. These cases teach several critical lessons: • An investigation of the integrity of management is an important part of decid- ing on the
acceptability of clients and the extent of work to perform. Comment on and evaluate standards of performance. No exceptions noted in face amount, issue and maturity dates, interest rate, and accrued interest (w/p C-2). (4) rights and obligations. (4) submission of the report to the client. Is sampling suitable for the audit procedures for testing
controls (1) and (2)? Fill in the blank for planned detection risk for each balance-related audit objective using the terms low, medium, or high. (3) take a larger sample before rejecting the sample and requiring adjustments. The auditor is likely to use disaggregated data to increase the precision of the auditor's expectations. Business models differ
across organizations and industries, leading to unique business processes needed to account for transactions. 3787 Attributes 1 2 3 4 5 6 7 8 9 X X X X 5101 5166 X 5419 5832 X X X X 5890 6157 6229 X X X X X 5890 6157 6229 X X X X X 5890 6157 6229 X X X
538 Prepared by Date X X X No. Exceptions 0 2 0 10 4 1 0 10 0 Sample Size 75 100 100 100 100 65 50 50 65 Part 3 / APPlicAtion of the Audit Process to the sales And collection cycle 10 11 The sample exception rate (SER) can be easily calculated from the actual sample results. A company's internal control over financial reporting includes those
policies and procedures that (1) pertain to the maintenance of records that, in reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted
accounting principles, and that receipts and expenditures of the company; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a
material effect on the financial statements. • Client. Following is a numerical example for discussion. "At least all the data from Robot is fully electronic, so I can perform audit analytics on the data from the two original systems," Allen thoughtfully said to himself. Why is CUER higher for attribute 5? (e) What information is provided to help readers
understand why management arrived at that conclusion? Chapter 8 described how the auditor performs procedures to understand the client's business and industry to assess the risk of material misstatement. Observe whether accountant reconciles bank account (3). The auditor performs tests of controls, substantive tests of transactions, substantive
analytical procedures, and tests of details of balances in response to the auditor's assessment of the risk of material misstatements. A corollary is that the sample mean value (x) with the highest frequency of occurrence is also equal to the population mean. required 160 Due diligence Reliance on the financial statements Fraud Ordinary negligence
Separate and proportionate Contributory negligence g. Fictitious inventory also lowers inventory turnover. For example, receivable from accounts receivable from accounts receivable from customers if the amounts are material. When a section appears in two or more parts of the Code because it applies to members
who are not in public practice, the same number is used. As a result, the auditor has to rely on evidence that is persuasive, but not convincing. Part 1, The Auditing Profession (Chapters 1-5) The book begins with an opening vignette featuring a Big 4 public accounting firm's assurance report contained in the Corporate Sustainability Report issued by
United Parcel Service (UPS), to help students see the increasingly important role of auditors in providing assurance on a broad range of information important to key stakeholders. Management assertion about Classes of transactions General transactions related audit Objective 1. Although these professionals rely on different types of evidence, and
use evidence in different settings and in different ways, lawyers, scientists, and auditors all use evidence to help them draw conclusions. 8-11 (Objective 8-3) Discuss factors such as major sources of revenue, key customers and suppliers, sources of financing, and information about related parties that may indicate areas of increased client business
risk during business operations and processes. The eight business functions for the sales and collection cycle are shown in the third column of Table 14-1. 620) containing balance-related audit objectives and tests of details of balances for accounts payable to be sure you understand each procedure and its purpose. Be as specific as possible. 6-18
(ObjeCtives 6-8, 6-10) Identify the management assertion and disclosure-related audit objective for the specific presentation and disclosure to determine that the types of fixed assets, depreciation methods, and useful lives are clearly disclosed. We are independent of the
Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical reguirements that are relevant to our audit of the financial statements in [the home country] and we have fulfilled our other ethical responsibilities in accordance with these
requirements and the IESBA Code. To do this, auditors estimate the percent of items in a population containing a characteristic or attribute of interest. required 6-25 (ObjeCtives 6-1, 6-3) Auditors provide "reasonable assurance" that the financial statements are "fairly stated, in all material respects." Questions are often raised as to the responsibility
of the auditor to detect material misstatements, including misappropriation of assets and fraudulent financial reporting. Beasley and Chris E. within the audit of financial statements; The PCAOB initially adopted existing auditing standards established by the ASB as interim audit standards. Later, the auditor performs audit tests using inspection and
observation to determine whether the transactions are recorded (completeness objective) and authorized (occurrence objective) in the manner stated. Need for ethical values that the Josephson Institute associates with ethical behavior:
Trustworthiness includes honesty, integrity, reliability, and loyalty. State which transaction-related audit objective(s) each of the audit procedures fulfills. Theft of Cash Receipts After a Sale Is Recorded It is much more difficult to hide the theft of cash receipts after a sale is recorded. The service center is responsible for designing the computer
system and providing adequate controls to ensure that the processing is reliable. Put the letters in the appropriate sequence and evaluate whether the auditor's logic was reasonable. 3-18 (Objective 3-8) When an auditor discovers more than one condition that requires departure from or modification of the standard unmodified opinion audit report
what should the auditor's report include? Generalizing from the sample to the population can be done using nonstatistical or statistical sampling techniques and is discussed in Chapter 17. 186) and 6-5 (p. Explain how a strategic understanding of the client's business may increase the value of the audit service. This chapter discussed the role of ethics and is discussed in Chapter 17. 186) and 6-5 (p. Explain how a strategic understanding of the client's business may increase the value of the audit service. This chapter discussed the role of ethics are the contract of the client's business may increase the value of the audit service.
in society and the unique ethical responsibilities of CPAs. The professional activities of CPAs are governed by the AICPA Code of Professional Conduct, and auditors of public companies are also subject to oversight by the PCAOB and SEC. Assume the auditor determines a 3 percent sample exception rate, and a sampling error of 1 percent, with a sampling error of 1 percent, with a sampling error of 1 percent, with a sampling error of 1 percent, and a sampling error of 1 percent, with a sampling er
sampling risk of 10 percent. The interpretations permit a CPA firm to do both bookkeeping and auditing for a private company audit client. The portions of the financial statements audited by the other auditor can be stated as percentages or absolute amounts. Management's test results, which must also be documented, form the basis for
management's assertion at the end of the fiscal year about the controls' operating effectiveness. In contrast, most auditors usually consider samples insufficient that contain only the largest dollar items from the population, unless these items make up a large portion of the total population amount. The debt-to-equity ratio shows the extent of the use of
debt in financing a company. Figure 14-2 illustrates the methodology for obtaining an understanding of internal control and designing tests of controls and substantive tests of transactions for sales. A likely cause of the information risk is the possibility of inaccurate financial statements. These partners typically write or review all audit reports before
they are issued. Chapter 10 / Assessing And Responding to FRAud Risks 347 tabLe 10-3 Example Elements of a Code of Conduct The organization and its employees must at all times comply with all business conduct well above the
          m standards required by law. Auditors accumulate evidence in order to reach conclusions about whether the financial statements are fairly stated and to determine the appropriate audit scope, including an explanation of how the scope was responsive to
the assessed risks of material misstatement and the concept of materiality, sample, it must be selected from the entire population as it has been defined. Zomer 44 Chief Financial officer Brandon s. The four underlying principles related to risk assessment are that the organization should have clear objectives in order to be able to identify and assess
the risks relating to those objectives; should determine how the risks should be managed; should consider the potential for fraudulent behavior; and should monitor changes that could impact internal controls. The prohibition against payments to foreign officials is applicable to all U.S. domestic firms, regardless of whether they are publicly or
privately held, and to all foreign companies filing with the SEC. All recorded and shipped in the subsequent period should have a bill of lading number ed 1489 or lower. illustration using differenCe estimation Objective 17-5 Use
difference estimation in tests of details of balances. Shortly after delivery of the audited financial statements, Hightower, the assistant controller, disappeared, taking with him $82,000 of DMO's funds. required 10-27 (Objectives 10-2, 10-4, 10-6) Appliances Repair and Service Company bills all customers rather than collecting in cash when services
are provided. Sign payroll checks. If the auditor traced from shipping documents to sales invoices, it is a test of completeness. Each record of the file contains the following information: Item or part number • Total value of inventory on hand at cost Description • Date of last sale or usage Size • Quantity used or sold this year Unit-of-measure code •
Economic order quantity Quantity on hand • Code number of secondary vendor Cost per unit • Code number of secondary vendor In preparation for year-end inventory, the client has two identical sets of preprinted inventory, the client has two identical sets of preprinted inventory count cards. 54 Part 1 / THE AUDITING PROFESSION AmeriCAn institute of Certified Public ACCountAnts (AiCPA) CPAs are
licensed by the state in which they practice, but a significant influence on CPAs is exerted by their national professional organization, the American Institute of Certified Public Accountants (AICPA). Chapter 11 / Internal Control and CoSo Framework 395 can create internal control risks. (February 15, 2012) (www.sec.gov/litigation/admin/2012/ia-
3371.pdf) errors Versus Fraud Auditing standards distinguish between two types of misstatements: errors and fraud. Even if only one material weakness is present, management must conclude that the company's internal control over financial reporting is not effective. 2-7 (Objectives 2-4, 2-7) Distinguish between auditing standards and generally
accepted accounting principles, and give two examples of each. While most rules apply to members in business, requirements such as independence do not. trace details on sales invoices to • shipping documents (13c) • sales order (13d) • customer order (13e) Examine file of batch totals for initials of data control clerk (8). For integrated audits of
large, publicly traded companies, the level of understanding of internal control and the extent of testing need to be sufficient to issue an opinion on the effectiveness of internal control over financial reporting in addition to assessing the risks of material misstatement as part of the audit planning process. For example, inherent risk may be higher for
accounts whose valuations are dependent on complex calculations or accounting estimates subject to significant estimation judgment. University of California 30. What are the implications to a CPA if, during an audit of accounts? No
single vendor accounted for more than 5% of our purchases during fiscal 2016, but our 25 largest vendors accounted for nearly 35%. The primary defense used by the CPA firm was that a diligent attempt was made on the part of the auditors to follow up any indications of fraud, but the combined efforts of a large number of Cenco's management
prevented them from uncovering the fraud. Policy to ask for the purchasing director's instruction upon buying a new equipment 2. Second, the audit (classes of transactions, account balances, or disclosures) as shown in the first bracket of the figure. An example of
misappropriation of assets is a clerk taking cash at the time a sale is made and not entering the sale in the cash register. Most typically, a confirmation is a direct written response from a third party in paper or electronic form, but it may also include information the auditor is able to obtain through direct access provided by a third party to information
that is held by the third party, such as direct access to a supplier's vendor management system. Figure 15-6 (p. As a result, the auditor did not investigate the misstatements or make a statistical evaluation. Touche, in which ordinary negligence is insufficient for liability to third parties because of the lack of privity of contract between the third party
and the auditor, unless the third party is a primary beneficiary review Questions 5-1 (Objective 5-1) Lawsuits against CPA firms continue to increase. Chapter 14 / Audit of the SAleS And ColleCtion CyCle 511 multiple choice Questions from cpA exAminAtions 14-19 (OBJective 5-1) The following questions deal with internal controls in the sales
and collection cycle. Explain the difference in the requirements for reporting on the effectiveness of internal controls over financial reporting for integrated audits versus financial statement-only audits. Accounting professionals tend to agree that in most cases, when an audit has failed to uncover material misstatements and the wrong type of audit
opinion is issued, it is appropriate to question whether the auditor exercised due care in performing the audit. In many cases, they are caused by timing differences between the client's and the customer's records. However, in most cases, companies make the appropriate to question whether the auditor exercised due care in performing t
the auditor. Samples containing population items with large dollar values, items with a high likelihood of misstatement, and items that are representative of the population are usually considered sufficient. Deficient internal controls. The allowance for doubtful accounts was understated because the company altered the aging of accounts receivable to
reduce the number of days outstanding for delinquent receivables. Salary 2013 2014 Reem Al Amon, President $170,000 $175,000 Wasim Aziz, Secretary-Treasurer $110,000 $115,000 Kateb Utu recommended that the company consider adopting a pension/
profit-sharing plan for all employees as a way to provide greater incentive for employees to stay with the company. Random selection can also be used for procedure 2. Drawing Conclusions developing tests of details in the
sales and collection cycle. This 16th edition contains expanded coverage of service organization control (SOC) reports issued by service center auditors. A conceptually logical approach to the auditor's evaluation of internal control consists of the following four steps: I. For example, cash collected from a customer was stolen before it was recorded as
a cash receipt, and the account receivable for the customer's account was not credited. 1-11 (ObjeCtive 1-8) Identify the four parts of the Uniform CPA Examination. Sales Journal or Listing or report generated from the sales transaction file that typically includes the customer name, date, amount, and account classification or
classifications for each transaction, such as division or product line. trace selected credits from the accounts receivable master file to the cash receipts journal and test for dates and amounts. (1) Accuracy (3) Completeness (2) Occurrence (4) Posting and summarization c. An ineffective audit procedure for detecting the exceptions in question would be
to examine a sample of shipping documents and determine whether each is attached to a duplicate sales invoice, rather than to examine a sample of duplicate sales invoices to determine if shipping documents are attached a special meaning to the term professional. Since
starting the new venture, the company has had no successes and some decline in profits. Receivables have not been sold or discounted. A design deficiency exists if a necessary control is missing, is not properly designed, or is not properly implemented. What are the alternatives for Annie if she concludes the control cannot be relied upon? Three
months later, Wilsall Trading Company found itself in dire financial straits and began looking frantically for outside financing. Therefore, when auditors use systematic selection, they must consider possible patterns in the population data that can cause sample bias. accePt client and Perform initial audit Planning Objective 8-2 Make client acceptance
decisions and perform initial audit planning. (4) bases the action upon fraud. This chapter examines designing substantive analytical procedures and tests of details of balances for the two key ba
than an understanding of the industry's unique regulatory accounting requirements. Now John found that he was confronted with a couple of problems. Members of the Art Appreciation Society are permitted to enter free of charge upon presentation of their membership cards. The audit failed to detect these fraudulent entries. Because analytical
procedures are considerably less expensive than confirmations and physical examination, most auditors prefer to replace tests of details with analytical procedures when possible. Discuss if there would be any possible change to the existing IT organizational structure after the adoption of cloud computing. Nonstatistical sampling also has attributes,
which are the characteristics being tested for in the population, but attributes sampling and a sampling distribution. In these cases, ICtV recognized revenue based on alleged confirmation from a third-party fulfillment warehouse that products had been segregated for
HSN's use. Use materiality to evaluate audit findings. Which of the following would not be considered an inherent limitation of the potential effectiveness of an entity's internal control structure? The CPA firm must also determine that it has the competency, such as industry knowledge, to accept the engagement and that the firm can satisfy all
independence requirements. Controls related to the allowance for uncollection cycle (see Chapter 14). Tax laws are highly complicated, and there are hundreds of volumes of interpretations. For sales transactions, this objective is violated if the quantity of
goods shipped was different from the quantity billed, the wrong selling price was used for billing, or the wrong amount was included in the sales journal. Use of KRIs can improve processes by reducing the risk of service disruptions and episodes of crisis management. The auditor can say, however, that
the procedure used to obtain the sample and compute the confidence interval will provide an interval that will contain the true population mean value a given percent of the time. An LLC is typically structured and taxed like a general partnership, but its owners have limited personal liability similar to that of a general corporation. An auditor can use
the software to sum the master file of customer accounts receivable to determine whether the total agrees with the general ledger balance. Cash receipts are batched daily by the receptionist. Perform alternative procedures for all confirmations not returned on the first or second request. In addition, the PCAOB considers international auditing
standards when developing new standards. The auditor should also have a good understanding of the computer manufacturing industry. Chapter 9 / Assessing The Risk of MATeRiAl MissTATeMenT 329 13. In some circumstances, an explanatory paragraph or nonstandard wording of the unmodified opinion audit report is required. Select sample
PERFORM THE TESTS 11. risk of Material Misstatement at the Overall Financial Statement at the Overall Financial Statement at the assertion Level Risk Assessment PRoceduRes As first discussed in Chapter 8, to obtain an understanding of the entity and its environment, including the entity's internal controls, the auditor performs risk assessment
procedures to identify and assess the risk of material misstatement, whether due to fraud or error. To understand and assess the control environment, auditors should consider these important control subcomponents. Before auditors can assess the control environment, auditors should consider these important control environment, auditors should consider these important control environment, auditors can assess the control environment, auditors should consider these important control environment, auditors can assess the control environment.
business functions and documents and records in a business. Disregard for internal control is considered effective? He produced a receipt, but there was no
record of the payment in the books. Director, Officer, Management, or employee of a Company If a CPA is a member of the board of directors or an officer of a client company, his or her ability to make independent evaluations of the fair presentation of financial statements is affected. iii. The auditor performed substantive tests. Constructive fraud
Existence of extreme or unusual negligence even though there was no intent to deceive or do harm. Confirmation of accounts receivable is not required by international auditing standards, and is one example of differences between U.S. and international auditing standards, and is one example of differences between U.S. and international auditing standards. For each balance-related audit objective, identify which test of details of
balances and test of controls or substantive test of transactions partially satisfy the balance (9). 6-10) What are specific audit objectives? What is the total dollar amount of purchases made without a requisition? How would you
test each control? The engineering department had deliberately understated the rework cases by randomly filing rework cases in the Enterprise Resource Planning (ERP). Auditor is aware of bank loan agreement that requires audited financial statements. (To see an example of an audit program that includes audit procedures, sample size, items to
select, and timing, turn to page 427 and see Table 13-4. Performance evaluations may be affected. 51 0.59 0.45 0.23 5,221 655 595 832 658 251 626 312 321 288 1,443 3,394 760 538 621 242 3.98 0.50 0.45 0.63 0.50 0.19 0.48 0.24 0.25 0.22 1.10 2.59 0.58 0.41 0.47 0.18 5,103 633 542 799 695 236 637 312 283 265 1,505 3,162 785 458 653 275 4.16
bad debt write-offs? 5-9 (Objective 5-6) Contrast the auditor's liability under the Securities Exchange Act of 1934. It is usually time-consuming for an auditor to read and evaluate a client's contracts, lease agreements, and minutes of the board of directors meetings. supplements Instructor's Resource Center
www.pearsonglobaleditions.com/arens This password-protected site is accessible from the catalog page for Auditing and Assurance Services, 16th ed., and hosts the following resources: 22 Preface Image Library The Image Library Th
purchase order is automatically created in the procurement application system and a copy will be forwarded to the supplier directly. Describe the factors that influence the extent to which an auditor will use the results of analytical
procedures are an important part of the audit process and consist of the evaluation of financial information by the study of plausible relationships among financial and nonfinancial data. Consequences of each alternative, it is essential to evaluate both the short- and long-term effects. We just won't
enter that time on our time report." Bryan recalls reading the firm's policy that working hours and not charging for them on the time report is a violation of Barton & Barton's employment policy. If the auditor is unsuccessful in using the lack of duty defense to have a case dismissed, the preferred defense in third-party suits is nonnegligent
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performance. There is no allowance for sampling risk for cash because the total amount of misstatement is known, not estimated an increased risk of intentional misstatements, but only a low risk of unintentional errors in the financial statements
Production equipment is relatively specialized and additional investment is required when new electronic components are introduced. To assist auditors with maintaining an appropriate level of professional judgment frameworks that
illustrate an effective decision-making process and that guide auditors' thinking to help them be aware of their own judgment tendencies, traps, and biases. Similarly, auditing standards make it clear that an audit is subject to limitations and cannot be relied on for complete assurance that all misstatements will be found. The primary determinant of
the auditor's willingness to accept a document as reliable evidence is whether it is internal or external and, when internal control. For example, if current period, the sales return should appear in the current period. 3-8
(Objectives 3-4, 3-5) Why would the management of a company feel alarmed if the auditors decided to published an adverse audit report? As a result, knowledge of client objectives and strategies helps the auditor to assess client business risk and risk of misstatements in the financial statements. How might this discovery affect your report on internal
control when auditing a public company? The auditor should consider the effect of the revision on evidence requirements, without use of the auditor for not discovering materially misstated financial statements. Because management does not want to
provide any information that the plaintiff might use against Bellamy, the case is not discussed in the financial statements. If auditors determine that a key control has been changed since it was last tested, they should test it in the current year. The sample size for any given procedure is likely to vary from audit to audit, depending on client
characteristics such as the extent of automated controls and the required level of assurance from the procedure. The ethical principles are listed in Table 4-2. Identify quality control standards and practices within the accounting profession. John was conducting his first review after the audit was substantially complete. Most evidence is relevant for
more than one, but not all, audit objectives. Monitoring c. This trend may indicate that (1) the client recently tightened its credit-granting policies. The expert redid all of Lake's work and found errors in the statistical calculations. When is sampling not an appropriate method of performing tests of controls (refer to paragraph 32 of AU Section 350)?
Understand Internal Control—Sales assess planned Control risk—Sales Chapter 14 / Audit of the SAleS And ColleCtion CyCle 493 Figure 14-3 Hillsburg Hardware—Flowchart of Sales and Cash receipts ORDER CLERK Pam Dilley SHIPPING DEPT. In most cases, the analysis has cross-references to other audit files. Although considerable evidence
is obtained from the client through inquiry, it usually cannot be regarded as conclusive because it is not from an independent source and may be biased in the client's favor. Which of the following characteristics is most likely to heighten an auditor's concern about the risk of material misstatements due to fraud in an entity's financial statements?
Similarly, as they obtain and evaluate evidence supporting financial statement amounts and disclosures, professional skepticism also involves a critical assessment of the evidence that includes asking probing questions and paying attention to inconsistencies. Given your answers to parts a and b, state the appropriate audit report from the following
alternatives (if you have not decided on one level of materiality in part b, state the appropriate report for each alternative materiality level): (i) Unqualified—explanatory paragraph (iii) Unqualified—explanatory paragraph (iii) Unqualified—explanatory paragraph (iii) Unqualified—modified wording (iv) Qualified opinion only (v) Qualified opinion only (v) Qualified opinion only (vi) Disclaimer (vii) Adverse* d.
Determine accounts receivable outstanding from each customer and total the amount for comparison to part a. The standard unmodified opinion audit report is sometimes called a clean opinion because there are no circumstances requiring a modification of the auditor's opinion. 15,893 people were confirmed dead, 6,152 were injured, and 2,572
people are still reported missing. It is not possible to decide until after the tests have been performed. KPMG, 2011. Illustrative audit Objectives Objectives Objectives Objectives to Balance-related audit objectives with
balance-related and presentation and disclosure-related audit objectives. In certain industries, such as hospitals, response rates to confirmations are very low. What should be the order in which these four steps are performed? Many nonpublic companies use this attestation option to provide limited assurance on their financial statements without
incurring the cost of an audit. Mean-per-Unit estimation In mean-per-unit estimation In mean-per-unit estimation In mean-per-unit estimation, the audit of the American Red Cross. The client did not reconcile the accounts receivable subsidiary records with the accounts receivable balance in the general
ledger on a regular basis. The six largest of the national/regional firms are listed in Table 2-1. Nevertheless, if the misstatement is material, it can affect the fair presentation of these accounts, especially when cash is a small or negative balance. Major accounting firms were the choice for providing assurance for two-thirds of the G250 firms that
issued responsibility reports with external assurance. Helen Hong CPA works as the finance director in charge of African operations of an American charity. The chart of accounts is helpful in preventing classification errors if it accurately describes which type of transactions should be in each account. That connectivity also exposes the client to
potential cyber risks that the auditor should consider. Each audit engagement must include a concurring partner review of critical audit decisions. Inventory items are properly classified as to raw materials, work in process, and finished goods. • Part III—Conduct fraud brainstorming and assess fraud risks, Chapter 10. 11-11 (Objective 11-3) Explain
what is meant by independent checks on performance and give five specific examples. Internal Control objectives Objective of Effective internal control, Joe Stokely is a former partner in Bass and Sims, CPAs. Recently, he left the firm to become the chief operating off icer of Lacy Foods, Inc., which is an
audit client of Bass and Sims. Audit procedure 14 in Table 15-2 is a test for the occurrence of recorded sales. If a company is unable to repay users. The balance of $7,750 was paid on January 5, 2016. The audit partner Mr Tak did not review the work of his
junior thoroughly. (3) The auditor's sole obligation is to third parties. Auditors can choose among several overall responses to an increased fraud risk. The underlying principles related to monitoring include performing periodic evaluations and communicating any identified deficiencies to the appropriate parties responsible for taking actions to
remediate the deficiencies. Do you think it would be normal for a manufacturing company to have recurring disbursements to American Express or more than 100 cashier's checks written per year? The auditor's conclusions about substantive analytical procedures for the sales and collection cycle are incorporated in the evidence-planning worksheet
in Figure 16-7 (p. Many controls leave a clear trail of documentary evidence (both electronic and paper) that can be used to test controls. Suppose that the auditor informs the client that the auditor informs the client that the auditor informs the client that the auditor's counterpart
to the management assertion of occurrence for classes of transactions. 800 Form of organization and name X A member may practice public accounting only in a form of organization permitted by state law or regulation whose characteristics conform to resolutions of Council and shall not practice public accounting under a firm name that is
misleading. Processing and recording cash receiving, depositing, and recording cash receiving, depositing, and recording cash receiving and misappropriation of assets are potentially harmful to financial statement users, but there is an important difference
between them. Will Alex be liable to the lawsuit in a personal capacity? Given the CPA firm is auditing financial statements, why would they need to understand anything about the client's business? If nonstatistical sampling is used, (1) Discuss whether you are going to set a high, medium or low ARO for the audit procedure in part a (2). The most
significant effect of the results of the results of the tests of controls and substantive tests of transactions in the sales and collection cycle is on the confirmation of accounts receivable. Examine a sample of customer orders for evidence of credit approval by credit manager. The auditor is concerned with both the estimate of the sampling error and the reliability of
that estimate, called sampling risk. Naturally, there are exceptions. As 362 Part 2 / The Audit Process described in Chapter 4, such disclosure is prevented by the auditor's professional code of conduct and may violate legal obligations of confidentiality. So when you become a member of a CPa firm, you might not win an Oscar—but you could be on
the Oscars! COrPOratE rESPONSIBILItY rEPOrtING ExpanDS GLOBaLLY Companies report corporate responsibility under a number of terms, including corporate responsibility reporting. The creditors alleged that careful investigation would have shown the $700,000 to be fraudulent. This figure
shows that there are five classes of transactions in the sales and collection cycle: Figure 14-1 ObjeCtive 14-1 Identify the accounts and the classes of transactions in the sales and collection cycle. Figure 14-1 ObjeCtive 14-1 Identify the accounts and the classes of transactions in the sales and collection cycle.
Advisory services are once again the largest source of revenue for the Big 4, and these services are growing much faster than auditing revenues. Much like for transactions, the auditor's tests of details of balances must satisfy all balance related audit objectives for each significant balance sheet account. Define what is meant by alternative procedures
in the confirmation of accounts receivable and explain their purpose. ARO represents the auditor's measure of sampling risk. Observation consists of looking at a process or procedure being performed by others. What are some benefits or limitations to each type of positive confirmation? Both management and representatives of management, such as
investment bankers, often consult with other accountants on the application of accounting principles. Operating effectiveness of controls. CPA firms are usually engaged by management must test the operating effectiveness of controls.
company issuing the financial statements, but the primary beneficiaries of the audit are financial statement users. Despite these contract terms, ICtV recognized revenue upon receipt of an order from HSN. Which of the following audit procedures is the auditor performing? • In ESM Government Securities v. However, some reperformance and
recalculation substantive tests are still necessary to provide the auditor assurance that the clerk did not initial documents without actually performed it carelessly. Sufficient appropriate evidence has been accumulated, and the auditor has conducted the engagement in a manner that enables him or her to conclude
that the audit was performed in accordance with auditing standards. Andrew Tangel, "NASDAQ Offers Brokerages $40 Million for Facebook Glitches," Los Angeles Times (June 6, 2012) (www.articles.latimes.com). There is very high turnover or ineffective accounting, internal audit, or information technology staff. Case 10-34 (Objectives 10-2, 10-3,
10-4) Yosef, CPA, is engaged for the financial statement audit of Gilgamesh Goods, an online antiquities dealer. • Talk to a manager or partner about Charles's request. Substantive tests of transactions are used to determine whether all six transaction-related audit objectives have been satisfied for each class of transactions. Philosophers, religious
organizations, and other groups have defined in various ways ideal sets of moral principles or values. whether the accounts receivable bookkeeper is prohibited from handling cash. It is therefore a difficult professional judgment to allocate the preliminary judgment about materiality to accounts. Should Blank Cassettes Inc consider Jonathan's
job application? Further, there has been rumor in the market that Pacific Products may go public in the near future. The first fundamental principle of the by-laws (on professional ethics, conduct and practice) published by the Malaysian Institute of Accountants is 'integrity'. Identified risks of Material Misstatement Due to Fraud 346 As illustrated by
Figure 10-4 (p. The formula to calculate the precision interval is shown in Table 17-14, step 5. The other three situations fall between these two extremes. McClellan's Used Cars, a client of yours, recently changed its depreciation method from straight-line to sum-of-the-years' digits. What are examples of unusual circumstances discussed in the Code?
Mitchell & Moss, Whitlow's CPAs, performed the annual audit for the year ended December 31, 2016, and rendered an unqualified opinion, which was filed with the SEC along with Whitlow's financial statements. It is based on the information in the sales and cash receipts flowchart in Figure 14-3 (p. (2) assessing control risk too low. Auditors using
nonstatistical sampling decide the sample size using professional judgment rather than using a statistical formula. Discuss your possible actions. 5-10 (Objectives 5-4, 5-5, 5-6, 5-7) Distinguish among the auditor's potential liability to the client, liability to the cli
discuss the importance of a questioning mindset and the need to critically evaluate audit evidence to strengthen student awareness of the elements of effective professional skepticism. Examine indication of internal verification of dates, unit costs, prices, extensions and footings, account classifications, recording in the journal, and posting and
summarization. These areas likely received additional attention during the prior year's audit as well. acceptable audit risk 312 Acceptable audit risk 312 Acceptable audit risk are measure of how willing the audit risk are measure of how will not a measure of how will n
developed by management after considering both the costs and benefits of the controls. But knowledge about sampling distributions enables auditors to make statistically valid statements about the population. • Physical controls. While auditors are required to verify the existence of physical inventories, audit testing is done on a sample basis, and not
all locations with inventory are typically tested. The departures from a standard unmodified opinion audit report are considered increasingly severe as one moves down the figure. Decision makers can then use the audited information on the assumption that it is reasonably complete, accurate, and unbiased. above, identify the type of audit evidence
used for each procedure. Some documents, such as cancelled checks, originate with the client, go to an outsider, and are finally returned to the client. Although some application controls affect one or only a few transaction-related assertions, most controls prevent or detect several types of misstatements. Sanctions such as these are published by the
SEC and are often reported in the business press, making them a significant embarrassment to those involved. Select the sample and perform the tests 3. pROfeSSiOnal Skepticism when conducting an audit. The board has determined that the cost of installing turnstiles, sales
booths, or otherwise altering the physical layout of the museum will greatly exceed any benefits. Because of the importance of auditor independence Rule under the AICPA Indepen
report on internal control over financial reporting shown in Figure 3-4, or in a combined report. This percent is called the occurrence rate or exception rate. Review minutes of board meetings and loan documents to see if accounts receivables have been sold or used as collateral f. Citizenship includes obeying laws and performing one's fair share to
make society work, including such activities as voting, serving on juries, conserving resources, and giving more than one takes. (d) What was management's conclusion about the operating effectiveness of internal control? (1) Information obtained indirectly from outside sources is the most reliable audit evidence. non-U.S. audit firms of foreign
companies listed on a U.S. stock exchange are required to register with the PCAOB and are subject to inspections, similar to U.S. audit firms. The form of communication is often a separate letter for that purpose, called a management letter. SMITH 7/26/16 $1,000/mo. Revenue growth is often a separate letter for that purpose, called a management letter.
providing an even greater incentive to inflate revenue. Management's responsibilities for establishing Internal Controls that provide reasonable, but not absolute, assurance A company should develop internal controls that provide reasonable assurance A company should be associated only with the type of evidence
defined as physical examination. Existence of the sales invoice number in the sales journal (procedure 12). Levin, 284 F. However, database management systems and their impact on internal controls. Nevertheless, some users perform their own verification. After the checking
process, the staff initials on the invoice to indicate the matching process is completed. Upon completion of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 copies of the auditors supplied Regal Jewelry with 20 cop
plant, and equipment; long-term debt; and all equity accounts. C Computer automatically posts transactions to the accounts receivable master file and to the general ledger (C8). The SEC rules further restrict the provision of nonaudit services by the
client and provide for audit partner rotation to enhance independence. The following are internal controls YourTeam.com has established for its online sales: 1. The auditor is also required to evaluate the reliability of the data used to develop the expectation, including the source of the data used to develop the expectation. A cashier stole cash
receipts by failing to record the sales in the cash register. To achieve an audit risk level (Acar), the auditor will (1) increase inherent risk. In addition, as discussed in Chapter 3, management must report its assessment of the effectiveness of internal control over financial reporting,
and for accelerated filers, the auditor must provide an opinion on the effectiveness of internal control over financial reporting. Notice in the allocation that the auditor is concerned about the combined effect on operating income of the misstatement of each balance sheet account. Discrepancies are printed on an exception report for auditor follow-up
Richard's review did not come up to that written standard. We introduce the fifth and sixth steps in planning the audit, as shown in the shaded boxes in the figure in the margin, which build on the first four steps that were covered in Chapter 8. Table 8-2 illustrates the last three steps in applying materiality. Technologies, including the Internet, have
allowed businesses to be created to help streamline the efficiency and effectiveness of the confirmation process. Identify the eight major steps in planning audits. The classification assertion addresses whether transactions have been recorded in the appropriate accounts. For financial statement audits, auditors need to understand controls that are
relevant to the audit in order to identify and assess the risks of material misstatements. Once the auditor establishes general transaction-related audit objectives, they can be used to develop specific transaction-related audit objectives, they can be used to develop specific transaction-related audit objectives, they can be used to develop specific transaction-related audit objectives for each class of transaction-related audit objectives, they can be used to develop specific transaction-related audit objectives.
misappropriation of assets by employees and management, similar to the Adelphia fraud described in the vignette box on the previous page. How should a member use the designation? There are no cash sales. As Macquarie Bank Limited is a company incorporated in Australia, let us learn more about auditing standards in Australia. • Tax services.
Figure 12-7 illustrates the definition of material weakness and opinion paragraphs from an auditor's separate report on internal control over f inancial reporting because of the existence of a material weakness. The table illustrates the strict burden on auditors to
defend themselves under the 1933 act. Analytical procedures are used extensively in practice, and are required during the planning and completion phases on all audits. When the auditor concludes that a misstatement is material but does not overshadow the financial statements as a whole, a qualified opinion (using "except for") is appropriate.
Understand the auditor's responsibility for assessing the risk of fraud and detecting material misstatements due to fraud. If the objective is to determine Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle whether the quantity of the goods described on the customer's order is accurately shipped and billed, the auditor can define
the sampling unit as the customer's order, the shipping document, or the duplicate sales invoice, because the direction of the audit test doesn't matter for this audit procedure. Before starting the study of this chapter, we suggest you refer to Figure 13-9 on page 430 to be sure you understand where we are in the audit process. Audit tests for
uncollectiBle Accounts ObjeCtive 14-6 apply the methodology for controls over the sales and collection cycle to controls related to uncollectible accounts receivable. What causes this difference? For example, control risk may be higher if the client's internal control procedures fail to include independent review and verification by other client
personnel of complex calculations used or significant estimates developed to determine the valuation of an account balance recorded in the client's financial statements. (2) State the objective(s) of each of the policy in the prevention of fraud. Accept client and perform initial audit planning Understand the client's business and industry Perform
preliminary analytical procedures Set preliminary judgment of materiality and performance materiality Identify significant risks due to fraud or error Assess inherent risk Understand internal control and assess control risk Finalize overall audit strategy and audit plan 376 A system of internal control consists of policies and procedures designed to
provide management with reasonable assurance that the company achieves its objectives and goals. One author served over seven years as one of the board members of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Determine initial sample size SELECT THE SAMPLE 10. It is essential for the staff person doing the
inventory portion of the audit to be experienced in auditing inventory. Of course, if sales returns and allowances and write-off of uncollectible accounts receivable are significant, assessed control risk must also be considered for these two classes of transactions. The factory foreman interviews applicants and on the basis of the interview either hires or
rejects them. Accounts receivable are accurate 5. In both cases, multiplying IR by CR results in a denominator in the audit risk model of 24 percent. After completing that a refund is due, or stating that there is no change in the status of the tax
return. • Review wage rates for compliance with minimum wage laws. Separation of IT duties Responsibilities for programming, operations, and data control are separated. Figure 6-4 Cycle approach to Segmenting an audit Understand objectives and responsibilities for the audit Divide financial statements into cycles Know management assertions
about financial statements Know general audit objectives for classes of transactions, accounts, and disclosures transactions, accounts, 
goods and services Acquisitions journal Cash disbursements General ledger and subsidiary records General ledger trial balance Financial statements Chapter 6 /
Audit Responsibilities And objeCtives 177 Figure 6-5 Hillsburg Hardware Co. adjusted trial Balance HILLSBURG HARDWARE CO. BeAsley Mark Beasley, who has also served as a coauthor of this textbook since the 8th edition, Chris e. It established a subsidiary in Macau to trade with suppliers and customers. In identifying areas of specific risk, the
auditor is likely to focus on the liquidity activity ratios. For example, auditors can usually apply tests of controls involving inspection and reperformance to the same transactions, have also increased significantly but are fairly
consistent as a percent of sales, which we expect for these accounts. Chris has auditing experience with Price Waterhouse Coopers, LLP. Substantive tests of transactions may be necessary to discover overstated sales in these circumstances. Figure 6-1 Steps to Develop audit Objectives Understand
and disclosures Divide financial statements into cycles Know management assertions about financial statements Know general audit objectives for classes of transactions, accounts, and disclosures Chapter 6 / Audit Responsibilities And objectives 167 management'S
ReSpOnSibilitieS ObjeCtive 6-2 Distinguish management's responsibility for the financial statements from the auditor's responsibility for verifying those statements. To present accurately the estimated net realizable value of the accounts, inventory balances are adjusted when current and expected future market conditions, as well as recent and
historical turnover trends, indicate adjustments are necessary. Tracing shipping documents to sales entries in the sales journal and accounting for all shipping documents can be used to verify that all sales have been recorded. For example, changes in auditing standards on the auditor's responsibility to detect fraud were issued to address users'
needs and expectations as to auditor performance. While the assessment of fraud is conducted as part of audit planning, the auditor may learn new information when performing further audit procedures that provide new insights about the risk of material
member can be automatically sanctioned without an investigation if the member has been disciplined by governmental agencies or other organizations that have been granted the authority to regulate accountants, such as the SEC and PCAOB. They're the only ones who are closely checking the books. essentiaL terms Absence of causal connection—
an auditor's legal defense under which the auditor contends that the damages claimed by the client were not brought about by any act of the auditor issues an incorrect audit opinion as the result of an underlying failure to comply with the requirements of
auditing standards Audit risk—the risk that the financial statements are fairly stated and an unmodified opinion can therefore be issued when, in fact, they are materially misstated Business failure—the situation when a business is unable to repay its lenders or meet the expectations of
its investors because of economic or business conditions Contributory negligence—an auditor's legal defense under which the auditor claims that trought about the claimed damages Criminal liability for accountants— defrauding a person
through knowing involvement with false financial statements Foreign Corrupt Practices Act of 1977—a federal statute that makes it illegal to offer a bribe to an official of a foreign country for the purpose of exerting influence and obtaining or retaining business and that requires U.S. companies to maintain reasonably complete and accurate records
legal defense under which the auditor claims that no contract existed with the client; therefore, no duty existed to perform the disputed service Legal liability—the professional's obligation under the law to provide a reasonable level of care while performing work for those served Nonnegligent performance—an auditor's legal defense under which the
auditor claims that the audit was performed in accordance with auditing standards Private Securities Litigation Prudent person concept—the legal concept that a person has a duty to exercise reasonable care and diligence in
the performance of obligations to another Scienter—commission of an act with knowledge or intent to deceive Securities and sell securities to the public; under the statute, third parties who are original purchasers of securities may recover damages from the auditor if the financial
statements are misstated, unless the auditor proves that the auditor proves that the auditor proves that the auditors are involved because the
annual reporting requirements include audited financial statements Ultramares Corporation v. The auditor must revise the original assessment of the appropriate risk. For example, an ineffective board of directors or management's failure to have
any process to identify, assess, or manage key risks has the potential to undermine controls for most of the transaction-related audit objectives (for an example, see the vignette below related to Livent, Inc.). This will permit less extensive substantive testing of accounts receivable balances. Moreover, the impact of each factor on tests of details of
balances is equally subjective. Chapter 4 / Professional ethiCs 121 Compliance with Standards rule A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council. Note that the gross profit percentage did not signal the
existence of fictitious inventories, but the significant decrease in inventory turnover was a sign of fictitious inventories. Detection risk is dependent completely on the other three risks. Source: Cenco, Inc., v. The review includes consultation with predecessor auditors, and background checks. Controls often improve when data are centralized in a
database management system by eliminating duplicate data files. Transactions in the capital acquisition and repayment cycle are related to financing the business, such as issuing stock or debt, paying dividends, and repaying debt. Which one appears to have the least effect? Sales transactions are Correctly Included in the Master File and Correctly
Summarized The proper inclusion of all sales transactions in the accounts receivable master file is essential because the accuracy of these records affects the client's ability to collect outstanding receivables. Kajari followed religiously the British auditing standards when performing the audit and issued an unmodified opinion. Although the concepts in
this chapter deal with accounts receivable, they apply to the audit of many other account balances. Legal Proceedings On September 3, 2015, a suit was filed in the Circuit Court in Gary, Indiana, against the Company. The realizable value and rights accounts receivable balance-related audit objectives, as well as the presentation and disclosure-
related objectives, are not affected by assessed control risk for classes of transactions. A primary issue was how Xerox accounted for lease revenue. For example: • Amounts involving fraud are usually considered more important than uninten-tional errors of equal dollar amounts because fraud reflects on the honesty and reliability of the managemen
or other personnel involved. The greater the risk, the more audit evidence the auditor should obtain that controls are operating effectively. Determine total gross pay for all pay periods. A member in business is considered to make materially
false and misleading entries in the financial statements and records of an entity; the member fails to correct financial statements due to
fraud is difficult. Factors affecting inherent risk, such as susceptibility to misappropriation of assets and routineness of the transactions, are also likely to differ from account to ac
exceptions existed, that is a nonsampling error. These frauds can be prevented by allowing payments to be made only to approved vendors and by carefully scrutinizing documentation supporting the factors that
affect tests of details of balances. If the auditor selects a sample of 100 duplicate sales invoices and finds three are missing attached shipping documents, the sample is highly representative. Perform a risk assessment on the adoption of cloud computing to the firm's operations, including both the opportunities and the risks involved. What things
should be included in an audit procedure? 8-6 (Objective 8-3) Discuss the code of ethics during the management and governance. Naturally, the extent of separation of duties depends on the organization's size and complexity. Safeguards fall into three broad categories: 1. What are some audit procedures related to these audit objectives for
receivables? Although market value is readily determinable for some assets, determining fair value often depends on estimates and judgment, creating opportunities for manipulation. Each segment is audited separately but not on a completely independent basis. Auditors use assessments of materiality, acceptable audit risk, inherent risk, control risk
and any identified significant risks due to fraud or errors to develop an overall audit strategy and audit program. AICPA bylaws require that member comply with the rules of the Code. A joint closely held investment is an investment investment is an investment investment is an investment inves
also apply to situations where the client has selected another appropriate financial reporting framework. C Unit selling prices are obtained from the price list master file of approved prices (C7). ISAs do not override a country's regulations governing the audit of financial or other information, as each country's own regulations generally govern audit
practices. terms a. The products are gaining popularity in the region over the past decade. The three programmers are responsible for maintaining and updating systems and application software. Direct relationships among the four evidence decisions and the two qualities that determine the persuasiveness of evidence are shown in Table 7-2. In one
decided case, it was held that although the accountants were not liable to the creditors because that is overstated by $55,000, what should the auditor finds one receivable that is overstated by $55,000, what should the auditor do? Determining the internal controls that should
prevent or detect errors and fraud. Forgetfulness and acknowledgments of nervousness, such as "I'm a bit nervous" or "I just can't remember." When this continues to occur, auditors should be concerned about the possibility of deception. You also need to understand how each transaction-related audit objective relates to each balance-related audit
objective. Many of the controls reside at the service center, and the auditor cannot assume that the controls are adequate simply because it is an independent enterprise. Understand internal control, and design and perform tests of controls are required by
the standards, and there are no specific requirements for auditors' decisions, such as determining sample size, selecting sample items from the preceding example, an auditor might conclude that the CUER for missing shipping documents is 4 percent at a 5 percent sampling risk,
meaning the auditor concludes that the exception rate in the population is no greater than 4 percent with a 5 percent risk of the exception rate exceeding 4 percent. The control risk matrices for Hillsburg Hardware in earlier chapters on pages 373 and 466,
with the following modifications: Documentation and evidence planning • Control risk is high for the accuracy objective for sales because of the unsatisfac- tory results for attribute 4 (procedure 13b). 50 10 largest 40 random I* X X X X X 4. (1) A person in accounting reconciles the bank deposit to the cash receipts journal. (4) initially concealed by a
forged document. From the point of view of both the profession and the users of auditing services, there is probably greater harm in defining authoritative guidelines too specifically than too broadly. 128). "We didn't think it was possible," said one Société Générale executive discussing the losses. What related factors will you consider related to
changes in the accounts receivable balance? Internal audit, which has direct reporting responsibility to the audit committee, is also actively involved in reviewing key accounting assumptions and estimates on a quarterly basis. Auditing standards set forth requirements that must be followed when a CPA firm is requested to provide a written or oral
opinion on the application of accounting principles or the type of audit opinion that would be issued for a specific or hypothetical transaction of an audit client of another CPA firm. In the Hochfelder case, the court ruled that knowledge and intent to deceive were necessary for the auditor to be found liable. The auditor expects a low exception rate.
List the most important weaknesses in their processes and state the misstatements that are likely to result from the weakness. Further, state the two types of service organization, such as inspection of supporting documents. We examine each
of these liability classifications in more detail. Part 2 / The AudiT Process 13-31 (Objectives 13-4, 13-6, 13-7) You are planning the audit process. A firewall protects data, programs, and other IT resources from unauthorized external users accessing the system through networks, such as
the Internet. 544) in the third row from the bottom. • Some journals and general ledger accounts are included in more than one cycle. Nevertheless, an auditor's failure to follow due care often results in liability and, when appropriate, damages against the CPA firm. Tysiac, Journal of Accountancy, January 3, 2014 (www.journalofaccountancy.com).
Co., Inc. The accounting summary includes sales by the salesclerk, cash sales, credit sales, and total sales, and total sales. You tell the man you like the shirt and he responds by saying, "Thank you. Inherent risk for inventory and warehousing in Table 9-1 is high, which results in a lower planned detection risk and more planned evidence than if inherent risk were
lower. Inquire of management whether there are any related party notes or long-term receivables included in the trial balance (6). Although not required, auditors often also make suggestions to management to improve business performance. Commission salespeople receive a five percent commission on all sales on which a commission is given. Is
Yost likely to be successful in her defenses? Shipments occurring in December 2016 did not get recorded until the first few days of January 2017. Comparisons of audit sampling concepts for tests of controls and substantive tests of
transactions, which were discussed in Chapter 15, apply equally to sampling for tests of details of balances. Detailed financial and other information was supplied to the participants. Chapter 6 / Audit Responsibilities And objectives 201 f. accountant independently reconciles bank account (C1). auditing in More Complex It environments 426 The
impact of general controls and application controls on audits is likely to vary depending on the level of complexity in the IT environment. It may be received by telephone, letter, a printed form that has been sent to prospective and existing customers, through salespeople, electronic submission of the customer order through the Internet, or other
network linkage between the supplier and the customer. 440 Part 2 / The AudiT Process The purpose of the reconciliation is to verify that the amount paid to each employee matches the employ
listed above, select the stage of the audit for which the statement is most accurate using the following responses: a. In December 2001 congres sional testimony, the audit firm's Professional judgment "turned out to be wrong" and that they mistakenly let Enron keep the related entities separate when they should have
been consolidated. During lunch on the first day, Charles says, "It will be necessary for us to work a few extra hours on our own time to make sure we come in on budget. There are several exceptions to the rule, however, including automobile loans, loans fully collateralized by cash deposits at the same financial institution, and unpaid credit card
balances not exceeding $10,000 in total. summARy Because the auditor's opinion addresses whether the financial statements are free of material misstatements at both the overall financial statement level and at the assertion level. The interpretation of the rule
makes it clear that the independence requirements cannot be eliminated by these disclosures. Although less frequent, several notable cases of fraudulent financial reporting involved inadequate disclosures. For a sample of shipping documents selected from shipping documents selected from shipping documents selected from shipping documents.
1 7 5 66 70 1 1.5 6.6 7. 'Auditors are important gatekeepers who are relied upon to provide assurance and market confidence in the quality of financial reports', ASIC Chairman, Greg Medcraft said. John Peter was assigned responsibility for evaluating the goodwill impairment testing process at ABC, Inc. For example, auditors know that a high
inherent risk or control risk decreases planned detection risk and increase planned substantive tests, whereas good results of substantive tests. Reliability of financial reporting 2. of the auditor. What is the invoice number of the largest invoice selected for
testing? Discuss the general IT controls that may be expected in cloud computing environment. Almost every CPA firm performs tax services, which may include estate tax, gift tax, tax planning, and other aspects of tax services. The discussion should include estate tax, gift tax, tax planning, and other aspects of tax services.
risks and how and where the financial statements might be susceptible to material misstatement, whether due to fraud or error. Goods returned for credit are approved by the supervisor of the sales department. Systems development Teams of users, systems analysts, and programmers develop and thoroughly test software. 16-15 (Objective 16-4)
Explain why the analysis of differences is important in the confirmation of accounts receivable, even if the misstatements in the sample are not material. What is the relationship among audit risk, sampling risk, and nonsampling risk, and nonsampling risk and nonsampling risk.
management, and the amounts are often immaterial. CPA firms establish their own policies and approaches to audit documentation to make sure that these objectives are met. This means that the sampled items are similar to the items not sampled. 525) to designing tests of details of balances. The audits are due within two weeks, and there are
several discrepancies between bank statements and the general ledger. Attach purchase order. They also monitor computer efficiency and malfunctions. Chapter 2 emphasizes the importance of understanding the client's business and its environment, including internal control. Discussion
among the engagement partner and other key members of the engagement team provides an opportunity for more experienced team members, including the engagement team controls, with other members of the engagement team. Statistical
Versus Nonstatistical Sampling Objective 15-2 Distinguish between statistical and nonstatistical and nonstatistical and nonstatistical and nonstatistical sample selection. For example, the IRS does considerable verification of business and individual tax returns to determine whether the tax returns filed reflect the actual tax due the federal
transactions. If the auditor decides to perform additional audit procedures, they will be concentrated in the inventory area. Dealing with a client who threatens to seek a new auditor unless an unmodified opinion is issued presents an ethical dilemma if an unmodified opinion is inappropriate. 600 Advertising and other forms of solicitation X A member
in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Elmyra, CPA, advertises her practice online, citing several prominent clients she has worked with. Whether software is purchased or developed internally, extensive testing of all software with realistic data is
Figure 11-5 Segregation of It Duties Chief Information Officer or IT Manager Security Administrator Systems Development Systems Analyst Programmers Data Control Operations Computer Operation Computer Operation Computer Operation Computer Operatio
The GAO audits much of the financial information prepared by various federal government agencies before it is submitted to Congress. 8528 Customer order is not attached to the duplicate sales invoice. You should use nonstatistical sampling unless your professor tells you to use statistical sampling. 10-5) Describe the types of overall responses by
auditors to address 10-12 (Objective 10-5) What three auditor actions are required to address the potential benefits of measuring and disclosing AQIs. The process of measuring and disclosing these factors will focus the attention of
common stock currently trades on the NASDAQ under the symbol "HLSB." The following chart shows the high Low Quarter 2 22.55 20.10 22.75 20.25 Quarter 3 22.30 20.99 24.10 19.75 Quarter 4
22.40 17.95 21.50 18.20 On March 23, 2017, there were 1,250 shareholders of our common stock. 444) and the methodology for designing tests of details of balances in Figure 13-6 (p. Determining the proper audit procedures, deciding the number and types of items to test, and evaluating the results are unique to the auditor. Although a significant
number of states followed this approach in the past, it is now used in only a minority of states. (4) reduces the efficiency and effectiveness of the entity's operations. He decided not to impair the project. Effective general controls reduce the types of risks identified in the boxes outside the general controls oval in Figure 11-4. required Chapter 12 /
Assessing Control risk And reporting on internal Controls 435 12-20 (Objectives 12-1, 12-2, 12-3, 12-6) Lew Pherson and Vera Collier are friends who are employed by different CPA firms. Given that the dollar amounts agreed, Cai concluded that the allowance was in accordance with CHA accounting policy and fairly stated. above, sort by customer
number. arIr Acceptable risk of incorrect rejection (ARIR) is the statistical risk that the auditor has concluded that a population is materially misstated when it is not. Tests of controls risk that the auditors evaluate whether controls over transactions in the cycle are sufficiently effective to support the reduced assessment of control risk, and thereby allow
reduced substantive testing. 0 4 5 74 75 0 0 4.0 2. 12-29 (Objectives 12-2, 12-4, 12-7) Parts for Wheels, Inc., has historically sold auto parts directly to consumers through its retail stores. Auditors should consider information obtained by performing other risk assessment procedures in combination with the results from preliminary analytical
procedures. (4) Developing the expected current year sales based on the sales trend of the prior five years. Marble's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements. For example, examining an
have several offices in a state or region and serve a large radius of clients. The proper aggregation of general ledger balances that are not relevant for external users of the statements. Lack of Consistent application of Gaap Consistency Versus Comparability The auditor must be
able to distinguish between changes that affect consistency and those that may affect consistency. This is not a cutoff misstatement, but a timing difference due to the delivery time. required required 12-23 (Objectives 12-1, 12-2) Anthony Liu, CPA, prepared the flowchart above that portrays the raw materials
 ourchasing function of one of Anthony's clients, MediumSized Manufacturing Company, from the preparation of initial documents through the vouching of inventory and finds misstatements totaling $5,000. Any attempts to impair obsolete
result in a big loss in the Income Statement. If the auditor performs substantive analytical procedures and believes that the likelihood of material misstatement is low, other substantive tests can be reduced. (3) Internal auditors have direct access to the board of directors and the entity's management. The extent to which privity of contract is an
appropriate defense and the nature of the defense depend heavily on the approach to foreseen users in the state and the judicial jurisdiction of the case. Determine the total amount of all purchases (Total). Takashi Mochizuki and Megumi Fujikawa, "Sony Hacking Attacks Delay Earnings Report," The Wall Street Journal (January 23, 2015)
(www.wsj.com). Establishing the tolerable exception rate (TER) for each attribute requires an auditor's professional judgment. (See the third key control in Figure 12-3.) For controls that leave no documentary evidence, the auditor generally observes them being applied at various points during the year. WRS is a privately held company that contracts
with municipal governments to close landfills. Use a format similar to the following: account Balance 298 Part 2 / The AudiT Process estimate of $ amount of potential Misstatement Figure 8-9 Pinnacle Manufacturing Financial Statement Figure 8-9 Pinnacle Financial Financial Financial Financial Financial Financial Fina
109,284,780 41,452,848 37,177,738 4,275,110 -2,181,948 2,093,162 883,437 1,209,725 \$1.21 Net sales Cost of goods sold Gross profit Operating expenses and losses Income tax Net income tax Net income for the year Earnings per share 2015 \$148,586,037 106,255,499
42,330,538\ 38,133,969\ 4,196,569\ -2,299,217\ 1,897,352\ 858,941\ 1,038,411\ \$1.04\ 2014\ \$144,686,413\ 101,988,165\ 42,698,248\ 37,241,108\ 5,457,140\ -2,397,953\ 3,059,187\ 1,341,536\ 1,717,651\ \$1.72 Pinnacle Manufacturing Company Balance Sheet As of December 31 Assets Current assets Cash and cash equivalents Net receivables Inventory
Other current assets Total current assets Total current assets Property, plant, and equipment Total assets 2016 2015 2014 $ 7,721,279 13,042,165 32,236,021 172,278 53,171,743 62,263,047 $ 115,434,790 $ 7,324,846 8,619,857 25,537,198 143,206 41,625,107 61,635,530 $ 103,260,637 8,066,545 7,936,409 25,271,503 131,742 41,406,199 58,268,732 $ 99,674,931
Liabilities Current liabilities Current liabilities Accounts payable Short/current liabilities Fotal current liabilities Stockholders' equity Common stock Additional paid-in capital Retained earnings Total stockholders' equity Total
liabilities & stockholders' equity 1,000,000 15,717,645 43,883,907 60,601,552 $ 115,434,790 1,000,000 15,717,645 42,674,182 59,391,827 $ 103,260,637 9,460,776 10,298,668 1,767,360 21,526,804 22,342,006 43,868,810 $ 7,586,374 9,672,670 1,682,551 18,941,595 22,379,920 41,321,515 1,000,000 15,717,645 41,635,771 58,353,416 $ 99,674,931
e. Part 1 of the Code includes rules for members in public practice, while Part 2 includes rules for members in business. In response to more recent frauds, Congress passed the Sarbanes-Oxley Act in 2002 and the AICPA developed specific auditing standards to deal with fraud risk assessment and detection. The auditor's goal is to obtain a tabLe 7-2
224 relationships among evidence Decisions and persuasiveness of evidence Audit procedures and timing Appropriateness Relevance Reliability Independence of provider Objectivity of evidence
Timeliness When procedures are performed Portion of period being audited Sample size and items to select Sufficient amount of appropriate evidence at the lowest possible total cost. Develop appropriate tests of controls for all internal controls that are
used to reduce the preliminary assessment of control risk below maximum (key controls). Apply the transaction-related audit objectives to the class of transaction-related audit objectives are shown for sales transactions for Hillsburg Hardware at
the top of Figure 12-3 (p. In applying this definition, three levels of materiality are used for determining the type of opinion to issue. Flowcharts provide an overview of the system, while questionnaires offer useful checklists to remind the auditor of many different types of internal controls that should exist. The standard unmodified opinion audit
report is issued when the following conditions have been met: 1. A considerable portion of unethical behavior. The client entered into sales contracts with new customers that differ from the client's standard sales contracts. Auditing standards also require the auditor to make inquiries of others within the entity whose
duties lie outside the normal financial reporting lines of responsibility. This step is intended to identify specific misstatements that are likely to result because of the significant deficiency or material weakness. Lehman conducted his review of the Machinetron audit files the same day that Trent wanted to file the company's registration statement for
the initial public stock offering with the SEC. There is no other documentation. The combined dollar amount of each contract is not expected to exceed 5% of total purchases for the year. The auditor uses these misstatements to estimate the total likely misstatements in inventory (step 3). You cannot use any other methods to check the receivable
balances. (Three of the last four exceptions had initials for internal verification.) As a result, have independent client personnel recheck a random sample of 500 duplicate sales invoices under our control. Assume that in the audit of inventory the auditor notes that (1) a large number of misstatements were found in the previous year and (2) inventory the
turnover has slowed in the current vear. 404) illustrates this concept in more detail. (2) must issue a qualified or disclaimer of opinion on internal control over financial reporting. A few definitions from the AICPA Code are presented to help you understand and interpret the rules. (2) an audit resulting in a disclaimer of opinion. 36.59 10. Auditors of
larger public companies are required by the SEC to annually issue an audit report on the operating effectiveness of those controls. Analytical procedures are often done during the testing phase of the audit as a substantive test in support of account balances. Unfortunately, Patel was not able to perform alternative procedures to support the existence
of the receivables. 424 Part 2 / The AudiT Process evaluating, rePOrting, and testing internal cOntrOl for nonPublic companies (accelerated filers), smaller public companies, and nonpublic companies. 1 5 5 93 100 4 4 9.0 6. Chapter 4 /
Professional ethiCs 125 A fairly recent development has been the use of alternative practice structures in which a firm that provides attest services is closely aligned with another public or private organization that performs other professional services. The second difference is emphasis on the occurrence objective. The share prices went south too.
Source: michaelSource: Ramos, Michael "SectionRamos, 404 Compliance the Compliance Annual Report," Journal of Accountancy, October Accountancy, October Accountancy, October 2004, 43-48. Trace recorded sales transactions to shipping documents to determine whether a document exists. The bank is responsible for opening all receipts, maintaining records of all
customer payments received at the lockbox address, and depositing receipts into the company's bank account on a timely basis. 6-4 Describe the need to maintain professional skepticism when conducting an audit. (3) exist independently of the financial statement audit. A significant part of the audit entailed verifying the physical count, cost, and
summarization of inventory. QuAlity Control Objective 2-8 Identify quality control standards and practices within the accounting profession. We're going to meet with the client to discuss our audit findings. However, some tests of presentation and disclosure are often done with tests to meet the balance-related audit objectives. Examples of
processing controls are illustrated in Table 11-4. Azam Ahmed and Peter Lattman, "At Peregrine Financial, Signs of Trouble Seemingly Missed for Years," The New York Times (July 13, 2012) (www.nytimes.com). Auditors normally assess ARO at a lower level when auditing an accelerated filer public company because the auditor needs greater
assurance that the internal controls are effective to support the opinion on internal control over financial reporting. All prenumbered time records are accounted for before beginning data entry for preparation of payroll. The ONHAND system lets customers check the availability of hardto-find products instantly over the Internal control over financial reporting.
chapter deals with designing tests of controls and substantive tests of transactions for each of the five classes of transactions in the sales and collection cycle, including sales, cash receipts, sales returns and allowances, write-off of uncollectible accounts receivable, and bad debt expense. The programming staff maintains extensive logs of tape use
and of changes made to program files. The first three columns of Table 14-2 illustrate the design of tests of controls for sales for Hillsburg Hardware Co. Column 3 shows one test of control for each key internal control in column 2. For audits of accelerated filer public companies, the auditor must perform extensive tests of key controls and evaluate
the impact of the deficiencies on the auditor's report on internal control over financial reporting. For all audits of financial statements made in accordance with auditing standards, the use of analytical procedures is required to some extent In the Planning Stage As a Substantive Test In the Completion Stage (1) Yes No Yes (2) No Yes No (3) No Yes
Yes (4) Yes No No b. Observe that transaction related audit objectives are primarily addressed in phase II, and presentation and disclosure-related audit objectives in phase IV. types of tests The five types of audit tests discussed earlier in the chapter that audi- tors use to determine whether financial
statements are fairly stated are included in the third column in Table 13-6. Describe any observations about those accounts and discuss additional information you want to consider during the current year audit. Overstatement of hours is typically prevented by use of time clocks or approval of payroll hours. (Cutoff) 7. Allowance for uncollectible
accounts as a percent of accounts receivable has steadily decreased for three years. Segment Reporting The Company operates in one segment. Tolerable misstatement and assessed level of control risk affect the sample size in substantive tests of
details? 4-13 (Objective 4-7) Identify two examples of acts or behavior by CPAs that would be considered acts discreditable to the profession. Compare allowance for uncollectible accounts as a percentage of accounts receivable with previous years. Cullen and the COO identify hardware and software needs and are authorized to approve those
purchases. distinguishing Business FaiLure, audit FaiLure, and audit risk Objective 5-2 Explain why the failure, and audit risk has resulted in lawsuits. All things considered, it is questionable whether the audit function would be performed better or more cheaply by the
public sector. This paragraph discusses the auditor's responsibility for detecting material misstatements in the financial statements in the financial statements with management as to auditing procedures. Considerable professional judgment is needed to decide how much more. There is a significant overlap between tests of controls and procedures to obtain
an understanding. 15-9 (Objective 16-4) Discuss whether email responses and oral responses are acceptable confirmation
responses. A survey of large CPA firms identified more than 200 assurance services that are currently being provided. Understanding internal control is discussed further in Chapter 12. Among other changes, the new audit framework contains specific requirements for the auditor's report, and it also allows member states in the EU to establish
additional requirements to the auditor's report. Next, we will discuss several aspects of this approach, the auditor Is Not Independence ordinarily is determined by the AICPA Code of Professional Conduct. For a sample of accounts written off, it is also usually necessary for the auditor to examine correspondence in the client's files
establishing their uncollectibility. First, the three conditions requiring a modification to the opinion are briefly summarized. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions of merchantability, whether express, implied or statutory, fitness for
a particular purpose, title and non-infringement. It is implicit in the explanatory paragraph in Figure 3-5 that the auditor concurs with the appropriateness of the change in accounting principles. You investigate this receivable and learn the customer has not made any payments for several months. When the highest level of materiality exists, the
auditor must issue either a disclaimer of opinion or an adverse opinion, depending on which conditions exist. 4. • Other conditions and analytical relationships indicating that additional auditing procedures or other responses were required, and the actions taken by the auditor in response. Still, Jeanine did not think her transition to professional life
had been all that smooth, and she was surprised at how much there still was to learn. The use of a qualification of the opinion alone is restricted to situations in which the financial statements are not stated in accordance with GAAP. What are the roles of the board of directors in the adoption of cloud computing? Notations on schedules are
accomplished by the use of tick marks, which are symbols adjacent to the detail on the body of the schedule. The confirmation of customers' accounts receivable rarely provides reliable evidence about the completeness assertion because (1) customers may not be inclined to report understatement errors in their accounts. When lawsuits are brought
under the federal securities laws, the separate and proportionate approach applies, except where it can be shown that the CPA defendant had actual knowledge of fraud or has participated in fraud, in which case joint and several liability applies. This lack of independence is the major difference between internal auditors and CPA firms. 4-12
(Objective 4-7) Identify and explain factors that should keep the quality of audits high even though advertising and competitive bidding are allowed. The more effective the internal controls, the lower the risk factor that can be assigned to control risk. There are three primary types of sampling methods used for calculating dollar misstatements in
account balances addressed in this chapter: nonstatistical sampling, monetary unit sampling, and variables sampling. (4) The company changed its capitalization policy for small tools in 2016. Alexander Grant & Co. (1986), management revealed to the partner in charge of the audit of ESM that the previous year's audited financial statements
contained a material misstatement. Confirm all amounts over $100,000 and select a statistical sample using audit risk because auditing standards require the auditor
to presume that revenue recognition is a specific fraud risk. The auditor may generalize only about that population that has been sampled. Net sales for 2015 increased by $8,541,000 or 7.0% from 2014, which is consistent with industrywide average revenue growth of 7% from 2015. Still, the transaction was for a fairly large amount, and
Chen was concerned that the documentation was not initially available. Persons preparing the payroll data master files or cash. Completeness Existing sales transactions are recorded. hogAn We are pleased to have Chris
hogan join us as a coauthor for this 16th edition. †9. By their nature, entity-level controls, such as many of the elements contained in the control environment, risk assessment, and monitoring components, have an overarching impact on most major types of transactions in each transaction cycle. required case 12-34 (Objectives 12-2, 12-3) The
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information technology (IT) department at Jacobsons, Inc., consists of eight employees, including the IT Management consulting and risk advisory services. has the following policies: 1. How many fraud companies were included in the report? Most auditors prefer difference estimation because it is somewhat simpler to
calculate confidence intervals. 13-26 (Objectives 13-1, 13-4, 13-5) The following internal controls for the payroll and personnel cycle were selected from a standard internal control questionnaire. The request is made to the client, and the client asks the third party to respond directly to the auditor. Review the receivables listed on the aged trial
balance for notes and related party receivables (5). The misstatement ratio is .06 ($12,000/$208,000). Figure 15-3 summarizes the exceptions found for tests of attributes 1 through 9. As audit tests are performed during an audit, the auditor may obtain additional information that affects the original assessment. Organizational Structures
proprietorship Only firms with one owner can operate in this form. Tax services 3. Throughout the long, hot summer, newspapers were filled with new details of a corporate accounting standards. The following situations are examples when more than one
modification should be included in the report: More than One Condition requiring a Departure or Modification • The auditor is not independent and the auditor is not independent and the company has not followed generally accepted accounting principles. He has extensive professional audit experience with the predecessor firm to Ernst & Young and has
extensive standards-setting experience working with the Auditing Standards Board as a Technical Manager in the Audit and Assurance Division of the AICPA. The fraud was so extensive and the audit work so poor that the court concluded that the auditors must have been aware of the fraud and were therefore guilty of knowing complicity. As a result
a company's risks depend in part on how well its e-commerce partners identify and manage risks in their own IT systems. The common characteristic of these accounts is the significance of the activity in the account during the year.
                                                                                                                                                                                                                                                                                                                                         all marketable securities as of the balance sheet date to determine whether they equal the total on the client's
list. As part of the assessment of the assessment of the risk of material misstatement, the audit Strategy and audit PrOgram 475 a. (2) Goods
shipped FOB Fiberchem's plant on December 31, 2016; arrived at Pinnacle Manufacturing on January 4, 2017. Use the final balances for the prior year included above and the information in items 1 through 5 to develop an expected value for each account, except sales. A customer order was filled and shipped to a former customer, which had already
filed for bankruptcy. Auditors may reperform a control as part of a transaction walkthrough or to test a control that is not supported by sufficient documentary evidence. An auditor also presumes that management will provide the auditor access to all information relevant to the preparation and presentation of financial statements, including
unrestricted access to persons within the entity from whom the auditor may obtain audit evidence. For more subjective information, it is more difficult to establish criteria. Qualified The auditor concludes that the overall financial statements are fairly presented, but the scope of the audit has been materially restricted or applicable accounting
standards were not followed in preparing the financial statements. Although Rule 10b-5 continues to be a basis for lawsuits against auditors, Hochfelder and subsequent court decisions have limited the liability somewhat. 9-3 (Objective 9-1) Identify risk of material misstatement at the assertion level. It is probably much closer to 1 percent or less.
Honesty and integrity by management reinforces honesty and integrity to employees throughout the organization. the changes are designed to ensure that the CPa exam remains relevant and general ledger accounts will differ, but all will
be included. (Summarize). In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Tests of details of balances, which are audit procedures to test for monetary misstatements in the balances in the financial statements.
Objective 10-7 Understand interview techniques and other activities after fraud is suspected. For example, risks related to accurrence of sales may be greater than risks related to accurrence of sales may be greater than risks related to accurrence of sales. Similar legislation has arisen around the world, such as Japan's "J-SOX," which also mandates management and auditor reporting on internal controls
for Japanese companies. Operational audits generally have been conducted by internal auditors and governmental audit agencies but may be performed by certified public accounts receivable master file that agrees to the general ledger balance (see p.
Determining the proper substantive tests of transactions procedure for sales is relatively difficult because they vary considerably depending on the circumstances. Which audit procedure is most effective in testing credit sales for overstatement? Input controls Preformatted screens prompt data input personnel for information to be entered. 'ASIC
continues to focus auditors on the importance of applying professional skepticism and obtaining sufficient audit evidence to support their conclusions. Determine and print the percent of total purchases by vendor number. Notice that the report in Figure 3-1 is on comparative financial statements. Access to unsigned payroll checks is restricted. Risk
assessment procedures are performed to assess the risk of material misstatement in the financial statements. Ordinarily, auditors test the information on the aged trial balance for detail tie-in before any other tests to verify that the population being tested agrees with the general ledger and accounts receivable master file. For example, CPAs must
compete with market research firms to assist clients in the preparation of customer surveys and in the evaluation of the reliability and relevance of survey information. We begin by discussing representative samples and the risks
associated with sampling. In addition, accountants must develop a system to make sure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost. accuracy recorded sales are for the amount of goods shipped and are correctly billed and recorded. However, PCAOB audit engagement inspection
findings, which are publicly available, document an increase in audit deficiencies over the last decade. What does the auditor do if the assumptions are wrong? The auditor must maintain an attitude of healthy professional skepticism. The other four types of tests represent further audit procedures performed in response to the risks identified.
Estimated useful lives are 20 to 35 years for buildings and 2 to 10 years for equipment and furniture and fixtures. We believe that a reasonably low acceptable audit risk is always desirable, but in some circumstances an even lower risk is needed because of engagement risk factors. Prior to current year, it sold its products locally and all sales were
recorded in Korean Won. It sells to a wide range of mostly Indian and overseas mining companies for both Indian and Indi
of the end of the company's fiscal year. Auditors' analytical procedures often include the use of general financial statements. Under what circumstances should each of these be followed? Governmental units, such as school districts, are subject to considerable compliance auditing because
of extensive government regulation. For that reason, it is normal to have inherent risk vary for different accounts in the same audit. Part 1 / THE AUDITING PROFESSION remoteness of Information In a global economy, it is nearly impossible for a decision maker to have much firsthand knowledge about the organization with which they do business.
Taking time to identify the primary issue to be addressed and incorporating perspectives on other important considerations that need to be evaluated are both part of the initial step in developing an appropriate conclusion. However, if the client's credit policy or the degree to which it correctly functions has significantly changed, auditors must take
great care to consider the effects of these changes as well. The population standard deviation is a statistical measure of the individual items in the population. When employing the audit risk model, there is a direct relationship between acceptable audit risk model, there is a direct relationship between the population.
acceptable audit risk and planned evidence. These include the attitude, actions, and policies that reflect the overall attitudes of top management about integrity, ethical values, and commitment to competence. Deficiencies in internal control can cause significant losses, can delay financial reporting, or can result in material misstatements in financial
statements. She allocated $265,000 to the audit of accounts receivable (see Figure 8-7 on page 264). To evaluate overall materiality, the auditor must also combine all unadjusted misstatements and judge whether there may be individually immaterial misstatements that, when combined, significantly affect the statements. Once customers approve the
online sale, the online sales system generates a Pending Sales file, which is an online data file that is used by warehouse personnel to process shipments. Use compare to compa
494). Upon receipt of goods, the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the quantity to the suppliers despatch note and the purchase order sent to the warehouse department verifies the purchase order sent to the warehouse department verifies the purchase order sent to the warehouse department verifies the purchase order sent to the warehouse department verifies the purchase order sent to the warehouse department verifies the purchase order sent to the warehouse department verifies the purchase order sent to the purchase order sen
have occurred. High-quality CPA firms make sure that audit documentation is properly prepared and is sufficient for the circumstances in the audit. Securities act of 1933 148 Although there has been some growth in CPA liability litigation has
been under the federal securities laws. 11-13 (Objective 11-3) Describe why auditors generally evaluate entity-level controls. The balance of $2,975 was paid on December 13, 2015. The objective of phase III is to obtain sufficient additional evidence to determine whether the ending balances and footnotes in
financial statements are fairly stated. For the sales and collection cycle, the sampling unit is typically a sales invoice or shipping document number. If alternative procedures cannot be performed, a qualified scope and opinion or disclaimer of opinion is necessary, depending on materiality. Wasim Aziz recommended that a loan of $360,000, from the
Amman Federal Bank and Trust, be approved. For example: Is there adequate separation of duties and how is it achieved? A number of frozen yogurt stores have opened in the last few years and your client, YogurtLand, has experienced a noticeable decline in customer traffic over the past several months that has caused you to have substantial doubt
about YogurtLand's ability to continue as a going concern. CPA firms expect auditors to analyze data using spreadsheets and audit software. Corporate governance and control procedures to minimize the risk of fraud, which can be reduced through a
combination of prevention, deterrence, and detection measures. Internal controls are ignored in setting inherent risk because they are considered separately in the audit risk model as control risk. An example related to the existence objective for accounts receivable (balance-related audit objective) is direct, written communication with the client's
accounting, internal audit, or information technology staff. Because fraud is increasingly digital, data analytics is one of the best weapons in fraud detection. 17. • Nature and amount of liabilities. 454), this phase has several parts. Job is going according to schedule, and he believes that the expected profit will be earned." Now my question is, Ms.
McMillan, what exactly was the nature and content of your discussion with Mr. Burgess? 6-9 (ObjeCtive 6-5) Describe two of the more common judgment traps and biases. PwC was taken to task because the auditors had certified the integrity of Petrobras' internal controls and financial reports. • Procedures performed to obtain information necessary
to identify and assess the risks of material fraud. On the basis of past experience, the auditor sets EPER at 1 percent. 64 Part 1 / THE AUDITING PROFESSION Figure 2-4 Ways the Profession and Society Encourage CPAs to Conduct Themselves at a High Level CPA examination Quality control Auditing standards Continuing education requirements
Conduct of CPA firm personnel Peer review PCAOB and SEC Code of Professional Conduct Legal liability AICPA practice and quality centers essential terms American Institute of Certified Public Accountants (AICPA)—a voluntary organization of CPAs that sets professional requirements, conducts research, and publishes materials relevant to
accounting, auditing, advisory services, and taxes Center for Audit Quality (CAQ)—a public company audits even more reliable and relevant for investors Generally accepted auditing standards (GAAS)—refers to AICPA auditing standards developed and
issued in the form of Statements on Auditing Standards (SASs) and codified in AU-C sections in the Codification of Auditing Standards International Auditing Standards Board of the International Federation of Accountants to promote international acceptance of
auditing standards Peer review—the review by CPAs of a CPA firm's compliance with its quality control system Principles underlying an audit—framework helpful in understanding and explaining an audit; provide a structure for the Codification of Statements on Auditing Standards Public Company Accounting Oversight Board (PCAOB)—board
created by the Sarbanes-Oxley Act; oversees auditors of public companies and broker-dealers, including establishing auditing, attestation, and quality control—methods used by a CPA firm to ensure that the firm meets its professional responsibilities to clients and
others Securities and Exchange Commission (SEC)—a federal agency that oversees the orderly conduct of the securities markets; the SEC assists in providing investors in public corporations with reliable information upon which to make investment decisions Statements on Auditing Standards (SASs)—pronouncements issued by the Auditing
Standards Board of the AICPA applicable to audits of entities other than public issuers review Questions 2-1 (Objectives 2-1, 2-2, 2-8) What major characteristics of the organization and conduct of CPA firms permit them to fulfill their social function competently and independently? 262) in the form of policy guidelines of a CPA firm. For example, the
provisions of a pension plan will receive substantial emphasis as a part of the audit of the unfunded liability for pensions. Coster created phony purchase orders, sales invoices, and other documents, all of which McKesson's auditors dutifully reviewed as evidence of the imaginary inventory. Therefore, it is necessary to follow up initial impressions with
other kinds of corroborative evidence. The auditor also makes the preliminary assessment for controls affecting audit objectives for balance sheet accounts and disclosures in each cycle. Briefly describe each of the principles underlying AICPA auditing standards and indicate how the action(s) of Holmes resulted in a failure to
comply with each principle. The sales invoice shipping copy is sent to the accounting department with any changes resulting from lack of available merchandise. Internal Verification procedures Computer programs or independent personnel should check that the processing and recording of sales transactions fulfill each of the six transaction-related
audit objectives. In all these cases, the comparisons should be made with calculations made in previous years for the same client. Indicate which of these confirmation responses likely represent timing differences. Inventory as a percent of current assets has steadily increased for four years. 2-5 (Objectives 2-3, 2-5, 2-6) Who is responsible for
establishing auditing standards for audits of public companies in your country? 50 Part 1 / THE AUDITING PROFESSION These services, or risk advisory services. Each chapter in Part 4 demonstrates the relationship of internal controls, tests of controls, and substantive tests of
transactions for each broad category of transactions to the related balance sheet and income statement accounts. Because Section 404 of the Sarbanes-Oxley Act requires management to assess and document the design effectiveness of internal control over financial reporting, they have usually already prepared this document to assess and document
the name of the certification authority and the certificate's expiration date and other specified information. The purpose of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of that engagement is to install the new system, with the goal of improved information being a by-product of the contract of th
early in the audit, whether an account should receive more than the normal amount of attention because of a significant change in the balance. 11/30/16 x $ 12,000 6% $ 10,000 x Note Receivable: 12/31/15 bal. Most of the applications are based on online inputting from various user departments for batch processing overnight. Review all sales
transactions for reasonableness. Compute the confidence limits at the CL desired. Substantive analytical procedures emphasize the overall reasonableness of transactions and treferral fees means that a CPA firm does not violate AICPA rules of
conduct if it sells such things as real estate, securities, and entire firms on a commission basis if the transaction does not involve a client who is receiving attestation services from the same CPA firm. Employees are asked to state that they are unaware of any
violations. We begin by describing the content of the standard auditor's report. When responses are inconsistent, the auditor should obtain additional audit evidence to resolve the inconsistent, and to support or refute the original risk assessment.
and the legal responsibilities of auditors. A questioning mindset means the auditor approaches the auditor approaches the auditor approaches the auditor approaches the auditors. A questioning mindset means the auditor approaches the auditors. A questioning mindset means the auditor approaches the 
Size by Revenue Revenue and Other Data for the Largest CPA Firms in the United States Firm Net Revenue— U.S. Only (in $ millions) Partners Professionals U.S. Offices Percentage of Total Revenue from Accounting and Auditing/Taxes/ Management Consulting and Other BIG FOUr 1 Deloitte $ 14,908.0 3,030 50,562 107 29/18/53 2 PwC $ 11,724.0
2,691\ 33,024\ 72\ 41/28/31\ 3\ Ernst\ \&\ Young\ \$\ 9,900.0\ 2,700\ 26,100\ 80\ 36/29/35\ 4\ KPMG(1)\ \$\ 6,870.0\ 1,813\ 20,113\ 101\ 34/28/38\ NatIONaL/reGIONaL(2)\ 5\ McGladrey\ \$\ 1,470.7\ 644\ 5,075\ 75\ 41/36/23\ 6\ Grant\ Thornton\ \$\ 1,382.5\ 529\ 4,692\ 57\ 41/28/31\ 7\ BDO\ \$\ 833.0\ 346\ 2,967\ 52\ 58/32/10\ 8\ Crowe\ Horwath\ \$\ 686.6\ 257\ 2,315\ 29\ 28/24/48\ 9
CBIZ/Mayer Hoffman McCann (3) $ 600.0 429 1,832 103 30/35/35 CliftonLarsonAllen $ 598.4 225 3,245 29 40/33/27 50 Frank, Rimerman + Co. $ 70.2 23 267 5 27/62/11 75 Freed Maxick CPAs $ 45.5 35 240 4 38/38/24 10 LOCaL (1) KPMG's office figure comprises business offices, rather than every physical location. Co. Toledo Fabricators Manor
Appliance Co. Commercial Copper Renaldo Machine Co. Schedule: C-1 Audit file reference Notes Receivable—Customers Preparer 11/30/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/16 11/10/
also benefit from making inquiries of others within the entity who are involved in different levels within the client's operations. Our audit will be conducted on the basis that management acknowledges and understands that they have responsibility a. The audit committee must preapprove all audit and nonaudit services,
and is responsible for oversight of the work of the auditor, including resolution of disagreements involving financial reporting between management and the auditor. Joint Closely held Investments with a Client Assume, for example, that a CPA owns stock in a nonaudit client, Jackson Company. It indicates the customer name, the sales invoice number
and the amount of the invoice. • Prenumbered documents shown are prenumbered. Trace 10 accounts from the additor traced from the adultor traced from the adultor traced from the duplicate sales invoices to related shipping
documents, the evidence was relevant for the occurrence transaction objective. The phrase in our opinion indicates that there may be some information risk associated with the financial statements, even though the statements have been audited. Most companies recognize sales when goods are shipped. Only the second is an unmodified opinion audited.
report with modified wording. Individual CPAs and their firms have also been required to participate in continuing education programs. Customer Reviews, including Product Star Ratings help customers to learn more about the product and decide whether it is the right product for them. Many auditor litigation cases (like those described in Chapter
5) result from the auditor's failure to fully understand the nature of transactions in the client's industry, similar to what occurred in the Enron case discussed in the opening vignette to this chapter. Which of the preceding should be defined as an exception? For example, many technology firms are dependent on one or a few products that may become
 obsolete due to new technologies or stronger competitors. What weaknesses in their processes might have permitted the fraud? 446). The cash receipts clerk stopped for coffee, set them on a box, and failed to deliver them to the data input personnel. Accounting presentations contain complex estimates, which inherently involve uncertainty and can
be affected by future events. Companies using e-commerce systems to transact business electronically link their internal accounting systems to external parties' systems, such as customers and staff. The most common audit-related matters identified include: Failure
to update the report to conform to audit standards. Rather than complying with professional and firm standards, the partner agreed to say nothing in the hope that management would work its way out of the problem during the current year. The cashier's copies of the invoices are also given to the accounts receivable clerk along with a summary of
the day's receipts. While consumers can find a wide variety of products available at Amazon.com, the company is known for its huge selection of new and used books that can be purchased on its Web site. Figure 16-6 (p. The provisions of the Act dramatically changed the relationship between publicly held companies and their audit firms. In this
section, we discuss auditing in a more complex IT environment and the opportunities and challenges this provides for auditors. The PCAOB believes the communication of critical audit matters would be helpful to investors and other financial statement users who would be interested in understanding challenging issues identified in the audit. The
purchasers of the debentures filed suit against the CPA firm under the 1933 act. In addition to learning about the business and its environment, auditors also observe client personnel performing important processes related to financial statements as a whole and
to specific audit objectives related to classes of transactions, account balances, and presentation and disclosure. Ethical behavior is necessary for a society to function in an orderly manner. Observe that three of these deal with income tax matters of the member or a client. These chapters provide an overview of the importance of protecting the
profession's reputation of high ethical standards, highlight consequences accountants face when others believe they provide. Sales (cash and sales on account) Cash receipts Sales returns and allowances Write-off of uncollectible
accounts Estimate of bad debt expense Figure 14-1 also shows that, with the exception of cash sales, every transaction and amount is ultimately included in one of two balance sheet accounts, accounts receivable or allowance for uncollectible accounts. The last example is advertising, which is only one form of solicitation. Compare Client Data with
management is responsible for providing reliable information to users. Lehman, feeling tremendous pressure, accepted this proposal and signed off on an unmodified audit opinion. How might that system be useful to the auditor? Before the auditor? Before the auditor must follow up on this information to be sure that management has complied
advanced electrical components. Our coverage of internal control is related to tests of controls and substantive tests of transactions that are performed in a financial reporting, with an emphasis on the requirements of PCAOB Auditing Standards.
International Standards on Auditing (ISAs) are issued by the International Federation of Accountants (IFAC). Chapter 14 / Audit of the SAleS And ColleCtion CyCle 519 3. The final audit report was completed, attached to the financial statements, and delivered to Edith Cosmetics on Edith Cosmetics o
risk, which triggers required responses to those risks. In other cases, gross negligence or reckless behavior was sufficient for the auditor to be found liable. "34 Part 1 / THE AUDITING PROFESSION You probably recognize these statements from the academy awards, the Miss america Pageant, and the New York State Lottery drawing. The buyer's
attorney is taking Rhonda's deposition and is asking her about the audit work she did on contracts. 174) is often iterative and may require some steps to be combined, repeated, or evaluated in a different order. Accounting and bookkeeping services 2. What are common rationalizations individuals use to justify their unethical behavior? An advantage
of statistical sampling over nonstatistical sampling is that statistical sampling is that statistical sampling helps an auditor (1) minimize the failure to detect errors and fraud. Because the audit of financial statements and the audit of internal control over financial reporting are integrated, accelerated filer public company audits will most likely be represented by point B.
However, for many nonstatistical sampling applications involving tests of controls and substantive tests of transactions, auditors prefer to use a probabilistic sample selection method to increase the likelihood of selecting a representative sample. During a meeting with the facilities director, you learn that the board of directors has decided to raise a
documents by the computer system and an exception report is generated. Recompute cash discounts. auditor's responsibilities for the audit of the Financial Statements Our objectives are to obtain reasonable assurance about whether the financial statements Our objectives are to obtain reasonable assurance about whether the financial statements of the Financial State
an auditor's report that includes our opinion. tabLe 11-4 Processing Controls type of Processing Controls type of transaction test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of transaction is appropriate for processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Description Example Validation test Ensures that a particular type of the processing Control Descrip
However, Jasmine takes her CPA work with her when she is at the financial services company and has two other CPAs helping her with the financial statements. • Block their mouth with their hands, pens, pencils, papers, etc.
Take a moment to read the summary of the case in Figure 5-4. The methodology shown in
why he feels this way. For each of the procedures 1 through 10, identify the type of evidence that is being used. Attitude about firm may be affected. Sales orders are prepared for each customer order. The extent to which tests of controls are applied depends on the preliminary assessed control risk. A respectful person treats others with
Trade accounts receivable Allowance for uncollectible accounts Other accounts Prepaid expenses Land Buildings Computer and other equipment Furniture and fixtures Accumulated depreciation Trade accounts payable Accrued payroll Accrued payroll taxes Accrued interest Dividends payable Accrued income tax
Long-term notes payable Deferred tax Other accrued payables Capital in excess of par value Retained earnings Sales returns and allowances Cost of goods sold Salaries and commissions Sales meetings and training Miscellaneous sales
expense Executive and office salaries Administrative payroll taxes Travel and entertainment—administrative Computer maintenance and supplies Stationery and supplies Postage Telecommunications Rent Legal fees and retainment—administrative payroll taxes Travel and entertainment—administrative payroll taxes Travel and entertainment and e
office expense Miscellaneous general expense Gain on sale of assets Income taxes Interest expense Dividends Note: Letters in the left-hand column refer to the following transaction cycles: S = Sales and collection I = Inventory and warehousing A = acquisition and payment C = Capital acquisition and repayment P = Payroll and personnel 178 Part 2
2,611,263 321,620 924,480 681,041 5,523,960 682,315 561,680 860,260 762,568 244,420 722,315 312,140 383,060 302,840 1,452,080 3,323,084 722,684 843,926 643,680 323,842 719,740 1,746,600 2,408,642 1,900,000 $237,539,033 The accounts for Hillsburg Hardware Co. are summarized in Table 6-2 by cycle, and include the
related journals and financial statements in which the accounts appear. Shipping department personnel pack the order and manually prepare a three-copy bill of lading file. There is no further information about
this portion of the tests in this illustration. • Finally, the auditor has decided on a low willingness that material misstatements exist after the audit is complete for all five cycles (C). 8-5, 8-6) Explain why materiality is important but difficult to apply in 8-19 (Objective 8-6) What is meant by using benchmarks for setting a preliminary judgment about
materiality? The technology glitch left individual investors puzzled about whether their buy and sell orders had actually been executed, when normally those acknowledgments are instantaneous. Examples include the following: Presence of large amounts of cash on hand or inventory items that are small, of high value, or are in high demand. Assume
that you expect no exceptions in the sample for the audit procedure in part a but are willing to accept a TER of 6%. Next, the supervisor enters the sale in his cash register as a credit or cash sale. If the market does not turn around soon, you think the company may not be able to continue to operate. ICtV had previously reported almost $1.475 million
in net income for 2007. What are the three alternative opinions that may be appropriate when the client's financial statements are not in accordance with GAAP? 414 Part 2 / The AudiT Process 2. This understanding includes knowledge of the client's industry and its regulatory and operating environment, including external relationships, such as with
suppliers, customers, and creditors. Integrate the four phases of the audit process. A potential auditor defense is that the bank refused to renew the loan for other reasons, such as the weakening financial condition of the client. acts Discreditable rule A member shall not commit an act discreditable to the profession. Examine duplicate copy of
shipping documents for evidence that quantities were verified before shipment. The objectives of phase II are to: 1. relationship Between tests of Controls and procedures to Obtain an understanding. Define attributes and
exception conditions 4. Let's examine a typical case that raised the question of negligent performance by a CPA Objective 5-4 Describe accountants' liability to clients and related defenses. Daily sales summaries are compared with control total of invoices. Other factors also make federal courts attractive to litigants. Which of the following is not a
required element of a standard unmodified opinion audit report issued in accordance with AICPA auditing standards? • Part VII—Design, perform, and evaluate results for tests of details of balances, Chapter 16. Although the quality of information is often an important criterion in management consulting, this goal is normally not the primary purpose
Observe k. You have been asked to focus your attention on two purposes of analytical procedures: obtaining an understanding about the client's business and indicating where there is an increased likelihood of misstatements. Al's leadership at national and international levels and November 24, 1935 - December 6, 2010 his commitment to expanding
knowledge through the development of educational materials, including this textbook, continue to inspire us as we strive to advance his legacy for future generations of auditing professionals. Identify the typical duties within an IT function and describe how those duties should be segregated among IT personnel. Figure 1-2 illustrates the relationships are the relationships and the segregated among IT personnel.
among the auditor, client, and financial statement users. She files the shipping copy in the sales invoice file in numerical sequence. As previously discussed, there are three phases when sampling for tests of controls and substantive tests of transactions. Each of these documents is significant to the auditor for as many years as it is in effect. For
example, a CPA firm might have an organizational structure that ensures the technical review of every engagement by a partner who has expertise in the client's industry. tabLe 17-14 Calculation of Confidence Limits Step Statistical Formula Illustration for Hart Lumber 1. For example, an electronics manufacturer faces a greater likelihood of
obsolete inventory than a steel fabricator does. As a result, an Income & Sales Tax Department investigation was critical of the evidence gathered by Nefret's audit firm, Abdul & El-Emir, in testing accounts payable and the supplier credits. Often, the auditor does not know or have contact with the financial statement users but has frequent meetings
and ongoing relationships with client personnel. 334 Part 2 / The AudiT Process Rights Realizable value Cutoff Classification Accuracy Completeness Existence Stanton Enterprises Evidence-Planning Worksheet to Decide Tests of Details of Balances for Accounts Receivable Detail tie-in Figure 9-7 Acceptable audit risk Inherent risk Control risk—Sales
the audit, you meet with Pinnacle's management team and perform other planning activities. Figure 12-10 shows a typical parallel simulation. Reasons for client imposed scope restrictions may be a desire to save audit fees and, in the case of confirming receivables, to prevent possible conflicts between the client and customer when amounts differ
Auditing standards provide guidance to help the external auditor obtain evidence that supports the competence, integrity, and objectivity of internal auditor's work in a number of ways. This will likely result in the auditor increasing substantive tests of transactions and tests of details of details of the external auditor's work in a number of ways. This will likely result in the auditor increasing substantive tests of transactions and tests of details of the external auditor's work in a number of ways. This will likely result in the auditor increasing substantive tests of transactions and tests of details of the external auditor's work in a number of ways.
balances. In determining whether financial statements are fairly stated in accordance with accounting standards, the auditor gathers evidence to determine whether financial statements contain material errors or other misstatements. If users believe that CPA firms' audit
and other attestation reports is reduced and the demand for these services will thereby also be reduced. The use of networks that link equipment such as desktops, midrange computers, mainframes, workstations, servers, and printers is common for most businesses. To respond to heightened risks that management used inappropriate assumptions to
estimate account balances, such as the allowance for inventory obsolescence, the audit objectives are determined, and reasonableness of key assumptions. Specific Balance-related audit objectives are determined,
specific balance-related audit objectives for each account balance on the financial statements can be developed. †6. Same as Bryan. These terms are defined in Table 5-1. Why can't all the audit assurance be obtained by tests of controls? 508), which come from the AICPA Audit Sampling Audit Guide. For prospective clients that have previously been
audited by another CPA firm, the new (successor) auditor is required by auditing standards to communicate with the predecessor auditor. As Jonathan wanted to increase sales through this new distribution channel, the online ordering platform and the new accounting system was rolled out by the end of the third quarter. For example, the auditor
would determine if the facts and information associated with the unusual sales transaction satisfy the accounting criteria for revenue recognition and related financial statement disclosure. Some of the content of the audit files consists of outside documentation gathered by auditors, such as confirmation replies and copies of client agreements. In
partner, Mufti Hussein, accepted the credits based on the credit memoranda, telephone confirmation of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements at a low cost, and they are required in the planning and completion phases of their effectiveness at identifying possible misstatements.
the audit. 10-7 (Objective 10-3) The two components of professional skepticism are a questioning mind and a critical assessment of the audit evidence. Because users of the audit evidence are international, your audit firm was engaged to conduct the audit in accordance with U.S. auditing standards and International Standards on
control risk too high. Substantial Doubt about Going Concern Even though the purpose of an audit is not to evaluate whether the company is likely to continue as a going concern. WRS's employees are paid bi-weekly. Rechecking client
calculations consists of testing the client's arithmetical accuracy and includes such procedures as extending sales invoices and inventory, adding journals and subsidiary records, and checking the calculation of depreciation expense and inventory, adding journals and subsidiary records, and checking the calculation of depreciation expense and inventory, adding journals and subsidiary records, and checking the calculation of depreciation expense.
transaction-related management assertions that have not been met. The auditor must issue an adverse opinion on internal control over financial reporting if the deficiency is considered a material weakness. When the statements are heavily relied on, a great social harm can result if a significant misstatement remains undetected in the financial
statements. At privately held companies, this may be done in an attempt to reduce income taxes. An auditor is unlikely to accept a new client or continue serving an existing client if the risk associated with the client is greater than the risk the firm is willing to accept. Interrogative interviewing should typically be done by senior members of the auditor is unlikely to accept an existing client if the risk associated with the client is greater than the risk the firm is willing to accept an existing client if the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the client is greater than the risk associated with the risk associated wit
team who are experienced and knowledgeable about the client's affairs. Most experienced auditors believe that amount in these circumstances. She informs you that the industry gross profit percent in the retail drug industry declined fairly steadily for three years, which accounts for part of the
decline. Inquire of management whether there are any related party notes or long-term receivables included in the trial balance. (2) completeness. • The auditor has the burden of demonstrating as a defense that (1) an adequate audit was conducted or (2) all or a portion of the plaintiff's loss was caused by factors other than the misleading financial
statements. The machines have been stamped with the words, "Product of Welburn Manufacturing, Detroit, Michigan." 4. 8-24 (Objective 8-8) Assume materiality for accounts receivable is set at $40,000. The supervisor totals the amounts and adds this cash to the
register for later deposit. Together, observation and inspection provide the auditor with a basis for understanding internal controls, which is an important input for the assessment of the risk of material misstatement. Merchandise inventory: Merchandise inventory is presented at the lower of average cost or market. The credit is issued by a separate
department prior to the reduction of the A/R Allowance for the customer, or is refunded by check. Whereas recalculation involves checking a computation, reperformance involves checking a tempt to achieve the same audit risk for all audit clients when circumstances are similar. (The calculation of the standard tempt to achieve the same audit risk for all audit risk for all
deviation is explained later, when audit results are evaluated.) For Hart Lumber, it is estimated to be $20 based on the previous year's audit tests. This type of schedule contains information as opposed to audit evidence. Banana Advertising Credits — ABC had arrangements with some vendors to share the cost of advertising the vendor's product. Al
standards. How should this situation affect your audit plan? This helps the auditor identify significant matters requiring special consideration later in the engagement. Questionnaires help auditors identify significant matters requiring special consideration later in the engagement.
Classify the information based on the three factors that affect acceptable audit risk. Recommendations to Management: Each of the exceptions should be discussed with management and allocation assertion has multiple audit risk. Recommendations to Management and allocation assertion has multiple audit risk.
quantitative conclusions about the capture of the revenue cycle in the company. Identify the ethical issues from the facts. Chen discovered that the receivable had not been paid. Chapter 17 / Audit SAmpling for teStS of detAilS of BAlAnCeS 627 tabLe 17-12 Confidence Levels, ARIAs, and ARIRs Confidence Level (%) ARIA
(%) ARIR (%) Confidence Coefficient 99 .5 1 95 2.5 5 2.58 1.96 90 5 10 1.64 80 10 20 1.28 75 12.5 25 1.15 70 15 30 1.04 60 20 40 80 .25 10 45 90 .51 10 50 1.04 60 20 40 .84 50 25 50 .67 40 30 60 .52 30 35 70 .39 20 40 80 .25 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 10 45 90 .51 1
minimize ARIA and ARIR. These discussions about fraud risks will likely take place at the same time as discussions about the susceptibility of the entity's financial statements to other types of material misstatement, which were addressed in Chapter 9. Prepare a control risk matrix for acquisitions and a separate one for cash disbursements using
Figure 12-3 on page 397 as a guide. While gross profit percentages in the industry have declined somewhat, our position as a niche provider in the overall hardware market allows us to charge premium prices without losing customers. Yosef: I think that if we present the material to the group, it might feel less confrontational. Proper accounting
requires an adjustment for these uncollectible accounts. Control activities required Chapter 11 / Internal Control activities required to various cycles. The management of Regal Jewelry had doctored the books to avoid bankruptcy. Use audit software to foot and cross-foot
the sales journal and trace the balance to the general ledger. By that time I have a fairly good understanding of the client's business and its internal controls because confirmations, cutoff tests, and other procedures have already been completed." 13-9 (Objective 13-2) The auditor of Chan & Lee CPA identified two exceptions, out of two hundred
samples, in inspecting whether there were initials of the person who performed credit approval for new customers in the audit of the sales and collection cycle. The victory was largely symbolic since the firm effectively ceased operations after the original conviction. This is especially true for fixed assets that are readily portable, such as laptop
computers. The Big Four firms audit nearly all of the largest companies both in the United States and worldwide and many smaller companies as well. It is estimated that more than 85,000 CPA firms exist in the United States. As a favor to Esther for the long time support of his audit firm, Johnny decided to postpone the impairment to another
financial year. (2) evaluation of the efficiency and competence of the audit staff assistants by the partner responsible for the audit evidence was accumulated. evidence are included in the fourth column in
Table 13-6. This control is most relevant to which transaction-related objective for sales? What could the auditors have done differently to detect the fraud? For the correct measurement of current period income, the method must be in accordance with accounting standards and consistently applied. The chapter also includes specific examples of fraud
and discusses warning signs and procedures performed in response to heightened fraud risk. tyPes of audit evidence, which are called types of evidence, which are called types of evidence from eight broad categories of evidence from eight broad categories of evidence, which are called types of evidence. All misstatements the auditor can choose from eight broad categories of evidence, which are called types of evidence.
of fraud. A low ARO implies that the tests of controls are important and will correspond to a low assessed control risk and reduced substantive tests of details of balances. Instead, our system considers things like how recent a review is and if the reviewer bought the item on Amazon. If the actual exception rate in the sample turns out to be greater
than 1 percent, the auditor will be unsure of the effectiveness of the controls? To be effectiveness of the controls? To be effective, the internal audit function must be performed by staff who are independent of both the operating and accounting departments and who report directly to a high level of
authority within the organization, either top management or the audit committee of the board of directors. Identifying and Measuring Fraud risks Effective fraud oversight begins with management or the audit committee of the board of directors. In making that
determination, the auditor considers the nature of the financial statements, and whether laws or regulations prescribe a particular framework. The internal auditor reports to the controller and the contr
express permission of the client. A financial statement audit is conducted to determine whether the financial statements (the information, Mason selects a random sample of 150 sales invoices from the 5,000 generated during the year and examines them for
exceptions. In tests of details of balances, the population is defined as the items making up the recorded dollar population. Although the concept of foreseen users may appear straightforward, courts have generated several different interpretations. Prenumbered shipping documents are required by the company to be issued for each sale. Now we'll
address how auditors test those controls that are used to support a control risk assessment. Greg Jonas, PCAOB Office of Research and Analysis Director, "Update on Audit Quality Indicators" (December 10, 2013) (pcaobus.org); 3. ARIR is affected by the additional cost of resampling. This is called pervasiveness. The online sales system is linked to
the perpetual inventory system, which verifies quantities on hand before processing the sale. Other responsibilities When Fraud Is Suspected When the auditor suspects that fraud may be present, auditing standards require the auditor to obtain additional evidence to determine whether material fraud has occurred. For some audit objectives,
sufficiency of evidence is measured primarily by the sample size the auditor selects. The percentage of sample means between any two values of the sampling distribution is measurable. (2) Explain whether the ownership is likely perform for
year-end accounts receivable confirmations when the auditor did not receive replies to second requests? Quick ratio 3. The AICPA Audit Sampling Audit Guide provides quidance for testing the operating effectiveness of small populations. But analytical procedures require the auditor to decide which analytical procedures to use, make the calculations,
and evaluate the results. Let's examine some other accounts with specific risks of fraudulent financial reporting or misappropriation. For example, comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of batch 494 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle control totals with summary reports and comparison of the Audit Process to the sAles And collection cycle control totals with summary reports and collection cycle control totals with summary reports and cycle control totals with summary reports and cycle control totals with summary reports and cycle cycle control totals with summary reports and cycle cyc
general ledger balance should be done by someone independent of those who input sales and cash receipt transactions. For example, assume the auditor finds six client misstatements in a sample of 200 in testing inventory costs. Both Section 11 of the Securities Exchange Act of 1934. 13-34 (Objectives
13-3, 13-4) McClain Plastics has been an audit client of Belcor, Rich, Smith & Barnes, CPAs (BRS&B), for several years. Audit firms, particularly the largest firms, will increase their level of testing on all integrated audits, and increase documentation in the audit
workpapers to demonstrate to the PCAOB that they are striving to improve audit quality. For example, to increase the likelihood that any attempt by senior management to involve employees in committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors to the audit committee • Direct reporting of key findings by internal auditors and audit committee • Direct reporting by internal a
Periodic reports by ethics officers about whistleblowing • Other reports about lack of ethical behavior or suspected fraud Because the audit committee plays an important role in establishing a proper tone at the top and in overseeing the actions of management, PCAOB auditing standards require the auditor of a public company to evaluate the
effectiveness of the board and audit committee as part of the auditor's evaluation of the operating effectiveness of internal control over financial reporting. For example, a CPA firm might decide that considerable risk of a regulatory conflict exists between a governmental agency and a client, which could result in financial failure of the client Chapter
8 / Audit PlAnning And MAteriAlity 263 and ultimately lawsuits against the CPA firm. The decision of how many items to test must be made by the auditor for each audit procedure. Uncollectible accounts have been provided for. 264). WRS's Board of Directors is controlled by Tucker, the majority shareholder, who also acts as the chief executive
officer. Data control clerks have CHANGE access to data files only and no access to software program files. Management's focus is on controls that address risks related to all relevant assertions for all significant accounts and disclosures in the financial statements. required For each situation, do the following: a. The permanent files typically include
the following: • Extracts or copies of such company documents of continuing importance as the articles of incorporation, bylaws, bond indentures, and contracts. For the audit of tax returns by the Internal Revenue Code. Perform reduced tests D. (Gaps) g. Internal audit may also find this
technique useful. (4) allow the auditor to emphasize larger items from the population. Most questionnaires require a "yes" or a "no" response, with "no" response, with "no" response indicating potential internal control deficiencies. When customers purchase goods by credit card, the issuer of the credit card uses EFT to transfer funds into the company's bank account.
As auditing instructors, we appreciate how critical it is to have the most current content available. If no, state the factors affecting the amount of additional evidence required for the purpose. The effect will become material. Accounting standards
increasingly require that assets be recorded at fair value. An analysis is designed to show the activity in a general ledger account dur- ing the entire period under audit, tying together the beginning and ending balances. In the years since the passage of SOX, the Big 4 firms have rebuilt their consulting practices. (5) Having management select the
CPA firm. Assume that TER is 6 percent, ARO is high, and the true population exception rate is 8 percent. Read the minutes of the meetings of February 15 and September 16. Recompute the unit sales price times the number of units for a sample of duplicate sales invoices and compare the totals with the calculations. (2) Goods received December 30,
2016; recorded on January 2, 2017. When the client's internal controls are effective, auditors can usually verify the cutoff by obtaining the shipping document number for the last shipment made at the end of the period and comparing this number with current and subsequent period recorded sales. The auditor is likely to evaluate separately whether
management has implemented internal control for each of these two account balance objectives and the four presentation and disclosure objectives. the Government of India assumed control of the company by dissolving Satyam's Board of Directors and then selected a strategic investor to run the company. Conduct cash count for the petty cash kept
in office to verify the amount counted by the accountant. Tick marks and other explanations, such as reviewer notes, can be entered directly into computerized files. Form of Organization and Name Form of Organization whose
characteristics conform to resolutions of Council. In many cases, but not all, the amounts involved are not material to the financial statements. In some organizations, budgets are prepared with little thought or care and therefore are not helpful in developing auditor expectations. Tort actions are more common because the amounts recoverable under
them are normally larger than under breach of contract. Jessica Alma has been serving as the senior auditor on the actual time spent on the engagement. Types of Analytical Procedures Industry data Similar prior-period data
Client-determined expected results Auditor-determined expected results Auditor-determined expected results Suppose that you are doing an audit and obtain the following information about the client and Industry Data Industry Data Industry 2016 2015 2016 2015 3.4 26.3% 3.5 26.4% 3.9
27.3% 3.4 26.2% Chapter 7 / Audit EvidEnCE 233 If we look only at client information for the two ratios shown, the company appears to be stable with no apparent indication of difficulties. Separation of the Custody of Assets from Accounting To protect a company from embezzlement, a person who has temporary or permanent custody of an asset
should not account for that asset. List the transaction-related audit objectives for the audit of sales transactions. Also, the areas to be tested; the type, extent, and timing of those tests; and the evaluation of test results require significant auditor judgment. Cash is deposited daily. Independence permits auditors to remain unbiased in drawing
conclusions about the financial statements. tabLe 10-4 Example of the Effect of Fictitious Receivables on Accounting Ratios Based on Regina Vacuum Company Year Ended June 30 Sales 1987 1986 $181,123 $126,234 $76,144 Cost of sales (94,934) (70,756) (46,213) 29,931 Gross profit 86,189 55,478 Gross profit percentage 47.6% 43.9% 39.3% year-
end accounts receivable 51,076 27,801 14,402 3.55 4.54 5.29 Accounts receivable turnover a 1988 Accounts receivable turnover calculated as Sales/Ending accounts receivable turnover a 1988 Accounts receivable turnover calculated as Sales/Ending accounts receivable turnover a 1988 Accounts receivable turnover calculated as Sales/Ending accounts receivable turnover c
errors because they know the approximate correct amounts. Financial statements of a foreign branch of the company to make sure that the cut-off dates of the branch are the same with the holding company. (1) Misappropriation of an asset or groups of assets (2) Clerical mistakes in the accounting data underlying the financial statements (3)
Mistakes in the application of accounting principles (4) Misinterpretation of facts that existed when the financial statements were prepared b. Barings Bank collapsed after incurring losses in excess of $1 billion from the activities of one trader because of inadequate separation of duties. Examine sales returns for receiving reports signed by authorized
official. The shipping documents are traced to the sales journal. Item 1.A—"Risk Factors"—includes information about the most significant risks that apply to Part 2 / The AudiT Process the company. Accounts receivable are correctly added and agree with the master file and the general ledger 2. Describe what is meant by the cycle approach to
auditing. (4) can be changed at the auditor's discretion. accounts receivable from the trial Balance is the most common test of details of balances for the accounts receivable. (1) The auditor must be
without bias with respect to the client under audit. 4-3 (Objective 4-3) Identify some of the most important ways that the profession and society encourage CPAs to conduct themselves at a high level. III. The communication is usually addressed to the audit committee and to management. Is the accounts receivable master file reconciled to the general
ledger on a monthly basis? WRS retained a significant interest in SEL. In this illustration, a C was entered in each cell where a control partially or fully satisfied an objective. We will discuss the auditor's consideration and response to fraud risk in
Chapter 10. apply the methodology for controls over the sales and collection cycle to controls related to uncollectible accounts receivable. The audit of Hillsburg
Hardware Co. to illustrate the steps in the following discussion. If neither of the employees understands the instructions or if both are careless in doing the counts, the inventory count is likely to be wrong. The first requirement keeps the auditor from allocating all of preliminary materiality to one account. No tests of controls are done because
reliance on internal controls is inappropriate when controls are insufficient for a nonpublic company. The auditor does this by linking the control risk assessments to the balance-related audit objectives. Robot recently merged with
another Singapore subsidiary of another international UK financial institution, Apache Banks. The income statement and related footnotes clearly describe the misappropriation. (The calculations are illustrated in Table 17-14, Steps 3 through 6.) evaluate the results 1. Auditors reporting on company financial statements are often called independent
auditors. The auditor considers risk assessments, materiality, and the results of tests of controls, substantive tests of details. Because of the importance of competent, trustworthy personnel in providing effective control, the
methods by which persons are hired, evaluated, trained, promoted, and compensated are an important part of internal control. Included next are amounts from the client's trial balance, along with comparative audited information for the prior year. An alternative is to combine both columns and do them simultaneously. Different CPA firms should
attempt to achieve reasonably similar audit risks for clients with similar circumstances. As part of understanding internal control and assessing control risk, the auditor is required to communicate certain matters to those charged with governance. Specific high-risk accounts are discussed next, including warning signs of fraud. If the control were
found to be effective in this illustration, the auditor would have overrelied on the system of internal control (used a lower assessed control risk than was justified). After comparing costs and benefits, business managers and financial statement users may conclude that the best way to deal with information risk is simply to have it remain reasonably
high. reasonable assurance Assurance Assurance is a measure of the level of certainty that the auditor has obtained at the completion of the audit. Consider the following similar ethical dilemmas Bryan might face in his career as he advances: • A supervisor asks Bryan to work three unreported hours daily and 15 unreported hours each weekend. Income
smoothing is a form of earnings management in which revenues and expenses are shifted between periods to reduce fluctuations in earnings. 3-17 (Objective 3-7) Scope restrictions could be instances that have been caused by the audit client and those beyond the control of either the client or the auditor. Report on the financial statements, and
communicate as required by GAAS, in accordance with the auditor's findings. For each audit procedure, identify the type of evidence should the auditor consider to be the most reliable? Explanation of @ Recalculated accrued interest. Which of the following is least
likely to be included in the auditor's engagement letter? In obtaining reasonable assurance that the financial statement, the auditor takes into account applicable legal and regulatory frameworks relevant to the client. During 2016, WRS sold one half of its controlling interest in Sanitation Equipment Leasing Co.
(SEL). In practice, the understanding of the design and the implementation are often done simultaneously. A compensating control is one elsewhere in the system that offsets the absence of a key control. It is common to send second and sometimes even third requests for confirmations. He indicates his performance of these procedures by initialing
the invoice. When Mr. Clark orders materials, an electronic copy of the purchase order is sent to the receiving department. the fraud was supported by the falsification of shipping documents. For all tests of controls, assume a TER rate of 5% and an EPER of 1%. The materiality question the auditor must evaluate in such situations is the effect on
statement users of the failure to make the disclosure. When the museum is open to the public, two clerks who are positioned at the entrance collect a $5.00 admission fee from each nonmember patron. The least expensive means of internal verification is the separation of duties in the manner previously discussed. Based on your answer to part c,
indicate which paragraphs, if any, should be modified in the standard audit report. Ramin (Khazar University) for contributing to the Global Edition, and Raymond Wong (The Hong Kong), Mabel Lam (The Open University) for reviewing the
Global Edition. Auditors use the same methodology for designing tests of controls and substantive tests of transactions for cash receipts as they use for sales. The 2016 increase is mostly due to improved vendor incentive programs, our focus on cost containment, and increases in the resale values of certain commodities such as PVC piping material
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and certain types of metal wiring. There has been a change in several key management personnel. As noted in the opening vignette about WebXU's auditor, failure to assess the risk of material misstatement can be hugely detrimental. Included among her audit procedures are the following: 1. This is called stratified sampling, and it is evaluated using
nonstatistical sampling or variables statistical sampling. Confidentiality It is essential that practitioners not disclose confidential client information when performing his audit tests. The second audit procedure is relevant
because the shipment of goods is the normal criterion used for determining whether a sale has occurred and should have been billed. As we discussed in Chapter 6, management is responsible for preparing financial statements for investors, creditors, and other users. The company implemented a new system this year and there were some minor
internal control-related issues which could be further enhanced to increase efficiency. Distinguish between fraud and constructive fraud. However, there are no rules about changing audit firms. A computer-based system (1) does not require as stringent a set of internal controls. Trace h. The conviction was overturned by the U.S. Supreme Court in
2005 because the instructions provided the jury were too broad. 11-8 (Objective 11-3) List the types of specific control activity. Evaluate the explanation provided by O'Keefe. For example, when a bank loans money to a company, the loan agreement may
require the company to engage a CPA to provide assurance about the company's compliance with the financial provisions of the loan. the Power of Sales — Constructive or Destructive or Des
many known history of violations of securities laws or other laws and regulations. For each control, describe potential financial misstatements that could occur if the control was not present. Much of the early planning of audits deals with obtaining information to help auditors assess these risks. Indicate possible misstatements in the financial
statements 2. We first introduce the purposes of analytical procedures and then discuss the different types of analytical procedures more extensively. What combined amount of misstatements will affect decisions of reasonable users? Often, interrogative inquiry is confrontational, given that subjects may be defensive, as they cover up their knowledge.
of specific facts, events, or circumstances. In cases of construction-type or production-type contracts; or (3) evaluate the company's approach for applying the percentageof-completion
method. Locate the report of the independent registered public accounting firm. If the returned goods are counted as part of physical inventory, the return may increase reported income. In many instances, they are more important than the guidelines applied to the income statement and balance sheet. tabLe 9-2 Making the acceptable audit risk
Decision Methods Practitioners Use to Assess Acceptable Audit Risk Factors Methods Used to Assess Acceptable Audit Risk External users' reliance on financial statements, including footnotes, such as the Form 10-K for a publicly held company. Are shipping documents prenumbered and accounted for? The Code
consists of principles and rules, in addition to interpretations. Under common law, audit professionals have a responsibility to fulfill implied or expressed contracts with clients. First, he found that the firm may have accepted Tom without complying with its new-client acceptance procedures. International Federation of Independent Audit Regulators
Report on 2014 Survey of Inspection Findings (March 3, 2015) (www.ifiar.org); 2. Design and perform Substantive analytical procedures for an accounts receivable for two purposes: to identify possible misstatements in the account balance and to
reduce detailed audit tests. 6-8 (ObjeCtive 6-5) What are the five elements of an effective professional judgment process? The profit-before-tax of the company for the financial year (ending 31 December 2004) was overstated by 26 percent. Select the table corresponding to the auditor's ARO. Shipping documents are prenumbered and accounted for
weekly (C5). If an independent audit leading to an opinion on financial statements causes the auditor to believe that a material misstatement due to fraud exists, the auditor should first (1) request that management investigate to determine whether fraud has actually occurred. Therefore, this type of qualification is used when the auditor's scope has
been restricted by the client or when circumstances exist that prevent the auditor from conducting a complete audit. Many litigation experts believe that a wellwritten engagement letter significantly reduces the likelihood of adverse legal actions. This report must be filed quarterly for all publicly held companies. assess control risk The auditor
obtains an understanding of the design and implementation of internal control to make a preliminary assessment of control risk as part of the auditor was able to successfully argue that it was not negligent and that the previous
management team's deceitful actions prevented the auditor from uncovering the fraud. 326) provides example, if inventory is the largest balance on the financial statements, a large
misstatement would probably be so material that the auditor's report should indicate the financial statements taken as a whole cannot be considered fairly stated. Inherent risk 5. Identify and describe the two primary forms of accounts receivable confirmation requests and indicate what factors Dodge will consider in determining when to use each.
The fourth exception prevents a CPA firm from denying the inquirers access to audit documentation by saying that it is confidential information. When this has been identified as a significant risk, positive confirmation by saying that it is confidential information. When this has been identified as a significant risk, positive confirmation by saying that it is confidential information.
size categories are used to describe CPA firms: Big Four international firms, and local firms. Fastjet commenced operations in November 2012 and is looking to expand both its customer base and destination offerings.
alternative procedures, but correspondence can be used to discover disputed and questionable receivables not uncovered by other means. If a company is consistently using incorrect sales prices or improperly recording sales, significant differences are likely. "Other-matter" paragraphs refer to a matter that is not presented or disclosed in the
financial statements, such as an explanation by the auditor of responsibilities related to a law or regulation. If few blocks are used, the probability of employee turnover, changes in the accounting system, and the seasonal nature of many businesses. Lehman saw that a
receivable for a major sale at year-end was supported by a fax, rather than the usual written confirmation reply. Use of variables sampling was illustrated using difference estimation. Explain why each of the following statements is true: a. The absence of the attribute for any sample item will be an exception for that attribute. He subsequently made
material misrepresentations to the fund's investors about the misappropriation, telling them that multiple law firms had reviewed the fund's indemnification provisions and concluded that his use of fund assets to cover his attorney's fees in the other matter was appropriate. This objective is the counterpart to the management assertion of
completeness for classes of transactions. Of course, not everyone who exhibits these behaviors is uncomfortable responding to the auditor's inquiry. In the fraud triangle, fraudulent financial reporting and misappropriation of assets share the same three conditions, but the risk factors differ. Regulators in the United States and Canada investigated
their accounting practices. One highly regarded investment banker pub licly stated that no one could explain how Enron actually made money. Not only does this service help save costs and time related to the audit, it also helps minimize fraud through features that validate the authorization of each user. Will Gong Gong Chartered
Accountants be liable for the audit failure of Pian Lang Berhad. (2) It concentrates on implementing financial and accounting control in a newly organized company. Part 2 / The Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of Details of Balances Audit Process tabLe 13-4 Tests of
of the test existence Items to Select from the population Detail tie-in accounts receivable Balance-related audit Objectives tests of Details of Balances audit procedures Sample Size for each audit procedure 1. The incorrect conclusion that a control is ineffective may lead to an unnecessary increase in assessed control risk and substantive tests.
required cases 4-27 (Objectives 4-5, 4-7) The following are situations that may violate the Code of Professional Conduct. Explain why. This means that in an audit of Apple's financial statements, the CPA firm will determine whether Apple's financial statements have been prepared in accordance with GAAP. What testing and documentation would be
needed to conclude this control can be relied upon? Total audit evidence and costs will increase, but this is justifiable because of the additional risk of lawsuits that the auditor faces. Use the three divisional income statement for each of the three
divisions for all three years. Statistical sampling requires a probabilistic sample to measure sampling risk. Select a sample of entries in the cash receivable records. Your audit junior flirts with the accounting manager of your client in a sexual manner, g. If users rely on inaccurate
financial statements and as a result incur a financial loss, they may have a basis for a lawsuit against management. Audit documentation should include all the information the audit report. F. 3d 281 (2002). Examine a sample of duplicate sales invoices for a.
Second, both physical examination and recalculation are likely to be highly reliable if the internal controls are effective, but their use differs considerably. Notes receivable 7. To become a CPA, three requirements must be met. (4) Suggest one substantive audit procedure for detecting potential fraud suggested in (1) above. 3-21 (Objectives 3-4, 3-8)
The following questions concern unmodified opinion audit reports with an emphasis-of-matter explanatory paragraphs. Figure 11-5 shows an ideal separation of duties. 12-12 (Objective 12-5) What two conditions must be present for the auditor to issue an unqualified opinion on internal control over
financial reporting? The program features races between the different presenters of the show and their celebrity friends. Larger audit engagements are likely to require one or more partners and staff at several experience levels. What is the total amount of invoices generated during the year? Unusual fluctuations in the relationships of an account to
other accounts, or to nonfinancial information, may indicate an increased likelihood that material misstatements exist without necessarily providing direct evidence of a material misstatement. 1. Other primary benchmarks include
net sales, gross profit, and total or net assets. When auditors find a balance not fairly stated, they typically increase the sample size or perform other tests. The evidence planning worksheet to decide tests of details of balances for SS LTD accounts receivable is shown in Figure 9-7. Pherson expresses the view that internal control must be evaluated
carefully in all companies, regardless of their size or whether they are publicly held, in a similar manner. The audit procedures must be different from the ones in requirement d. Audrey was asked to prepare several journal entries for Technologies International related to transactions that have not yet occurred. Which of the eight accounts receivable
balance-related audit objectives can be partially satisfied by confirmations with customers? For example, Consumers union, a nonprofit organization, tests a wide variety of products tested in Consumer Reports. It is unlikely that this maximum misstatement amount exists
in all accounts subjected to sampling. The company is planning to sell $58 billion in assets from 2015 to 2018 to raise cash to pay off their debts. Within each of the COSO components, the updated Framework includes a total of seventeen broad principles that provide more guidance to support the respective component. 13-29 (Objective 13-3) The
following are three situations, all involving nonpublic companies, in which the auditor is required to develop an audit strategy: 1. 17-14 (Objective 17-3) Why is monetary unit sampling (MUS) the most commonly used statistical method of sampling for tests of details of balances? The illustration for sales transactions and accounts receivable shows that
the auditor can obtain assurance by accumulating evidence using tests of controls, substantive tests of transactions, substantive tests of details of balances. Using the eight business functions for the sales and collection cycle illustrated in Table 14-1 on page 448 as a guide, briefly describe the underlying business processes
related to each of the eight functions for the sales and cash collections for the above independent scenarios. Due to limited start-up funding, Johnny rents a flat in a multi-purpose building. How might you test that Teklas has rights to the accounts receivables reported in its ledger? Because there is a material error in the financial statements, the
auditor should consider whether the misstatement indicates the existence of a material weakness. Respondent customers originally sued in district court for damages against the auditors, Ernst & Ernst, as aiders and abettors under Section 10b-5. An examination report stating whether a company's statement of greenhouse gas emissions is presented in district court for damages against the auditors, Ernst & Ernst, as aiders and abettors under Section 10b-5.
in conformity with standards issued by the World Business Council for Sustainable Development and the World Resources Institute. 459.) As shown in the third column of Table 14-2 for the completeness objective, a common test of control for sales is to account for a sequence of various types of documents. 21. In addition, CPA firms may still provide
other services that are not prohibited for public company audit clients. These three phases involve 14 well-defined steps. The Court pointed out that in certain areas of the law, recklessness is considered to be a form of intentional conduct for purposes of imposing liability. With this information, auditors can make the tabulation of the sampling
distribution, as shown in Table 17-11. Many auditors' exposure to liability. A lack of duty defense in third-party suits contends lack of privity of contract. Determine the CUER at a 10% ARO if four exceptions are found in
the sample using attributes sampling. What factors should Ling consider in setting performance materiality for the asset accounts? Trace a sample of sales transactions from sales invoices to the sales journal, and compare customer name, date, and the total dollar value of the sale. For each of the characteristics, state two things that the auditor can
do to evaluate its significance in the engagement. Table 3-2 shows that the appropriate audit report is a qualified opinion with an additional paragraph discussing the departure. estimate misstatement and comPare With Preliminary Judgment The first two steps in applying materiality involve planning (see Figure 8-5 on p. Jayson Liem was the audit
senior auditing Narnia Narratives PLC. Which sales invoices, if any, are recorded in the wrong accounting period? Database management systems allow clients to create databases that include information that can be shared across multiple applications. (Hint: See Table 6-3 on p. The preliminary analytical procedures applied to Hillsburg Hardware
illustrated in Table 8-1 (p. She was of the opinion that the accounts payable of the company was true and fair to the requirements of the Hong Kong Accounting Standards. It is ordinarily acceptable to use block samples only if a reasonable number of blocks is used. Do you believe auditors should be held liable for not detecting fraud when
management attempts to hide the fraud and there is employee collusion? Based on the results of the additional tests performed, the auditor should carefully evaluate whether sufficient appropriate evidence has been gathered in the circumstances to reduce audit risk to an acceptable level. We can make several observations about the table: • More
types of evidence, six in total, are used for tests of details of balances than for any other type of test. specified size that could be obtained from a population containing some specific characteristics. 259) is necessary because auditors accumulate evidence by segments rather than for the financial statements as a whole, and the level of performance
materiality helps them decide the appropriate audit evidence to accumulate. The auditor should perform the following procedures to identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements: • Inquire of management and those charged with governance about whether the entity is
party's product or service to a client or recommending or referring a client's product or service to a third party. Moore compared 12-31-16 unaudited balances to the prior year. Engagement performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and procedures should exist to ensure that the work performance Policies and Policies 
and regulatory requirements, and the firm's standards of quality. For each control, identify the transaction-related audit objective(s) being fulfilled if each control is in effect. Vendor account reconciliations are performed by three clerks in the accounts payable department on Friday of each week. Accept client and perform initial audit planning
Understand the client's business and industry Perform preliminary analytical procedures Set preliminary judgment of materiality Identify significant risks due to fraud or error Assess inherent risk In the previous chapter, we discussed the components of the COSO internal control framework and how companies integrated the components of the components of
technology into their system of internal controls. 562 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle performed the tests include the following: two missing indications of inventory transaction recorded for $2,000 more than the amount stated on the vendor's
invoice (the vendor was also overpaid by $2,000), and two vendors' invoices recorded as acquisitions several days after the receipt of the statements, considering all facts, is required. It often takes the same general form as a sales invoice, but it supports reductions in accounts receivable rather than increases. Population
size is not a significant factor and typically can be ignored, especially for large populations. He was in the process of reviewing the audit files for the audit of a new client, Tom Resources. Fran assessed inherent risk as medium for existence and cutoff because of concerns over revenue recognition identified in auditing standards. • Decide which 100
items to select from the population. Presentation and disclosure is treated as a single assertion. The objectives should be specific transaction-related audit objectives for acquisitions for the first matrix and cash disbursements for the second matrix. 13-7) The following questions concern types of audit tests. 9-30-16 phase III Confirm accounts
receivable. During the course of preparing his first annual report for year 2007, in order to reduce the tax liability, Johnny charges $200,000 as salaries paid to his parents. At what two levels does the auditor assess the risk of material misstatement? Shipping documents are electronically forwarded to billing daily and are billed the subsequent day
(C4). If a client is constantly short of cash and working capital, it indicates a future problem in paying bills. Figure 13-5 summarizes this four-step approach to designing tests of controls and substantive tests of transactions. Information risk. Scandec USA, Inc. — Allowance percentages are consistent with prior year and appear reasonable based on
historical loss percentages documented in permanent file. Explain one advantage of embedded audit module approach over test data and parallel simulation approaches. Figure 4-2 summarizes the most important ways in which CPAs can conduct themselves appropriately and perform high-quality audits and related services. Moreover, we offer our
customers a range of high-quality products that cannot be found at most national chains. $3,000 - 0 x @ $ 10,380 $ 27,000 (5,000) x $2,100 py $ 0 $ 10,380 $ 20,000 @ 24 py $ 577 x (601) x 0 $ 0 468 x (200) x 268 2,400 7,980 $ 10,380 (2,100) x 0 12,000 (1,600)
x TOTALS 4,800 $22,200 5,600 21,580 $ 10,400 @ $43,780 tb tb Interest Receivable: 12/31/15 bal. Many customers use voucher systems that allow them to confirm individual invoices but not balance information. For example, confirmations are seldom used in the audit of fixed asset additions because these can be verified adequately by inspection
and physical examination. The risk of misstatement of inventories is further increased if those inventories are at risk for obsolescence. Check to see whether invoices issued after the cut-off date are in the customer's accounts at the year-end date. There are four presentation and disclosure-related audit objectives that focus mostly on information
possible errors or Fraud 1. The underlying principles related to information and communicated both internally and externally as necessary to support the proper functioning of internal controls. In most instances, the auditor will ask the client to reconcile the difference are not ask to support the proper functioning of internal controls.
and, if necessary, will communicate with the customer to resolve any disagreements. Under state law, the most likely statutes to be enforced are the Uniform Securities Acts, which are similar to parts of the SEC rules. application of attRibutes sampling Objective 15-7 Use attributes sampling in tests of controls and substantive tests of transactions.
assertions about Classes of transactions and events Management makes several assertions about transactions. Although the objectives for each category are the same, the procedures for meeting the objectives vary considerably. They range from simple comparisons to the use of complex models involving many relationships and elements of data. If
employees are competent and trustworthy, other controls can be absent, and reliable financial statements will still result. (2) $2,000. The more a client relies on debt as a means of financial difficulty if the client's operating success declines. Exercise due professional care in the performance of professional services.
Generally accepted accounting principles require that changes in accounting principles or their method of application be to a preferable principle and that the nature and impact of the change be adequately disclosed. Welburn Manufacturing Large Balance Items ($50,001-$250,000) 1. Tests of details of balances almost always cost considerably more
than any of the other types of procedures because of the cost of procedures such as sending confirmations and counting inventories. Obviously, it is more difficult to establish adequate separation of duties in a small company. He further noticed that a sentence on the credit memos from Zaki had been obliterated by a felt-tip marker. The staff person
has been informed that he will work hours without recording them as hours worked. Discuss with the credit manager the likelihood of collecting older accounting PROFESSION standards (IFRS) are referred to in this context,
consideration of the adequacy of all informative disclosures, including footnotes, is especially important. The bookstore is managed by the shop-owner Mr. Lee, his wife Mrs. Or, a combination of these methods can be used. If the auditors had found four exceptions, the calculated allowance for sampling risk would have been 1 percent (TER of 5 and 
percent - SER of 4 percent). The same amount of evidence is accumulated in the second approach, but more efficiently. Well-prepared flowcharts are advantageous primarily because they provide a concise overview of the client's system. What
this result means is this: if the auditor concludes that the true exception rate does not exceed 6.6 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent probability that the conclusion is right and a 5 percent
management, and its auditors. The sales invoice is the method of indicating to the customer the amount of a sale and the payment due date. This table assumes a large population. For departures from GAAP or scope restrictions, the auditors must decide among immaterial, and highly material. Users from outside the entity are unlikely to
approaches that could reduce this appearance of lack of independence. Each is discussed in greater depth later in the chapter. Auditors decide when a misstatement should be adjusted based on materiality. The audit associates argue they should be compensated for the overtime hours they work as low-level employees. This conflict between
 statement users and auditors often arises because of an "expectation gap" between users and auditors. 274 After performing preliminary judgment about materiality for the audit of the financial statements. Assume the sales amount during the year are as
follows: 1st quarter: $14,230; 2nd quarter: $14,230; 2nd quarter: $23,760. How does the information in the scope paragraph in the standard unmodified opinion audit report example for a public company shown in Figure 3-3 (p. The same transactions included in the
journal or listing are also posted simultaneously to the general ledger and, if they are on account, to the accounts receivable master file. 0 4 Low 75 2. Chapter 10 / Assessing And Responding to FRAud Risks 361 may use spreadsheet options to sort transactions exceeding a certain size or consisting of other unusual characteristics such as
requirements of auditing standards. There are two major causes of scope restrictions: restrictions imposed by the client's or auditor's control, identify the transaction-related audit objective(s) that it partially or fully satisfies. The auditor typically compares the client's
balances and ratios with expected balances and ratios using one or more of the following types of analytical procedures. Input menus distinguish executive payroll, and factory payroll. In this case, the invoices billed to this Asian multinational company were below the materiality level and largely went unchecked. Auditors are
more concerned with how the client handles errors identified by the hardware controls than with their adequacy. An item may materially affect some future period, even though it is immaterial when only the current period is considered. To input hours worked, payroll accounting personnel input the employee's Social Security number. There are two
general categories of phase III procedures. Controls dealing with financial statement preparation occur only quarterly or at year-end and must therefore also be tested at quarter-end and year-end. This concept is consistent with the requirement that management, not the auditor, is responsible for the preparation of financial statements in accordance
with applicable accounting frameworks such as GAAP or IFRS. An evidence-planning worksheet for Hillsburg Hardware with the three rows for control risk completed is illustrated in Figure 15-6 on page 504. These problems are indicated by a spreadsheet icon in the margin next to the problem. For each of columns 1 through 8, determine CUER
using attributes sampling from the appropriate part of Table 15-9 (p. Kajari is the audit partner of the team auditing MiracleDrug PLC. Mr. Green acknowledges ASIC's views are reasonably held. Recalculation Foot—Addition of a column of numbers to determine whether the total is the same as the client's. Because the sales component is recognized
immediately, Xerox attempted to maximize the amount allocated to this aspect of the transaction. Overstatement or understatement or unders
account in one of three ways: 1. Now I'd like to turn your attention to this tick mark next to the Baldwin contract. February 15, 2017 Fred Narsky, President Karen Wilson, Chief Financial Officer Design of Internal Control Management must evaluate whether the controls are designed and put in place to prevent or detect material misstatements in the
financial statements. For public companies required to have an audit of internal control, testing must be sufficient to issue an opinion on internal control, regional, and Big Four firms. The auditor should study the client's business model
perform analytical procedures, and make comparisons to competitors. 8-7 (Objective 8-3) An auditor often tries to acquire background knowledge of the client's industry as an aid to audit work. She found an error in the way the company had calculated LIFO inventory that was going to save the client a significant amount of taxes. Explain what is
meant by analysis of exceptions and explain its importance. Explain the conceptual framework for the Rules of Conduct and how it should be applied. The cycles interrelate in much the same way in a service company, where there will be billings and collections, although there will be no inventory. Last invoice number 9452. (3) The factors considered
in assessing control risk indicated an increased risk of intentional misstatements, but only a low risk of unintentional misstatements. Accounts receivable is stated at the bottom of the worksheet. Use of inappropriate performance
measurements. Because of the emphasis on tests of controls and substantive analytical procedures, this audit can be done relatively inexpensively. Chapter 2 provides an overview of the major implications of the audit of financial
statements in accordance with AICPA auditing standards and the new Codification of Statements on Auditing Standards. Compliance with laws and regulations. For potential types of misstatements related to each transaction-related audit objective, design appropriate substantive tests of transactions, considering deficiencies in internal control and
expected results of the tests of controls in step 3. After you decide on the key controls, include each control in one of the two matrices. Quantity on the again dedicate this new edition to Al's memory. Chapter 10 / Assessing And Responding to
FRAud Risks 371 3. What is the initial sample size for each procedure identified in part a.? That is likely to create false or unjustified expectations and is a violation of the rule on advertising. 508). (4) must issue an adverse opinion on internal control over financial reporting. Marseilles Fragrance, Inc., is based in New York but has operations
throughout Europe. Listening Techniques It is critical for the auditor to use effective listening skills throughout the inquiry process to maintain a questioning mindset. Existing sales transactions are recorded (completeness). Read the two thought papers to answer the following questions: a. Information security is a significant component in
addressing cyber risks. For each control, write an audit procedure that could be used to test the control for effectiveness. For each misstatement, list one or more controls that should have prevented it from occurring on a continuing basis. All bad debt expense and write-off of bad debts are approved by the president after being initiated by the
controller. This chapter emphasizes the relationship between audit objectives and balance-related audit objectives and balance-related audit objectives. Fill in the blanks for planned detection risk and planned evidence using the terms low, medium, or high. There is probably no satisfactory answer to this question, but it does
demonstrate the difficulty of assuring that auditors are independent. However, few cases have involved auditors for reports other than reports on annual audits. Make reference in the report is called a shared opinion or reports of 
The CPA Profession 63 Figure 2-3 Relationships Among Auditing Standards Audit practice and quality control, AICPA Practice and quality control standards applicable to a CPA firm to aid in satisfying auditing standards and audit
standards Auditing standards Standards Standards Standards applicable to each audit Peer review Method to determine whether a CPA firm selected by the firm being reviewed, although the firm can request that it be assigned a reviewer through the administering state society
Discuss with the sales manager whether any sales allowances have been granted after the balance sheet date that may apply to the current period. When practitioners conduct themselves at the minimum level in Figure 4-3, this does not imply unsatisfactory conduct. 72). As of November 2016, the product to be shipped in February is already
complete and ready for shipment. They may perform their responsibilities in accordance with company policy but resume normal activities once the auditor is not in sight. Typically, the computer automatically prepares the sales invoice after the customer number, quantity, destination of goods shipped, and sales terms are entered. This information
may affect the auditor's acceptable audit risk. Date made Date due Paid to date Face amount Interest rate Value of security 6/15/17 None $5,000 5% None AJAX, INC. Decide which of the following will likely be done under both a reducing control risk approach and a substantive approach: (1) Assess inherent risk. Yes. Posting and
summarization tests differ from those for other transaction-related audit objectives because they include footing journals, master file records, and ledgers, and tracing from one to the other among these three. But it must have been about the second week in March, because that's when we did the audit testing. This chapter emphasized the critical
importance of maintaining an attitude of professional judgment process to help auditor decision making. The deputy director and his subordinate had submitted false invoices through various shell companies set up by five accomplices for fictitious information technology and goods at the company. Instead, a
journal entry had been recorded to credit the receivable from the sale. Information risk reflects the possibility that the information upon which the business risk decision was made was inaccurate. Rometty President and Chief Executive Officer February 24, 2015 Source: IBM 2007 annual report: report of Management. Be sure to note where you can
find the applicable guidance in the Code. Credit sales are made to customers with unsatisfactory credit ratings. The auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor is frequently involved in review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor is frequently involved in review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor is frequently involved in review of the Form 10-Q before it is filed with the SEC, and the auditor is frequently involved in review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the auditor must perform a review of the Form 10-Q before it is filed with the SEC, and the second must perform a review of the F
the customer order agree with the duplicate sales invoice (procedure 13e). Most small local CPA firms have fewer than 25 professionals in a single-office firm. • Refuse to work on the engagement. • Avoid eye contact. The sampling unit is the physical unit that corresponds to the random numbers the auditor generates. What might justify recording a
bill and hold transaction as a sale with a related receivable? Compare the prelisting of cash receipts with the duplicate deposit slip, testing for names, amounts, and dates. For example, specific balance-related audit objectives for rights and obligations of the inventory of Hillsburg Hardware Co. could include (1) the company has title to all inventory
items listed and (2) inventory is not pledged as collateral for a loan unless it is disclosed. This assessment is not the final one. 15-17 (Objective 15-5) State the relationship between the following: a. Output controls The sales department does postprocessing review of sales transactions. Any person or entity, other than the member's employer, that
engages a member or a member's firm to perform professional services. Another method is to rely on the client's general controls in the librarian and systems development functions to ensure that the program tested is the one used in normal processing. In the audit report in Figure 3-1 (p. Accounts receivable confirmations were ineffective due to a
very low response rate in the prior year audit. Controls C3 and C4 from the control matrix are not included here. 7-34 (Objective 7-5) You are auditing payroll for the Morehead Technologies company for the year ended October 31, 2016. Background checks verify a candidate's education, employment history, and personal references, including
references about character and integrity. Randy and Mark joined Al as coauthors on this textbook in the 8th edition, and have been honored to continue Al's leadership in helping shape classroom instruction and student learning about auditing concepts and their practical implementation around the world. In the preceding numerical example, the
planned detection risk (PDR) of .05 means the auditor plans to accumulate evidence until the risk of misstatements exceeding performance materiality is reduced to 5 percent. The scheme in the early 1920s. 14-8 (OBJeCtIVe 14
3) Explain the purpose of footing and cross-footing the sales journal and tracing the total to the general ledger. The total column and the column and the column and the general ledger. She made a motion for approval of increased expenditures of approximately $500,000 for
distribution costs that was seconded by Utu and unanimously passed. Auditors are interested in the following types of exceptions in populations of accounting data: 1. List several example is used, it can be included in the total sample, as long as appropriate sample
selection procedures are followed. By including key members of the engagement team in discussions with the engagement team become better informed about the potential for material misstatement of the financial statements in specific areas of the audit assigned to them, and it helps them gain an
appreciation for how the results of audit procedures performed by them affect other areas of the audit. After deciding whether planned audit evidence for a given objective is high, medium, or low, the auditor must then decide on the appropriate audit procedures, sample size, items to select, and timing. For several engagements, he computed the
industry ratios included in publications by Standard and Poor's and compared them with industry standards. Test Item File & TestGen The Test Item File includes multiple choice exercises, true/false responses, essay questions, and questions related to the chapter vignettes. There is an increased likelihood of having legal problems when a client lacks
integrity in dealing with customers, employees, protecting Individual Cpas from Legal Liability Chapter 5 / LegaL Liability 155 units of government, and others. The principles provide the framework for the rules that govern the CPA's performance of professional responsibilities. The shipping clerk writes the date on the shipping document whenever
there is a shipment or pickup. These services provide value by offering assurance on financial statements, the effectiveness of internal control, and many other types of information. Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary analytical procedures Set preliminary judgment of
materiality and performance materiality Steps in Applying Material
in the glossy insert to the textbook. Chapters have been designed so that their arrangement and selection provide maximum flexibility in course design. Referring to the audit files, his examination goes something like this: ATTORNEY RHONDA ATTORNEY RHONDA ATTORNEY RHONDA ATTORNEY RHONDA Do you recognize this exhibit, and if you do, would you please
identify it for us? With scarce land resources in Hong Kong, many properties carry the nature of both business and residential purposes. It is now known as ZYX Learning Centres Limited and is in the process of being wound up. This schedule is the working trial balance. If the controls over these internal reports are inadequate, the value of them
reports as evidence diminishes. The computer calculates gross and net pay based on hours inputted and information in employee master files, and payroll accounting personnel double-check the mathematical accuracy on a test basis. The auditor is attesting to the effectiveness of internal controls as of that date rather than attesting to the
effectiveness of controls throughout the fiscal Chapter 12 / Assessing Control risk And reporting on internal Controls 423 year. We believe that cash flow from operations and the available short-term line of credit will continue to allow us to finance operations throughout the current year. Cash receipts are recorded on the correct dates (timing)
(27.30) 6. As part of understanding the client's objectives related to compliance with laws and regulations, the auditor uses the control risk assessment and results of tests of controls to determine planned detection risk and related substantive tests for
the audit of PCAOB IDENTIFIES DEFICIENCIES IN AUDITS OF INTERNAL CONTROL OVER FINANCIAL REPORTINg The PCAOB frequently issues practice alerts to highlight new or noteworthy circumstances or to summarize findings from their inspection process. This is normally interpreted as requiring the auditor to have formal education in
auditing and accounting, adequate practical experience for the work being performed, and continuing professional education. The embezzlement was hidden in the financial statements by overstating assets, expenses, and cost of sales. Identify deficiencies in the sufficiency and appropriateness of the evidence
gathered in the audit of accounts payable of ABC Stores. required required 1-23 (ObjeCtive 1-8) Individuals are licensed as CPAs by individual states. For example, if there is a scope limitation and a situation in which the auditor is not independent, the scope limitation should not be revealed. For example, management implements internal
controls to ensure that all required footnote disclosures are included and that amounts and other information disclosed are accurate. Inherent risk of financial statements may be increased if the client has set unreasonable objectives or if the performance measurement system encourages aggressive accounting. Describe information
about the fraud risk assessment that must be documented in the working papers. The results of the auditor's procedures may indicate such a significant risk of material misstatement due to fraud that the auditor should consider withdrawing from the audit. One item was confirmed by telephone, one traced to cash receipts, one to a vendor credit
memo for part of the amount and cash receipts for the rest, and one to a vendor credit memo. In practice, it is often difficult to predict in advance which accounts are most likely to be misstatements or understatements. Despite being listed as No. 7 on the Fortune 500 list with a market
capitalization of $75 billion before its collapse, Enron's meltdown was rapid. Use Figure 15-4 (p. Select samples using probabilistic and nonprobabilistic and nonprobabilistic methods. State the level of material, or highly material, or highly material, or highly material transactions are initiated, authorized, recorded, processed, and reported to
identify points in the flow of transactions where material misstatements due to error or fraud could occur. All purchases received before the end of the year should be recorded as liabilities. Those charged with governance are often involved in significant strategic and operational decisions, such as the pursuit of acquisitions or new lines of business.
Ernst & Ernst (1976) — Securities Exchange Act of 1934 The case involved the auditor's responsibility for detecting fraud perpetrated by the president of the client firm. What are the major audit factors affecting ARIA? Examine supporting documents for propriety. Auditors determine the TER for each attribute being tested in audit procedures 12
through 14 in Table 15-3 by deciding what exception rate is material. You conclude that control over cash is excellent and the likelihood of fraud is extremely small. Understanding these and similar aspects of management's attitude about internal control, timing—transactions
are recorded on the Correct Dates The timing objective for transactions is the auditor's counterpart to management's cutoff assertion. McClain Plastics was started by Evers McClain, who owns 51% of the company's stock. Therefore, they are all parts of the sales and collection cycle. Identify the year-end for each company. Auditors of accelerated
filer public companies Part 3 / APPlicAtion of the Audit Process to the sAles and Collection Cycle (see Figure 14-1 on p. tabLe 11-1 COSO Components of Internal Control and Underlying Principles INtERNAl CONTROl Component Description of Component Principles Control
environment Actions, policies, and procedures that reflect the overall attitude of top management, directors, and owners of an entity about internal control and its importance • Integrity and ethical values • Board of director and audit committee participation • Organizational structure • Commitment to competence • Accountability Risk assessment
Management's identification and analysis of risks relevant to the preparation of financial statements in accordance with appropriate accounting frameworks such as GAAP or IFRS • Have clear objectives in order to identify risks related to those Control activities Policies and procedures that management has established to meet its objectives for
financial reporting • Develop control activities that mitigate risks to an acceptable level • Develop general controls over technology • Establish appropriate policies, procedures, and report an entity's transactions and to maintain accountability for related
assets • Use relevant, quality information to support the functioning of objectives • Determine how risks should be managed • Consider the potential for fraud • Monitor changes internal controls • Communicate with external parties relevant
information related to internal controls Monitoring 388 Management's ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and are modified when needed Part 2 / The AudiT Process • Perform periodic evaluations • Communicate identified deficiencies to those who was a support of the process of the pro
can remediate Internal Controls speCIfIC to InforMatIon teChnology Technology Can strengthen a company's system of internal control but can also provide challenges. The auditor follows the initial sample size for the attribute in audit procedure 2 and notes two exceptions. Chapter 17 / Audit SAmpling for teStS of detAilS of BAlAnCeS 605
nonstatistiCal sampling Objective 17-2 Apply nonstatistical sampling to tests of details of balances. (e) Compare the price on the duplicate sales invoice with the approved price list and the quantity with the shipping document. On a quarterly basis, the Controller evaluates the adequacy of the A/R Allowance. An item has a "psychological" effect (for
example, the item changes a small loss to a small profit, maintains a trend of increasing earnings, or allows earnings to exceed analysts' expectations). Significant risk 11. Preface 21 Part 3, Application of the Audit Process to the Sales and Collection Cycle (Chapters 14-17) These chapters apply the concepts from Part 2 to the audit of sales, cash
receipts, and the related income statement and balance sheet accounts. You are concerned that some employees may be structuring transactions to keep them below the $1,000 threshold for approval. adequate Documents and records Documents and records are the records upon which transactions are entered and summarized. What internal
controls could Koss Corporation have had in place to prevent employee collusion in the first place or detect the fraud after it began? The competence of those performing the audit is of little value if they are biased in the accumulation and evaluation of evidence. Substantive tests are procedures designed to test for dollar misstatements (often called
monetary misstatements) that directly affect the correctness of financial statement balances. Probabilistic and nonprobabilistic and nonprobabilistic and nonprobabilistic and nonprobabilistic methods. Because of the size of the company's market capitalization, Koss was not subject to the Sarbanes-Oxley (SOX) Section 404(b)
requirement to obtain their auditor's opinion on the effectiveness of internal control over financial reporting. List the work experience requirements in your state. The evidence mix reflects the emphasis placed on the various types of tests, and depends on the auditor's assessment of risks and the relative costs of each type of test. Before auditors can
set control risk less than 100 percent, they must obtain an understanding of internal control, evaluate how well it should function based on the understanding, and test the internal control, evaluate how well it should function based on the understanding of internal control, evaluate how well it should function based on the understanding of internal control for effectiveness.
the sample size for an audit procedure, the auditor must decide which items in the population to test. Does this mean that if generally accepted accounting principles are followed, the financial statements are presented fairly, or something more? (Tad) Miller, California Polytechnic State University, San Luis Obispo Lawrence C. duplicate sales invoice
and check for the total amount recorded in the journal, date, customer name, and account classification. Any corrections are approved by the salesclerk. It appears that risk management over cybersecurity poses significant challenge on nearly all organizations involving different parties ranging from the board of directors, managers, individual
          rees to internal auditors. 7. 9-12 (Objective 9-4) What constitutes a significant risk? An individual is in a key position if he or she has primary responsibility for preparation of the financial statements, or has ability to exercise influence over the
contents of the financial statements. The audit program reflects the conclusions for planned audit evidence on the evidence on the evidence on the evidence on the auditors and requirements for becoming a CPA. The auditor is required to communicate in writing to those charged with
governance, such as the audit committee, regarding significant deficiencies and material weaknesses in internal control. For example, auditors of public companies are required to retain e-mail correspondence that contains information meeting the preceding criteria. Only a central cash register is used, run by the store manager. Permanent files
contain data of a historical or continuing nature pertinent to the current audit. However, Jason also noticed in the customer files copies of email exchanges between ABC Manufacturing sales agents and the customers
suggesting that some of the terms of the terms of the terms of the sales agreements could be waived at the customers' discretion. If, for example, other current assets have a performance materiality of $100,000 but no misstatements are found in auditing those accounts, it means that the auditor, after the fact, could have allocated zero or a small performance materiality to
other current assets. In this test, the total cash receipts recorded in the cash receipts journal for a given period, such as a month, are reconciled Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle tabLe 14-3 transaction-related audit Objectives, Key Existing Controls, Deficiencies, and Substantive tests of
transactions for Cash receipts — Hillsburg Hardware Co. transaction-related audit Objective Substantive tests of transactions about transactions for Cash receipts — Hillsburg Hardware Co. transaction-related audit Objective Substantive tests of transactions about transactions for Cash receipts — Hillsburg Hardware Co. transaction-related audit Objective Substantive tests of transactions about
account balances at period end 3. What can they do at this point in the engagement to resolve deficiencies if they exist? Identify the six organizational structures available to CPA firms. Use the following guidelines: (1) Use only one sampling data sheet. Which of the 20 registered buses is parked in Danville's parking lot on the night of August 31,
2008. For example, there should be separation of IT duties to prevent IT personnel from authorizing and recording transactions to cover the theft of assets. The auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the auditor's assessment procedures.
scheme usually collapses under its own weight because it depends on a continuing supply of new investors. In other words, an audit provides a high level of assurance, but it is not a guarantee. • Informational. Chapter 12 shows how effective internal controls can reduce planned audit evidence in the audit of financial statements, and it outlines
procedures auditors perform as tests of those controls to support a low control risk assessment. 82). Examine voucher document package for indication of internal verification. An auditor will do tests of details of balances to determine whether the
situations below are the violations of AICPA rules. Compare individual customer balances over a stated amount with previous years. In most audit sampling situations, including confirming accounts receivable, auditors want to emphasize the larger recorded dollar values.
When a department orders inventory, the clerk responsible for maintaining the perpetual record approves the order to indicate that the authorization policy has been met. She initials a copy of the invoice before the original is mailed to the customer. For each risk, describe how these technologies help reduce the inherent risk. Improper recording of
one or two machines could represent a material misstatement of the financial statements. Identify which of the following audit risk of the following audit risk of the financial statement of the financial statem
effect on control risk, inherent risk, acceptable audit risk, and planned evidence for each of the following independent events. However, within months of joining the trading desk, he began placing his bets all in one direction, rather than hedging the trades as he was expected to do. After three weeks, the busy season was now in full swing and only 5
of the confirmations had been received. Planned detection risk determines the amount of substantive evidence that the auditor plans to accumulate, inversely with the size of planned detection risk. • Transactions with related parties require special scrutiny because of the potential for misstatement. 1 5 Low 100 5. Calculate the preliminary sample
size. accountability Management and the board of directors are responsible for communicating expectations and holding individuals accountable for internal control duties. Test the effectiveness of control by comparing a sample of sales invoices to related shipping documents and customer sales orders. Discuss the relationship of risks to audit
evidence. Explain the deficiencies in Patel's report as drafted.* required 3-24 (Objectives 3-4, 3-5, 3-6, 3-7, 3-8) For the following independent situations, assume that you are the audit partner on the engagement: 1. Annually, every listed company in the United States is required to submit audited statements to the SEC as a part of the
Basis for Disclaimer of Opinion (Same wording as the Basis for Qualified Opinion paragraph in Figure 3-8) Disclaimer of Opinion Because of the matter described in the Basis for Disclaimer of Opinion Disclaimer of Opinion
make nonstatistical evaluations when using probabilistic selection, but it is never acceptable to evaluate a nonprobabilistic sample using statistical methods. With the third type of exception, auditors usually need to estimate the total dollar amount of the exceptions because they must decide whether the misstatements are material. Sources: CPA
Australia, Rotation of auditors, CPA Australia, Southbank, VIC, Australia . (2) There will be a client-imposed scope limitation. Do you believe that a $100 misstatement will affect users' decisions? Which of the following is an advantage of a computer-based system for transaction processing over a manual system? However, if the receiving reports are
not prenumbered or the company deliberately omits receiving reports from the accounting records, it may be difficult for the auditor to verify whether all liabilities have been recorded. Such practices are called income smoothing and earnings management. Fireproof safes and safety deposit vaults for the protection of assets such as currency and
securities are other important physical safeguards in addition to off-site backup of computer software and data files. Describe accountants' civil liability under the federal securities laws and related defenses. STATEMENT FROM FULLER TRAVEL Pinnacle Manufacturing Detroit, MI Amounts due as of December 31, 2016: Invoice No. 84360110
84360181 84360222 84360291 Date 12-04-16 12-12-16 12-21-16 12-21-16 12-21-16 12-26-16 Amount $9,411.63 (2) 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (1) 13,646.85 (2) Balance Due $ 9,411.63 (2) 7,100.00 (2) Balance Due $ 9,411.63 (2) 8,810.00 (2) Balance Due $ 9,411.63 (2) Balance Due $ 9,4
control over financial reporting, describe the implications of these results on the auditor's internal control report. For example, when customers experience technical problems with recently purchased hardware, their salesperson has the responsibility to coordinate both exchanges and warranty repairs with the manufacturer. When held to the light,
the accountant could read that the marked-out sentence read, "Do not post until merchandise received." The staff auditor thereafter called Harold Orange, treasurer of Orange, tr
transactions (Phase II) c. For each potential fraud risk, identify the related fraud risk triangle element(s). realizable Value—assets are Included at the amounts estimated to Be realizable value or when accounting standards require
fair market value accounting treatment. For this reason, auditing standards require auditors to incorporate unpredictability in the audit strategy. When conducting tests of controls over acquisitions and additions to the perpetual inventory, the staff person performing the tests found that the deviation rates for several key controls were significantly
higher than expected. 494) are based on the previous year's results, modified slightly to account for the change in personnel. common financial ratios. Opportunities. Either the duplicate sales invoice or the shipping document is appropriate for audit procedures 13a through 13e because these are all
nondirectional tests. (1) Vouch amounts in the subsidiary ledger to details on shipping documents. What should you do? 460). Accuracy—amounts and other data relating to recorded transactions it is 1.0%. Michael Cieply
and Brooks Barnes, "Sony Cyberattack, First a Nuisance, Swiftly Grew Into a Firestorm," The New York Times (December 30, 2014) (www.nytimes.com); 2. The fraud was exposed when the National Futures Association (NFA) sent an audit team to review Peregrine's books and pressure Peregrine into participating in a new online system for verifying
accounts, which would have likely made it impossible for Wasendorf to continue the fraud. Internal audit activities can both deter and detect fraud. Obtain and Document Understanding of Internal controls. Explain what low, medium, and high mean for each of the four risks
and planned evidence. If It's Legal, It's ethical Using the argument that all legal behavior is ethical relies heavily on the perfection of laws. When processing orders, the sales clerk entered a discount manually into the invoice. Madoff Part 2 / The AudiT Process mainly managed money for charities, many of them private foundations. Do this for both
the acquisitions and cash disbursements matrices. Most important of all, he was too easily satisfied with glib answers to his inquiries. 3-11 (Objective 3-4) Distinguish between changes that affect consistency and those that may affect comparability but not consistency. In making our risk assessments, we consider internal control relevant to the
entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Consolidated Statements of earnings Wexler Industries (in thousands) revenue Net sales Other income
Costs and expenses Cost of sales Marketing, general, and administrative expenses Provision for loss on restructured operations Interest expense 294 Part 2 / The AudiT Process March 31, 2016 For the Year ended March 31, 2015 March 31, 2015 March 31, 2016 For the Year ended March 31, 2016 For the Year ended March 31, 2017 March 31, 2017 March 31, 2018 For the Year ended March 31,
2,590,080\,4,005,548\,2,119,590\,3,675,369\,1,828,169\,64,100 — -141,662\,7,993,217\,46,737\,6,171,875\,38,546\,5,542,084\, March 31,2016\, Earnings from continuing operations Provision for loss on discontinued operations, net of income taxes Net earnings For the Year ended
March 31, 2015 March 31, 2015 March 31, 2014 417,607 (196,700) 472,566 (217,200) 469,921 (214,100) 220,907 255,366 255,821 Consolidated Statements of Financial position Wexler Industries (in thousands) assets Current assets Cash Temporary investments, including time deposits of $65,361 in 2016 and $181,589 and $181,
in 2015 (at cost, which approximates market) Receivables, less allowances of $16,808 in 2016 and $17,616 in 2015 Inventories Finished product Raw materials and supplies March 31, 2016 $ 37,566 123,421 271,639 899,752 759,001 680,974 443,175 1,124,149 9,633 57,468 2,254,106 550,407 353,795 904,202 10,468
35,911 2,018,787 Deferred income tax benefits Prepaid expenses Current assets Land, buildings, and equipment, at cost, less accumulated depreciation Investments in affiliated companies and sundry assets Goodwill and other intangible assets Total 1,393,902 1,004,455 112,938 99,791 $3,860,737 83,455 23,145 $3,129,842 Liabilities and
Stockholders' equity March 31, 2016 March 31, 2016 March 31, 2015 $ 280,238 64,594 359,511 112,200 76,479 321,871 1,214,893 730,987 146,687 142,344 $ 113,411 12,336 380,395 63,557 89,151 269,672 928,522 390,687 80,586 119,715 51,018 50,992 149,177 (76,572) 1,554,170 (51,967) 1,625,826 $3,860,737 148,584 — 1,462,723 (51,967) 1,610,332
$3,129,842 Current liabilities Notes payable Current portion of long-term debt Accounts and drafts payable Accrued salaries, wages, and vacations Accrued income taxes Stockholders' equity Common stock issued, 51,017,755 shares in 2016
and 50.992.410 in 2015 Additional paid-in capital Cumulative foreign currency translation adjustment Retained earnings Common stock held in treasury, at cost. 1.566.598 shares Stockholders' equity Total Chapter 8 / Audit PlAnning And MAteriAlity 295 required a. 1.5 9 5 15 0 0 0 5.9 8. A typical lawsuit brought by a client involves a claim that the
auditor did not discover an employee theft as a result of negligence in the conduct of the audit. Therefore, external documents are considered more reliable evidence than internal ones. (f) Not applicable—retained earnings is a residual account that is affected by the net amount of the misstatements in the other accounts. The present has a value of
approximately $200. trace selected shipping documents to the sales journal to be sure that each one has been included. Source: SEC, "Legislative Proposals to Address the negative Consequences of the Dodd-Frank Whistleblower Provisions" (May 11, 2011) (www.sec.gov/comments/s7-33-10/s73310313.pdf). A new staff assistant is supervised directly
by the senior or in-charge auditor. Identify Significant risks and assess the risk of Material Misstatement for accounts receivable are based on the auditor's risk assessment procedures that provide an understanding of the client's business and industry, discussed in Chapter 8. If prioryear results are not available
or if they are considered unreliable, the auditor can take a small preliminary sample of the current year's population for this purpose. Traf. Days to sell inventory 2016 2015 2014 2013 2012 2.08 2.26 2.51 2.43 2.50 97 1.34 1.82 1.76 1.64 3.50 3.20 4.10 5.30 7.10 4.20 5.50 4.10 5.40 5.60 86.90 66.36 89.02 67.59 65.18 2.03 1.84 2.68 3.34 3.36 179.80
198.37 136.19 109.28 108.63 *Based on AICPA question paper, American Institute of Certified Public Accountants. Unique accounting requirements exist for constructions, and many other organizations. adequate Separation of Duties Proper separation of duties helps prevent
various types of misstatements due to both errors and fraud. Ask the accounts payable clerk about procedures for verifying prices, quantities, and extensions on vendors' invoices. Sampling that these two factors are the cause of the
decline. For even small accounts receivable and collection cycle that affect the balance in accounts receivable are almost certain to be highly significant. While U.S. auditing standards require the use of confirmations for accounts receivable in most circumstances, international auditing standards suggest but do
not require their use. Individuals who are responsible for making business decisions seek assurance services to help improve the reliability and relevance of the information used as the basis for their decisions. The accounting department will generate the reports monthly and submit to the directors for review. Observe opening of cash receipts to
determine that cash receipts are promptly deposited and recorded. The random selection for the Hillsburg audit procedures is straightforward except for the different attributes. As a result, those types of transactions or balances frequently are identified as significant risks. 14-21 (OBJeCtIVeS 14-2, 14-3) The
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following questions deal with audit evidence for the sales and collection cycle. I only worked on the engagement that one year, and I can hardly even remember that. The worst thing is nobody knows why some figures were not captured in the new system. A digital platform that offers help when and where you need it, lets you focus your study time
and provides practical learning experiences. There has been no material adjustment entry arisen from the audit. When using the balance, rather than verifying the account balance, rather than verifying the account balance itself. A member's close friend is
employed by the client. Auditors will frequently interact with members of management and to learn about the design and operation of internal controls. Source: Ultramares v. Understand objectives and responsibilities for the audit Divide financial
statements into cycles Know management assertions about financial statements Know general audit objectives for classes of transactions, accounts, and disclosures Know management assertions about financial statements Know general audit objectives for classes of transactions, accounts, and disclosures Know management assertions about financial statements Know general audit objectives for classes of transactions, accounts, and disclosures Know specific audit objectives for classes of transactions, accounts, and disclosures Know specific audit objectives for classes of transactions.
counterpart to management's classification assertion for classes of transaction, this objective addresses whether transactions are included in Chapter 6 / Audit Responsibilities And objectives applied to Sales transactions Management assertions
about Classes of transactions and Events General transaction-related audit Objectives Occurrence Occurrence Occurrence Occurrence of transaction to the CPA profession. No
violation of the Integrity and Objectivity Rule occurs if the evaluation with that knowledge. Obtain and evaluate accounts receivable confirmations. Auditors are primarily concerned about controls over the reliability of financial reporting and controls over
classes of transactions. The CPA firm settled out of court on the class action suit by paying $3.5 million. To illustrate the need for a rule on contingent fees, suppose a CPA firm was permitted to charge a fee of $50,000 if an unmodified opinion was provided but only $25,000 if the opinion was modified. Chapter 4 / Professional ethiCs 113 Because it issued to charge a fee of $50,000 if an unmodified opinion was provided but only $25,000 if the opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified opinion was provided but only $25,000 if an unmodified op
impossible to address all of the possible relationships or circumstances in which the appearance of independence may be questioned, the AICPA Code provides a conceptual framework for independence that is similar to the general conceptual framework that was discussed earlier. 3-16 (Objective 3-6) Explain how materiality definitions and
materiality decisions are taken in non-GAAP conditions. Review sales transposed and, as a result, charged to the wrong customer. Auditors are especially concerned with three aspects of internal controls: Set performance Materiality for
accounts receivable (phase I) assess Control risk for the Sales and Collection Cycle (phase I) 1. Normally, there is an audit procedures, for each component of the audit. May result in unfavorable time performance evaluations. The number of days' sales in accounts receivable has steadily increased for three years.
Chapter 3 highlights implications for auditor reports on companies reporting under International Financial Reporting Standards (IFRS). This can be done by providing internal checks within the form or record. Do any invoices have a negative value? Auditing standards provide general guidance in three categories, including evidence accumulation.
This process adds value for customers and makes post-sales service more efficient and less problematic. As shown in Figure 11-3, the control environment serves as the umbrella for the valuation and allocation assertion for account
balances. A reconciliation supports a specific amount and is normally expected to tie the amount recorded in the client's records to another source of information. required 482 Assume you are Sandra She. The accounting system uses this information to generate the sales journal and, along with cash receipts and miscellaneous credits, to prepare the
 accounts receivable trial balance. Premature revenue recognition, the recognition of revenue before accounting standards requirements for recording revenue have been met, should be distinguished from cutoff errors, in which transactions are inadvertently recorded in the incorrect period. Auditors have found that, generally, the most efficient and
 effective way to conduct audits is to obtain some combination of assurance for each class of transactions and for the ending balance in the related accounts. Examine voucher packages and related vendor invoices for evidence of approval of accounts. Examine voucher packages and related vendor invoices for each class of transactions and for the ending balance in the related accounts.
Override of Controls When the auditor identifies fraud risk at the assertion level, the auditor designs appropriate audit procedures to respond to specific fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being audited and type of fraud risks related to the account being a contract of t
5) Explain the implication for placing extensive reliance on internal controls on the determination of ARO, sample size and the extent of using substantive tests of details of balances. Frequently both types of tests are done simultaneously on the same transactions. Covered members are not allowed to have a direct financial interest in a client. The
principal issue in cases involving alleged negligence is usually the level of care required. Auditors of other companies and other types of entities are also likely to rely on controls that are effective, especially when day-to-day transaction processing involves highly automated procedures. A CPA, as a professional, recognizes a responsibility to the
public, to the client, and to fellow practitioners, including honorable behavior, even if that means personal sacrifice. For example, the auditor should inquire of management about their assessment of the risk that the financial statements may be materially misstated due to fraud. Finally, the classification and understandability assertion relates to
 whether amounts are appropriately classified in the financial statements and footnotes, and whether the balance descriptions and related disclosures are understandable. Recalculation Trace—An instruction normally associated with inspection or reperformance. Under SEC rules existing before the Sarbanes-Oxley Act and continuing, a CPA firm is
not independent with respect to an audit client if a former partner, principal, shareholder, or professional employee of the firm or is in a position to influence the CPA firm's operations or financial policies. (Remember, inherent risk is the expectation of
misstatements before considering the effect of internal control.) As with inherent risk, the relationship between control risk and substantive evidence is direct. Make Inquiries of Client personnel Auditors should ask management and other personnel to explain their
duties. The Company's financial performance can largely be attributed to (1) a continued focus on cost containment, (2) productivity improvements, (3) aggressive advertising, and (4) the implementation of programs designed to enhance customer satisfaction. Once management identifies a risk, it estimates the significance of that risk, assesses the
likelihood of the risk occurring, and develops specific actions that need to be taken to reduce the risk to an acceptable level. You are required to select 60 samples from the sales invoices. Minutes of the board of directors 15. Because Rhonda's firm failed in
their audit of contract costs and revenues. Chapter 14 / Audit of the SAleS And ColleCtion CyCle 515 c. Nature of auditing. Assume that: • The beginning balance in the allowance account was verified as a part of the previous audit. Distinguish between management's and the auditor's responsibility for the financial
statements being audited. Examine file of batch totals for initials of data control clerk. A CPA firm was engaged by a real estate management agent for $600 per year to prepare financial statements, a tax return, and a schedule showing the apportionment of real estate management agent for $600 per year to prepare financial statements, a tax return, and a schedule showing the apportionment of real estate management agent for $600 per year to prepare financial statements, a tax return, and a schedule showing the apportion agent for $600 per year to prepare financial statements.
instances should be carefully investigated to determine the possibility of a cash receipts cutoff misstatement, lapping, or a theft of cash. The dates for recording the payroll transaction are internally verified by another payroll staff. Asking the right questions and probing further with follow-up questions until the auditor is satisfied with the responses,
while being alert to unusual behaviors from respondents as they answer questions, can make the difference between detecting and failing to detect a material misstatement in the financial statements. Nonprobabilistic sample selection. Thus, an audit that
is conducted in accordance with auditing standards may fail to detect a material misstatement. Although interpretations of the rules, they cannot address many of the situations that may threaten compliance with the rules, they cannot address many of the situations that may threaten compliance with the rules, they cannot address many of the situations that may threaten compliance with the rules, they cannot address all such circumstances. In operational auditing, the reviews are not limited to accounting. The IAASB works to improve
the uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and attest functions and by promoting their acceptance worldwide. Much of this book is about how auditors design tests to provide this level of assurance, considering the client's business and industry and risks of material
misstatements in the financial statements. (1) The auditor will communicate the deficiency to those charged with governance. Identify the most important information included in the opinion paragraph. In addition, they created "phantom" accounting records showing the adjustments so senior management could track the fraudulent entries and known
the company's true financial condition. What has China Metal recycling done for this "industrial scale fraud"? The auditor will likely select C1, C2, or C3 based on the relative cost of tests of controls and substantive tests. Specific transaction-related audit objectives are also applied to each class of transactions but are stated in terms tailored to a
specific class of transactions, such as sales transactions, including dollar amounts; and amounts due from and to related parties included in the permanent audit files, and making sure all auditors on the team
know who the related parties are, helps auditors identify undisclosed related party transactions as they do the audit. Auditor reporting on internal controls for private companies is covered in Chapter 25. Inquire l. This can be done by accounting for a numerical sequence of the documents. A timing error occurs if a transaction is not recorded on the
day it took place. Earnings Per Share Earnings Per Share Earnings per share calculations for 2016, 2015, and 2014 were computed as follows: Numerators (net income in thousands): $3,934, $3,194, and $2,279 Denominators (shares of common stock): 5,000,000 (unchanged for all years)
types of auditors ObjeCtive 1-7 Identify the primary types of auditors. Advanced statistical techniques, such as regression analysis, can be applicable for analysis of the results of 
 day of the auditor's responsibility for the review of significant events that occurred after the date of the Chapter 3 / Audit RepoRts 73 financial statements. *Based on AICPA question paper, American Institute of Certified Public Accountants. They should also not classify sales of operating assets, such as buildings, as sales. Martha Charles Barton &
Barton Staff assigned to Reyon Manufacturing in the future Other staff in firm Bryan's available alternatives • Refuse to work the additional hours. Systematic sample selection 3. If the service center has many customers and each requires an understanding of the service center's internal control by its own independent auditor, the inconvenience and
cost to the service center can be substantial. We have audited the balance sheet and statements of income and retained earnings of Bellamy Corporation as of December 31, 2016. The auditor must be qualified to understand the criteria used and must be competent to know the types and amount of evidence to accumulate in order to reach the proper
conclusion after examining the evidence. Careful attention should be placed on accounting principles that involve subjective measurements or complex transactions. Checks are signed by the company president, who compares the checks with the underlying supporting documents. Once auditors determine that entity-level controls, including general
controls, are designed and placed in operation, they next make a preliminary assessment for each transaction related audit objective for each transaction related audit objective for each transaction in each transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transaction related audit objective for each major type of transactio
registered with the SEC when a company plans to issue new securities to the public. Guidance for students on the text Web site. 3-15 (Objective 3-6) Define materiality as it is used in audit reporting. Distinguish between a positive and a negative confirmation and state the circumstances in which each should be used. In
the signed note found in his car, Mr. Wasendorf admitted to using basic computer software programs to make "very convincing forgeries" of bank statements and official correspondence from the bank. A material weakness in internal control deficiency that (1) more than remotely adversely affects a company's ability to initiate,
authorize, record, process, or report external financial statements reliably. Auditors use audit software, including basic spreadsheet tools such as Excel, to sort transactions or account balances into subcategories for further audit testing. • The report includes a paragraph after the scope paragraph defining internal control over financial reporting.
Many internal auditors are involved in operational auditing or have expertise in evaluating computer systems. 196 Part 2 / The AudiT Process diScuSSiOn QueStiOnS and pROblemS 6-23 (Objective 6-1) This problem requires you to access authoritative standards to compare the objective of an audit as defined by AICPA auditing standards (see p.
Difference estimation frequently results in smaller sample sizes than any other method, and it is relatively easy to use. Often, an audit procedure that includes the term trace will also include a second instruction, such as compare or recalculate. 632 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle 17-6 (Objective 17-3) Explain
the primary characteristics of monetary unit sampling (MUS) and explain the differences between MUS and non-statistical sampling. Purchase order 3 Purchase order 6 1 Req. If unexpected circumstances arise or if client assistance is not available, arrangements must be made to extend the amount of time for the engagement. Simple random sample
selection 2. They must also know how deregulation in this industry has increased competition and how fluctuations in energy prices impact firm operations. For most engagements, the client automatically explained away any discrepancies by attributing them
to the unique nature of its operations. In December 2012, the PCaOB issued Staff audit Practice alert No. 10, Maintaining and Applying Professional Skepticism in Audits, amplied throughout the audit by each individual auditor on the
engagement team. Audit sampling generally applies to manual controls. Incentives/Pressures. Both disclaimers and adverse opinions are used only when the condition is highly material. How does this affect evidence accumulation on the audit? After studying this chapter, you should be able to Halvorson & Co., CPAs, was hired as the auditor for
Machinetron, Inc., a company that manufactured high-precision, computer-operated lathes. 6-27 (ObjeCtive 6-5) The following independent scenarios describe auditor decisions made during an audit engagement. Classification is also part of the valuation and Chapter 6 / Audit Responsibilities And objeCtives 187 allocation assertion. How might an
auditor use technology to test the operating effectiveness of a bar code scanner-based check-out system? In addition to evaluating the frequency of deviations. For example, physical examination of inventory can result in several auditors traveling to
scattered geographical locations. 257) for an example. As described in Chapter 9, the auditor uses this preliminary assessment of controls and tests of controls for that objective. Before a check is signed by the controller, she
examines the supporting documentation accompanying the check. A successor would most likely make specific inquiries of the predecessor auditor regarding (1) specialized accounting principles of the client's industry. What effect do adequate controls in the credit function have on the auditor's evidence accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles of the predecessor auditor regarding (1) specialized accounting principles accounting the predecessor auditor regarding (1) specialized accounting the predecessor auditor regarding (1) specialized accounting the predeces
has expanded its online service options for customers, who can now remotely deposit funds into and withdraw funds from checking and savings accounts. At the international Ethics Standards Board for Accountants (IFAC),
establishes ethical standards and guidance and fosters international debate on ethical issues faced by accountants. The space requesting information about any contract disputes was left blank, indicating no such problems. If an auditor believes that the requirement of a standard is impractical or
impossible to perform, the auditor is justified in following an alternative course of action, provided that sufficient appropriate evidence is 5%. 10-9 (Objective 10-4) Identify corporate governance and other control environment factors that reduce fraud risks.
Receiving reports are generated from the system and forwarded to accounts payable department. It is not surprising that all of the Big Four firms now operate as LLPs. hierarchy of a typical CPA firm includes partners or shareholders, managers, supervisors, seniors or includes partners or shareholders, managers, supervisors or includes partners or shareholders, managers, and shareholders, managers, and shareholders, managers, m
charge auditors, and assistants. The auditor has decided to do a medium amount of testing for all types of tests except substantive analytical procedures, which will be done extensively. In the audit of accounts payable, an auditor's procedures will most likely focus primarily on management's assertion about account balances of (1) existence.
Furthermore, although McClain is not a public company, Sessions recognized that similar public company and integrated audit of the financial statements and internal control over financial reporting. Auditor may prove that the loss was not attributable to
the misleading financial statements. For larger nonpublic clients, the understanding of controls can be the same as that for public companies. Will the CPA firm be liable to the creditors who extended the money because of their reliance on the erroneous financial statements if Newell Corporation should fail to pay them? Deficiencies identified
included (1) using expectations that were not sufficiently precise, including evaluating whether there was a plausible and predictable relationship among the data; (2) failure to investigate significant differences and to corroborate management's responses regarding these differences; and (3) failure to investigate significant differences and to corroborate management's responses regarding these differences; and (3) failure to investigate significant differences and to corroborate management's responses regarding these differences; and (3) failure to investigate significant differences and accuracy of the
information obtained from the client that was used in performing the analytical procedure. What does this standard say about whether documentation can be deleted after the document completion date? Describe what an audit committee is and the composition of such
committees. Other attestation standards. To some degree, auditors may also rely on the confirmation of accounts receivable to uncover cutoff misstatements for sales, sales returns and allowances, and cash receipts. While auditors would like to believe that the organizations they accept as clients have integrity and are honest, maintaining a
questioning mind helps auditors offset the natural bias to want to trust the client. The national/regional firms perform the same services as the Big Four firms and compete directly with them for clients. However, the auditors changed their auditors ch
 performed. This type of schedule consists of the details that make up a year-end balance of a general ledger account. Will the company's year-end have any impact on the audit procedures used and their timing? Chapter 15 begins with a general discussion of audit sampling for tests of controls and substantive tests of transactions. The most important
interpretations are discussed as a part of each section of the rules. One of the difficulties in answering whether audit quality. The intended economic benefit of this "reducing control risk" approach was that the time spent testing controls would be more than
offset by reduced tests of details of the balance sheet accounts. 11-3 (Objective 11-2) Chapter 8 introduced the eight parts of the planning phase of audits. The auditor needs to evaluate the specialist's work. (2) customer order file. An unmodified opinion is therefore
appropriate. If client personnel provide documents and electronic files for the auditor and organize them for convenient use, inspection usually has a fairly low cost. The susceptibility to material misstatements in these types of accounts is defined as (1) audit risk. Expanded Substantive Testing Auditors may also expand other substantive procedures
to address heightened risks of fraud. For each internal control, identify the type(s) of specific control activities) to which it applies (such as proper authorization and adequate documents and records). (The financial statements prepared from this trial balance are included in the glossy insert to the textbook.) A trial balance is used to
prepare financial statements and is a primary focus of every audit. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of misstatement. Allocate materiality to these financial statements as you consider appropriate. In some instances, auditors failed to evaluate
the recognition of revenue from transactions with multiple elements, such as a transaction involving an initial sale and ongoing service commitment. A TV screen is in the information systems vice president's office to allow periodic monitoring of access. In addition, a CPA firm is not independent if an audit partner receives compensation for selling
services to the client other than audit, review, and attest services. Auditors would keep adding evidence, without concern for efficiency, until they were sufficiently certain that there were no material misstatements. The accuracy and valuation assertion deals with whether financial information is disclosed fairly and at appropriate amounts. Compute
inventory turnover ratios and compare with hose of previous years as a test of inventory obsolescence. Our Web site provides a wealth of resources for students and faculty. Legally, it is an offer to buy goods under specified terms. When an auditor issues a qualified report, he or she must use the term except for in the opinion paragraph. The auditor
 should investigate major expenditures in this account to determine whether they include any amounts that should be capitalized as a fixed asset. In addition, if the internal controls for recording sales returns and allowances are evaluated as ineffective, a larger sample is needed to verify cutoff. Independence requires an attitude of responsibility
separate from the client's interest. Quantity of goods shipped differs from quantity on the duplicate sales invoice. Investigators believe the fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains that his fraudulent activities began in the 1970s, although Madoff maintains activities began in the 1970s, al
transactions tested at Hillsburg represented transactions recorded only through October 31, 2016, timely communication of these deficiencies may allow Hillsburg management to correct the noted deficiencies in time for the auditor to test the corrected controls before year-end for purposes of auditing internal control over financial reporting. If the
auditor is unable to test corrected controls or identify compensating controls and the deficiencies are deemed to be material weaknesses, the audit report on internal control must be an adverse opinion. (1) A sales invoice issued by the client and supported by a delivery receipt from an outside trucker (2) Confirmation of an account payable balance
mailed by and returned directly to the auditor (3) A check, issued by the client's treasurer b. In 2015 interest expense decreased by $138,000 or 6.4%
compared to 2014. Payroll checks are prenumbered and accounted for. Explain why it is important to read the minutes early in the engagement. (4) Define the population and the sampling unit in the audit procedure in (2). All accounts on the list arose from the normal course of business and are not due from related parties. The mail is opened each
merchandise. The three lines of defense addresses how specific duties related to risk and control could be assigned and coordinated within an organization. Understand internal control and assess control risk Figure 12-1 Finalize overall audit strategy and audit plan 408 Part 2 / The AudiT Process Process for Understanding Internal Control
and Assessing Control Risk Step 1 Obtain and document understanding of internal control design and operation Step 2 Assess control risk Step 3 Design, perform, and evaluate tests of controls Step 4 Decide planned detection risk and substantive tests of controls Step 4 Decide planned detection risk and substantive tests of controls Step 5 Design, perform, and evaluate tests of controls Step 6 Decide planned detection risk and substantive tests of controls Step 7 Decide planned detection risk and substantive tests of controls Step 8 Decide planned detection risk and substantive tests of controls Step 8 Decide planned detection risk and substantive tests of controls Step 9 Decide planned detection risk and substantive tests of controls Step 9 Decide planned detection risk and substantive tests of controls Step 9 Decide planned detection risk and substantive tests of controls Step 9 Decide planned detection risk step 9 Decide 
for every audit. Observe whether the financial statements is appropriate. Each CPA firm establishes its own approach to
preparing and organizing audit files, and the beginning auditor must adopt the firm's approach. The auditor concluded that these two exceptions were financial statement misstatements and therefore substantive tests should be extensively performed for this cycle. To avoid confusion, remember that the standard deviation of the distribution of the
States edition, entitled Auditing and Assurance Services Sixteenth Edition: An Integrated Approach, ISBN 978-0-13-406582-3 by Alvin A. She can examine the bus's condition herself or hire an expert to do so. Information obtained by a CPA from a client generally is not privileged. In addition to writing and grading the CPA examination, the AICPA
 performs many educational and other functions for CPAs. The association supports research by its own research staff and provides grants to others. Fixed assets, a large balance sheet account for many companies, are often based on subjectively determined valuations. Auditors can more easily justify the cost of additional evidence when
are medium. The audit committee is also responsible for maintaining ongoing communication with both external auditors, including the approval of auditors for public companies. The following parts of the definition of auditors for public companies.
about qualitative and quantitative information for the buses. Instructors have the flexibility to add slides and/or modify the existing slides to meet course needs. This is indicated by the ratio of the allowance to accounts receivable, as explained at the bottom of Table 16-3. 302 Auditing standards require the auditor to obtain an understanding of the
and disclosure-related audit objectives are similar to both transaction-related audit objectives, except that they focus on presentation of the financial statements and on the footnote disclosure information that accompanies those statements. Explain why the used the following phrases instead of the alternative provided. Or, an
unauthorized disbursement to an employee was recorded as a miscellaneous expense. Good House Home Video, Inc. Lack of due diligence by the CPA. The PCAOB is reorganizing their standards using a topical framework, which would eliminate the 10 GAAS standards from the PCAOB is reorganizing their standards using a topical framework, which would eliminate the 10 GAAS standards from the PCAOB is reorganizing their standards using a topical framework, which would eliminate the 10 GAAS standards from the PCAOB is reorganizing their standards using a topical framework, which would eliminate the 10 GAAS standards.
for adequate separation of dutiesto which auditors need to pay attention to assess the risks of material misstatement due to fraud and errors. Decide whether to accept a new client or continue serving an existing one. 1-1 1-2 1-3 1-4 1-5 1-6 1-7 1-8 Describe auditing. Source: AICPA, "CPA's Handbook of Fraud and Commercial Crime Prevention."
Copyright by American Institute of CPAs. All rights reserved. Section 404(a) of the Sarbanes-Oxley Act requires management to issue a report on internal control over financial reporting. Compare sales by month (by product line) over time. Part 1 / THE AUDITING PROFESSION 1-16 (Objectives 1-3, 1-4, 1-5) Top Gear is a television series about carson
broadcast by the BBC. Some CPA firms refuse clients in certain high-risk industries, such as software technology companies or subprime lenders, and may even discontinue auditing existing clients in those industries. In other misappropriation cases, the accounts payable clerk or other employee steals a check to a legitimate vendor. Prepare monthly
statements for customers by printing the accounts receivable master file; then mail the statements of all companies are potentially subject to manipulation, the risk is greater for companies in industries where significant judgments and estimates are involved. In response, the exchanges
will not list any security from a company with an audit committee that: 1. 144 Part 1 / THE AUDITING PROFESSION Figure 5-3 1136 Tenants v. The suggested command or other source of information needed to solve the problem requirement is included at the end of each question. As the title of this book reflects, our purpose is to integrate the most
important internationally recognized concepts of auditing in a logical manner to assist students in understanding audit decision making and evidence accumulation in today's complex, global auditing environment. Individual partners submit the nominations of those persons whom they wish to be considered for partner. Hillsburg's sales have
increased significantly over the prior year. Enron was created in 1985 out of a merger of two gas pipelines, and was a pioneer in trading natural gas and electricity in the newly deregulated utilities markets. The type of confirmation, the size of the sample, and the timing of the test are all affected. Determine the appropriate audit report for a given
audit situation. The company hired an outside Web site design consultant to create the sales system because the company's IT personnel lack the necessary experience. 8-26 (Objective 8-2) The following questions pertain to client acceptance. Analytical procedures are the evaluation of recorded accounting information by computing ratios and
developing other plausible relationships for comparison to expectations developed by the audit test. Management's plans in regard to these matters are also described in Note 11. Livent filed for bankruptcy and was subsequently sold to a
team headed by a former Walt Disney Company executive. Internal control deficiency for the sales and collection cycle. A considerable portion of the auditor's testing is done in phase Iv. During this last phase of the audit, auditors
perform audit procedures related to contingent liabilities and subsequent events. absence of Causal Connection To succeed in an action against the auditor's failure to follow auditing standards and the damages suffered by the client. understand the client's
 Business and industry Objective 8-3 Gain an understanding of the client's business and industry. Chapters 3 and 8 discuss how auditors determine and apply materiality levels. 9-21 (Objective 9-5) Explain why there is an inverse relationship between planned detection risk and the amount of evidence an auditor collects for a specific audit objective
11-1 Describe the three primary 11-2 11-3 11-4 11-5 objectives of effective internal control. Client acceptance and Continuance 262 Initial audit planning involves four things, all of which should be done early in the audit: 1. Are both methods acceptable according to auditing standards? Figure 3-11 Adverse Opinion Due to Non-GAAP — AICPA
Auditing Standards INDEPENDENT AUDITOR'S REPORT (Same introductory, management's responsibility, and auditor's responsibility paragraphs as the standard report. Examples are the summary of their low cost
analytical procedures are commonly used whenever they are relevant. In the study of audit reports that depart from an unmodified opinion, there are three closely related topics: the conditions requiring a modification to the opinion, there are three closely related topics: the conditions requiring a modification to the opinion, there are three closely related topics: the conditions requiring a modification to the opinion, there are three closely related topics: the conditions requiring a modification to the opinion, there are three closely related topics: the conditions requiring a modification to the opinion, there are three closely related topics: the conditions requiring a modification to the opinion of the opinio
using an ARO of 5% (confidence level of 95%), and zero expected deviations for each attribute based on prior experience with the client. Analyze the exceptions. Complete the sampling data sheet prepared in requirement a. He's been working for Zafir Diab, the store owner, for over 15 years. For the computed precision interval to have any meaning
it must be associated with ARIA. Is it necessary for any company to have an accountant in their audit committee? Chapter 8 / Audit PlAnning And MAteriAlity 281 misstatement related to unrecorded bank service charges detected by the auditors.
turn to the SASs issued by the AICPA and the PCAOB auditing standards (ASs) for more specific guidance. (www.pepsico.com) Web sites. Based on our assessment we believe that, as of December 31, 2016, the company's internal control over financial reporting is effective based on those criteria. • The last column includes common substantive tests
of transactions that support a specific transaction-related audit objective in column 1. The collective experience of the author team in the practice of auditing is extensive. ann Mundy was an internal auditor for Speedtrack Convenience Stores. Recommendations to Management: Specify acceptable risk of Overreliance 534 Whenever auditors take a
sample, they risk making incorrect conclusions about the population. Shipment of Goods 10. Therefore, when the auditor obtains evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry, it is normally necessary to obtain corroborating evidence through inquiry and it is not included the necessary to obtain the necessary to obtain
misstatements of operating income before taxes are less than $221,000, the statements will be considered fairly stated. The foundation of any audit is the evidence obtained and evaluated by the auditor. These must be discussed as strengths and not as audit risks assessed as low risk. A scope and opinion qualification can be issued only when these must be discussed as strengths and not as audit risks assessed as low risk. A scope and opinion qualification can be issued only when these must be discussed as strengths and not as audit risks assessed as low risk. A scope and opinion qualification can be issued only when these must be discussed as strengths and not as audit risks assessed as low risk. A scope and opinion qualification can be issued only when the auditor.
auditor has been unable to accumulate all of the evidence sufficient to support an opinion on the financial statements is called the principal auditor under PCAOB auditing standards and the group engagement partner under AICPA
auditing standards. The firm should evaluate tabLe 4-2 Principles of Professional Conduct Principles as professional and moral judgments in all their activities. First invoice number 3689. Explain the difference between independence in
appearance and independence of mind. Seale and Seale is currently planning the 2016 audit. Probabilistic sample selection methods include the following: 1. Can management be described as "fat and bureaucratic"; "lean and mean" (dominated by one or a few individuals, resulting in an imbalance of power); or "just right"? (4) Effective internal
control provides more assurance about the reliability of audit evidence. There is a difference between general transaction-related audit objectives and specific transaction-related audit objectives for each class of transaction-related audit objectives and specific transaction addition for each class of transaction for each class of t
days later, Jack Bean returned to the client's office. Before the sale is finalized, the online screen shows the product name, description, unit price, and total sales price for the auditor's direct access to information held by the third party. Cash 212 AJEs
(90) LEAD SCHEDULE—CASH Per G/L Cash on hand A-2 5 Cash in Bank: General A-3 186 Payroll A-4 21 212 A-2 Cash Count Sheet A-3 Bank Reconciliation A-3/1 Confirmation A-3/2 O/S Check List AJEs Exp. For example, excessive reliance on revenue from a single client could pose a threat to objectivity and independence. To avoid the significant
costs of developing and maintaining its own data center, First Community contracts with Technology Solutions to provide IT server access in a highly secure, environmentally controlled data center facility owned by Technology Solutions. Fortunately, the bank's capital position is strong and it far exceeds regulatory minimums. One of the major
impediments to the detection of fraud involves the cost of acquiring and gathering information indicating that a fraud has occurred. identify significant risks. Merchandise inventory turned over approximately 3.4 times in 2016 and 3.0 times in 2015. Inquiries of
clients are done extensively on every audit and normally have a low cost, although certain inquiries may be costly, such as obtaining written statements from the audit. The cost of reperformance tests depends on the nature of the procedure being tested. A lower assessed level of control risk will result in
increased testing of controls to support the lower control risk, with a corresponding increase in detection risk and decrease in the amount of substantive tests. Perhaps management has decided that better internal controls over financial
reporting? It is not practical for most customers to evaluate the quality of the performance of professional services because of their complexity. PCAOB auditing standards define the extent that auditors when reporting on internal control
under Section 404. If auditors verify that sales and cash receivable and posted to the general ledger, they can conclude that the ending balances in accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property, plant, and equipment are correctly recorded in the accounts receivable and property.
Who is responsible for establishing auditing standards for audits of private companies in your country? Several factors influence the auditor's choice of the types of tests to select, including the availability of the eight types of evidence, the relative costs of each type of test, the effectiveness of internal controls, and inherent risks. Auditors can apply
these percentages to the current year's aged trial balance totals and compare the result with the balance in the allowance account. We refer to the process of determining performance materiality as the allocation of the preliminary judgment about materiality to segments in our discussion that follows. The auditor can then calculate confidence limits
of the total misstatement for ratio estimation with a calculation similar to the one shown for difference estimation. She calculated key ratios and compared them with prior years and industry averages as illustrated in Table 8-1 (p. Also, legal precedent makes it difficult to determine who has the right to expect the benefit of an audit and recover losses
in the event of an audit failure. proper authorization The auditor is concerned about authorization at three key points: 1. The CPA firm rendered an unmodified opinion on Newell's financial statements, which were grossly misstated. In most systems, billing of the customer includes preparation of an electronic record or a multicopy sales invoice and
real-time updating of the sales transactions file, accounts receivable master file for sales and accounts receivable (7). [Opinion paragraph] In our opinion, because of the effect of the material weakness
described above on the achievement of the objectives of the control criteria, Kincannon Company has not maintained effective internal control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission
(2013 Framework). Examine document package for internal control in the GOSO internal control in the fiscal year ending June 30, 2011, was recorded on document 5427. Circumstances provide opportunities for management or employees to commit
fraud. They represent a lack of effective internal controls and are determined using the same approach used for identifying controls. apply the methodology for controls over sales transactions to controls over sales transactions to controls over sales transactions to controls over sales returns and allowances. If you are the company's auditor, how do you determine that all minutes have been made available to you? apartre
from involving themselves in the metal industry, KOBELCO has interests in wholesale power supply, machinery, real estate, and electronic materials. 8-15 (Objective 8-4) Gale Gordon, CPA, has found ratio and trend analysis relatively useless as a tool in conducting audits. Chapter 4 / Professional ethiCs 131 Discussion
questions and problems required 4-19 (Objectives 4-1, 4-2) Newspaper headlines frequently highlight instances where business professionals, politicians, and others are accused of engaging in unethical behavior. The auditor should determine whether the accounting treatment for any unusual transaction is appropriate in the circumstances, and
 whether information about the transaction is adequately disclosed in the financial statements. 3 F By vendor 2 Voucher with documents G Receiving report 1 Receiving report 1 Inv. When using interrogative inquiry, the auditor often asks specific directed questions that seek either a "yes" or "no" response. Sales are recorded
on the Correct Dates Sales should be billed and recorded as soon after shipment takes place as possible to prevent the unintentional omission of transactions from the recorded in the proper period. Chapter 13 / Overall audit Strategy and audit PrOgram 467 tabLe 13-5 Relationship of Transaction-Related Audit
Objectives to Balance-Related audit Objective Balance-related audit Objective to the existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relationship of the occurrence Existence or completeness Direct There is a direct relation of the occurrence Existence or completeness Direct There is a direct relation of the occurrence Existence or completeness Direct There is a direct relation of the occurrence Existence Direct There is a direct relation of the occurrence Existence Direct There is a direct relation of the occurrence Existence Direct There is a direct relation of the occurrence Direct There is a direct relation of the occurrence Direct There is a direct Direct Th
related account balance (e.g., sales transactions increase accounts receivable). the audit engagement team relied on Satyam management team, instead of directly contacting the banks as required by auditing standards. The auditor must
assess the likelihood and significance of a steadily declining liquidity position. During the year, a number of IT product manufacturers in the region faced serious financial problems and/or the product(s) and/or the program(s) described herein at any
time. existing Sales transactions are recorded In many audits, no substantive tests of transactions are done for the completeness objective. Part 1 / THE AUDITING PROFESSION 3-29 (Objectives 3-3, 3-4) The Singapore Exchange website is a very good source of information on public companies listed in Singapore. required case 15-35 (Objectives 15 and 15 
4, 15-5, 15-7) Jean-Paul Dupont, CPA is conducting a test of sales for 9 months of the year ended December 31, 2011, for the audit of Garnier Mineral Enterprises. DMO has refused to pay the accounting firm's fee and is seeking to recover the $187,000 that was stolen by Hightower. (c) Ms. Namie has been employed by the company since its inception
in 1999. Many companies use a third-party service provider to process some of their accounting activities, such as payroll, offsite at a separate IT service center or through cloud computing. access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records,
documentation, and other matters; ii. (4) areas that may represent specific risks relevant to the audit. Determine performance materiality Moore used the preliminary judgment to determine performance materiality as illustrated in Figure 8-7 (p. Examine shipping documents before and after the balance sheet date to determine whether sales
transactions are recorded in the proper period, taking into consideration the shipping terms and shipment dates. What is the relationship of the four phases to the objective of the audit of financial statements? Chapter 14 / Audit of the SAleS and ColleCtion CyCle 497 The occurrence of sales can be similarly tested by attempting to input nonexistent
customer numbers, which should be rejected by the computer. Eighteen months later, Yost found out that the worst had happened. 540) illustrates a negative confirmation in the audit of Hillsburg Hardware Co. that has been attached to a customer's monthly statement. Chapter 1 introduces the importance of considering international auditing
standards developments, followed by discussion in Chapter 2 about the role of the International Auditing and Assurance Standards Board (IAASB) in the issuance of international standards on auditing (ISAs) and the Auditing Standards Board (IAASB) in the issuance of international 
been engaged in a highly sophisticated, novel defalcation scheme during the past year. Aaron Baik CPA was asked to reclassify private expenses of the managing director of his client as business expenses. Direction of tests Auditors need to understand the difference between tracing from source documents to the journals and vouching from the
journals back to source documents. (Summarize) e. 8-16 (Objective 8-4) Your client, Harper Company, has a contractual commitment as a part of a bond indenture to maintain a current ratio of 2.0. If the ratio falls below that level on the balance sheet date, the entire bond becomes payable immediately. Monthly statements are mailed to customers
Each control satisfies one or more related audit objectives. Determining what constitutes professional behavior continues to be the responsibility of each professional. For some clients, the comparison of prior-year and current-year account balances using the unaudited trial balance may be sufficient. Using the file of shipments by customer created in
part d. (3) discover at least one instance of a critical deviation. Internal Control Objective 12-5 Understand requirements for auditor reporting on internal control. From Chapter 12, you may recall the three levels of control deficiencies:
deficiencies, significant deficiencies, and material weaknesses. (2) Transactions receivable master file. In past years, audit adjustments to the allowance for uncollectible accounts were made because it was found to be understated. Part 3 / APPlicAtion of the Audit
Process to the sAles And collection cycle b. The auditor's objective in choosing the evidence mix is to obtain sufficient appropriate evidence while minimizing costs. Absence of causal connection can be difficult to establish because users may claim reliance on the statements even when investment or loan decisions were made without considering the evidence while minimizing costs.
company's financial condition. Manager and Senior Manager selations with the client. (2) To be reliable, audit evidence should be convincing rather than merely persuasive. Identify and support six significant audit risks and identify their major or
medium risk. The report title, address, CPA firm name, and audit report date are similar for public companies and nonpublic entities and are not included in Figure 3-3. Decide acceptability of population 1 Many auditors using nonstatistical methods calculate whether the difference is a medium risk. The report title, address, CPA firm name, and audit report date are similar for public companies and nonpublic entities and are not included in Figure 3-3. Decide acceptability of population 1 Many auditors using nonstatistical methods calculate whether the difference is a method of the companies and nonpublic entities and are not included in Figure 3-3.
sufficiently large. 1-7 (ObjeCtive 1-5) Explain audit services, and assurance services, and give examples of each. Specify tolerable exception rate 7. To test for nonexistent customer master file. (3) Prepare an aging of accounts receivable. Sales
transaction File This is a computer-generated file that includes all sales transactions processed by the accounting system for a period, which could be a day, week, or month. required required 2. What concerns do you have, if any, about the collectibility of the invoice
amounts? Key audit matters represent those matters that the auditor's Scope has Been restricted Chapter 3 / Audit Reports 87 Qualified Report Due to Scope Restriction — AICPA Auditing Standards Figure 3-8 INDEPENDENT
AUDITOR'S REPORT (Same introductory paragraph, and first two audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion. INTERNAL CONTROL Existing sales transactions are
                      leteness). Suppose that you share a ride to a client with another audit staff member. Purposes of Audit Documentation Must be available in the audit files. Although the court could have found in favor of Rusch Factors ur
Ultramares in that it was a primary beneficiary, it chose to rely on the Restatement of Torts, stating that the auditor should be liable for ordinary negligence in audits where the financial statements are relied on by actually foreseen and limited classes of persons. Compare date of recording of sale in sales invoice and shipping
documents to see if there is any discrepancy. The client's size, measured by total assets or total revenues, will have an effect on acceptable audit risk. General Transaction-Related Audit Objectives Occurrence Posting and summarization Completeness Classification Accuracy Timing Required a. Other rules of conduct are also designed to maintain
public confidence in the profession. Refer to the financial statement data in Figure 8-9 for the current year and prior two years. (4) The system prevents the creation of a bill of lading without a customer order dated prior to the shipping date. 509). I would rather spend the time it takes to fill out all those forms in testing whether the statements are
correct." required a. At the time Randall Sessions of BRS&B became manager of the audit, annual sales had grown to $200 million. Auditors are responsible for fulfilling their duties diligently and carefully. (4) accept the $175,000 balance because the confidence interval is within the materiality limits. Assets were taken and
the theft was covered by understating revenues or overstating expenses. $1,358,322 from Valentina Boutique, a women's clothing store. Shipments are billed in the order the standard that you have identified in 2, identify the types of financial reports that would come under this standard. This is the
critical decision in the evaluation of internal control. Does any company have a year-end other than December 31? This was a material amount in relation to Koss Corporation's reported net income ($1,976,668 for 2009 and $4,494,289 for 2008). (2) They did not intentionally certify false financial statements. ZZZZ Bank Adjustments Items $50,000 and
less 1. Depending on the purpose, the auditor may ask different types of questions and change the tone of the interview. The Sarbanes- Oxley Act directed the SEC to require the national stock exchanges (NYSE and NASDAQ) to strengthen audit committee requirements for public companies listing Chapter 11 / Internal Control and CoSo Framework
381 securities on the exchanges. The three groups an auditor is most likely to rely on are employees, other CPA firms engaged to do part of the allowance by carefully examining the noncurrent accounts on
the aged trial balance to determine which ones have not been paid subsequent to the balance sheet date. For example, if a partner of a CPA firm recommends that is owned by the partner's spouse, a conflict of interest may appear to exist. Rockwood requires a
second approval for all purchases exceeding $100,000. For each audit procedure, identify whether it is a test of control or a substantive test. (2) indicate a division of responsibility. In addition to the ratio analysis of
the financial statements. A Record of the Evidence Accumulated and the Results of the Tests Audit docu-mentation is the primary means of documenting that an adequate audit was conducted in accordance with auditing standards. Each division's income statement is in a separate worksheet in the Excel file. Because auditors are required to presume
fraud risk is present in revenue recognition, they should also evaluate the company's revenue recognition policies. A clear understanding of the terms of the engagement should exist between the client and the CPA firm. required a. 1. For example, on the accounts receivable listing, receivables must be separated into short-term and long-term, and
amounts due from affiliates, officers, and directors must be classified separately from amounts due from customers. Auditors can use sampling parameters such as risk and the tolerable exception rate to determine sample sizes when the test is the sole source of evidence about the effectiveness of the control and a high level of audit evidence is
desired. Perform analytical procedures of sales and gross margin. Examine an insurance coverage on buildings and equipment. Austin and Houston, CPAs, is performing consulting services to help management of McAlister Global Services streamline its production operations. ABC's auditors selected a
sample of 5 of the 1,100 items for direct confirmation. of systems of internal control, including controls related to reporting objectives beyond financial reporting objectives beyond financial reporting objectives beyond financial reporting.
assessment of the audit evidence. Inclusion of a sale in the sales journal when no sale occurred violates the occurrence objective. The CPA firm argued that the wrongdoings of management were a valid defense against the charges. The advantage of systematic selection is its ease of use. The combination of these four types of further audit procedures
provides the basis for the auditor's opinion, as illustrated by Figure 13-1. Pearson Education Limited Edinburgh Gate Harlow Essex CM20 2JE England and Associated Companies throughout the world Visit us on the World Wide Web at: www.pearsonglobaleditions.com © Pearson Education Limited 2017 The rights of Alvin A. Waseem: Well, it's
possible that online companies might not need a permanent address. Chapter 15 / Audit SAmpling for teStS of transactions 537 Figure 15-1 (p. There is no basis for establishing the number of paying patrons. To what extent are AICPA auditing standards and international auditing standards similar? These
problems, which are included in all 26 chapters, are labeled with the Becker logo. For other privately held committee of management, such as a finance or budget committee. Two other controls are: • The preparation of a periodic aged accounts receivable trial balance for
review and follow-up by appropriate management personnel. Planning the audit b. They examine supporting documents to determine the proper classification of a given transaction and compare this with the actual account to which it is charged. Cash receipts received in the mail are received by a secretary with no record-keeping responsibility. What
should Annie conclude about the effectiveness of the control attribute with one identified deviation? The auditor's assessed level of inherent risk and control risk) is low and other substantive evidence can be accumulated to provide sufficient evidence. The confusion is increased
by giving the title "certified public accountant" to many individuals who perform audits. GP Chambers Co. 12. Select the sample based on the sampl
financial statements, subsequently extended large sums of money to Newell Corporation. They call for an unwavering auditors are the 1933 and 1934 securities acts, as well as the Federal Mail Fraud Statute and the Federal False
Statements Statute. For each of the following parts of the definition of auditing, state which part of the preceding narrative fits the definition: (1) Information (2) Established criteria (3) Accumulating evidence (4) Competent, independent person (5) Reporting results b. This edition includes complete coverage of the AICPA Clarity
Project, including guidance in the recently issued SAS No. 130 An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements and new PCAOB standards including Standard No. 18, Related Parties. Al taught accounting, mainly auditing, with a passion that is legendary. Relationship Between
to the sAles And collection cycle Rights Realizable value Cutoff Classification X Completeness Posting and summarization Accuracy Completeness Existence TRANSACTIONRELATED AUDIT OBJECTIVES As discussed in Chapter 7, analytical
procedures are often done during three phases of the audit. Your client, Harrison Automotive, has changed from straight-line to sum-of-theyears' digits depreciation. The audit procedures assume that the audit procedures as a part of completing th
client's inventory. A member, associate member, or international associate of the American Institute of Certified Public Accountants. If students of auditing understand the objectives to be accomplished in a given audit area, the risks related to the engagement, and the decisions to be made, they should be able to determine the appropriate evidence
to gather and how to evaluate the evidence obtained. In using the audit risk model for inventories, Sessions believed that an audit risk of 5% was acceptable. In performing substantive tests of transactions for cash receipts, you found that receipts were promptly recorded in customer accounts, but there were delays in depositing the receipts at the
bank. and f. The client fails to detect employee theft of inventory from the warehouse because there are no restrictions on warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee theft of inventory from the warehouse access and the client fails to detect employee the fails access to the client fails access
for all attributes, because it is an accelerated filer public company and the auditor's tests of controls must provide a basis for the opinion on internal control over financial reporting. (3) letters for underwriters. Assurance services can be done by CPAs or by a variety of other professionals. Chapter 7 / Audit EvidEnCE 245 Preparation of Audit
Documentation Read the story on the preceding page about Rhonda McMillan and imagine yourself in her position several years after completing an audit. Understand the unique accounting requirements of the client's industry. 6-5 Describe the key elements of an effective professional judgment process. This is the first year that Ling's audit firm has
performed the audit for MT, Inc. The most important of these are: Materiality Is a relative rather than an absolute Concept A misstatement of a given magnitude might be material for a small company, whereas the same dollar misstatement of a given magnitude might be material for a small company, whereas the same dollar misstatement of a given magnitude might be material for a small company, whereas the same dollar misstatement of a given magnitude might be material for a small company.
description of a service organization's system and the suitability of the design of controls (referred to as a Type 1 report) A Type 1 report helps
auditors obtain an understanding of internal control to plan the audit. If the matter involved is believed to be intentional and material, it should be communicated to those charged with governance, such as the board of directors, as soon as practicable. Seidman (1982) — Liability to Clients Between 1970 and 1975 Cenco's managerial
employees, ultimately including top management, were involved in a massive fraud to inflate the value of the company's inventory. (1) The company does not have a code of conduct for employees to consider. CPA firms also provide many other services to their clients, such as tax and advisory services. (Confidence level = 1 - 2 × ARIA. Abdul & El-
Emir also performed a purchase cutoff test by vouching accounts payable invoices received for nine weeks after year-end. Identify one automated control that would have likely prevented each misstatement. Voluminous Data As organizations become larger, so does the volume of their exchange transactions. Images' accounting was done centrally.
McClain has grown from a small, two-product company, when they first engaged BRS&B, to a successful, diverse company. With the extensive reliance on the use of technology to perform a number of risks related to the overall security and functionality of IT-based services that must be managed at a system-
wide or enterprise-wide level. The reason for this somewhat surprising conclusion is that an increase in cash receivable, but an increase in cash receivable in the "Sales and Collection"
subfolder under tables in the ACL Rockwood project. What are the fundamental principles of the international ethics standards? After the test data are processed on the client's system, auditors compare the actual output to the expected output to assess the effectiveness of the application program's automated controls. Arthur Andersen, LLP, 374 F. J
C Light Co.—Glendale Hts. (2) accept the balance but with a lower level of confidence. To test for unbilled shipping department to related duplicate sales invoices and the sales invoices ranging from 652 to 3.151, with a desired sample size of
125, the interval is 20 [(3,151 - 651)/125]. Several customer orders may be combined to bill on the sales invoice. 2-19 (Objective 2-7) Ray, the owner of a small company, asked Holmes, a CPA, to conduct an audit of the company's records. The risk of fraud should be assessed for the entire audit as well as by cycle, account, and objective. These
confirmations help reinforce the code of conduct policies and also help deter employees from committing fraud or other ethics violations. Table 14-3 lists key internal controls, common tests of controls, and common substantive tests of transaction-related audit objectives for cash receipts for Hillsburg Hardware Co.
Table 14-3 follows the same format used for sales as shown in Table 14-2 (p. In the explanation for that tick mark it says: "Discussed status of job with Elton Burgess. Because general controls for the company as a whole. Using
nonstatistical sampling, calculate TER - SER for each of columns 1 through 8 and evaluate whether or not the calculated allowance for sampling risk is large enough to accept the population. If testing for missing shipping documents, for example, the auditor must determine whether a 4 percent exception rate indicates an acceptable control risk for
the occurrence objective. analysis of Differences 582 When the confirmation requests are returned by the customer, the auditor must determine the reason for any reported differences. 2-4 (Objective 2-5) The International Framework for Assurance Engagements is the international version of AICPA Statements on Standards for Attestation. Most
audit evidence results from testing a sample of a population such as accounts receivable or inventory. In which phase does the auditor perform tests of controls? The Company does not believe any other legal issues materially affect its finances. Only products shown on the Web site can be purchased online. Approval of department head or foreman on
time records is required before preparing payroll. Although these two ratios by themselves may not indicate significant problems, these data illustrate how using industry data may provide useful information about the client's performance and potential misstatements. Auditing standards describe two categories of controls for IT systems: general
controls and application controls. Which of the following best characterizes the mindset that the audit team should maintain during this discussion? Cash receipts received in the mail are forwarded unopened with remittance advices to accounting. (4) Examining invoices in support of the valuation of fixed asset additions. 7-10 (Objective 7-5) What is
the primary purpose of analytical procedures performed during the completion phase of the audit? Separate add-on security software packages, such as firewall and encryption programs, can be installed to improve a system's security. 13-1 Use the five types of audit 13-2 13-3 13-4 13-5 13-6 13-7 tests to determine whether financial statements are
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fairly stated. An auditor can respond to a deficiency in internal control in a financial statement audit by expanding substantive tests of transactions to determine whether the deficiency resulted in a significant number of misstatements. There might be five other people in the meetings, but Saul and the store manager have the most power in the group
Although SOX restricts firms from providing many nonaudit services to public company audit clients, the firms have developed new services, and increasingly provide services to company audit clients. ISBN-10: 1-292-14787-3 ISBN-13: 978-1-292-14787-1 British Library Cataloguing-in-Publication Data A catalogue record for this
book is available from the British Library 10 9 8 7 6 5 4 3 2 1 Typeset in Albertina MT Pro Regular by Integra Printed and bound by Lego Italy continuing the LegAcy of ALvin A. He spoke to his supervisor, who told him to reconcile the two books as quickly as possible. This requirement and the reasons for it are the same as those discussed under
contingent fees. This means no audit engagement partner, the review auditor or a registered company auditor of the auditor of 
management is in a unique position to perpetrate fraud by overriding controls that are otherwise operating effectively, auditors must perform procedures in every audit to address the risk of management override. The audit firm of Miller and Yancy, CPAs, has joined an association of other CPA firms across the country to enhance the types of
professional services the firm can provide. Select a sample of shipping documents and trace each to related duplicate sales invoices (test of control). Significant risks represent an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Because we hold large amounts of material misstatement that, in the auditor's professional judgment, requires special audit consideration.
inventory, we are able to fill orders quicker than most of our competitors even during the busiest times of the year. Understand the effect of tests of controls and substantive tests of transactions on substantive tests of details of balances. This information and other recommendations about controls are also often communicated to management. Table
8-1 presents key financial ratios for Hillsburg Hardware Co., along with comparative industry information that audit client. Part 3 / APPlicAtion of the Audit planning. Independence can also be impaired when a member of the audit team discusses potential employment from the audit team discusses potential employ
Process to the sAles And collection cycle 15-27 (Objectives 15-3, 15-7) Shield Retail Limited, based in Seoul, is engaging in manufacturing of leather goods. Identify three risks related to an online sales system that management should consider. Part 2 / The AudiT Process 13-23 (Objectives 13-1, 13-2) The following are audit procedures from
different transaction cycles: 1. Because a primary focus of most internal audit functions is evaluating the effectiveness of the entity's internal audit personnel may provide valuable information about the design Part 2 / The AudiT Process and operating
effectiveness of internal controls. The partner has asked you to review this narrative information and respond to the following questions: 1. CPAs can protect themselves from legal liability in numerous ways, and the profession's potential exposure. In a computerized
environment, however, the auditor can often perform substantive tests of transactions quickly for a large sample of transactions. Include on Summary of Possible Misstatement (significance) could result from the significant deficiency or
deficiencies, then it is considered a material weakness. There is an important distinction between the theft of assets and misstatements arising from the theft of assets. For example, a company may be able to purchase inventory from a related company at more favorable terms than from an outside vendor. 17-15 (Objective 17-4) Define what is meant
by the population standard deviation and explain its importance in variables sampling. This allocation is called setting performance materiality. Recorded sales are for shipments actually made to nonfictitious customers (occurrence). Accounts receivable
master file is reconciled to the general ledger on a monthly basis (C11). Risks associated with specific industries may affect the auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and may even influence auditor's assessment of client business risk and acceptable audit risk—and acceptable acce
The potential consequences of the auditor knowingly committing a wrongful act are so severe that it is unlikely that the potential benefits can ever justify the actions. Gross Profit: Gross profit as a percentage of net sales stayed relatively stable at 27.68% and 27.70% in 2014 and 2015, respectively, but increased to 27.85% in 2016. Ownership
Interests SEC rules on financial relationships take an engagement perspective and prohibit ownership in audit clients by those persons who can influence the audit. The PCAOB also has the authority to sanction registered CPA firms for any violations of the Act. Tickmark Legend 1 2 3 4 5 Monthly balances obtained from general ledger for each month
This is shown by the following information: 2016 2015 2014 2013 Sales (thousands) $ 14,211 $ 12,916 $ 11,462 $ 10,351 CGS (thousands) $ 4,650 $ 4,149 $ 3,778 35.1 36.0 36.2 36.5 Gross margin Percent Chapter 8 / Audit PlAnning And MAteriAlity 291 A discussion with Marilyn Adams, the controller, brings to light
two possible explanations. CPAs, Congress, the SEC, and the courts will all continue to have a major influence in shaping truck, if the shipping records are unnumbered, and if shipping and billing department personnel are not independent of each other, it may be difficult, if not
impossible, to be assured of an accurate cutoff. Burton Martin 6. Who should attend the brainstorming session and when should the session be held? Therefore, they are not used in every instance in which they are applicable. The overall objective of audit documentation is to aid the auditor in providing reasonable assurance that an adequate audit
 was conducted in accordance with auditing standards. • Audit documentation should include sufficient information to fulfill the objectives for which it was designed. CFEs have a unique skill set that combines knowledge of complex financial transactions with an understanding of methods, laws, and investigation of fraud allegations. At what point will
BestSellers.com be able to record the sale as revenue? The use of any trademarks in this text does not vest in the author or publisher any trademarks imply any affiliation with or endorsement of this book by such owners. Setting audit ObjectiveS Auditors conduct financial
statement audits using the cycle approach by performing audit tests of the transactions making up ending balances and related disclosures. The member performs bookkeeping services for the client and then performs an audit of those financial statements. For each deficiency, state how the
audit schedule could be improved. Source: Based on "Association of Certified Fraud Examiners (ACFE) Fraud Manual," The Association of Certified Fraud Examiners (www.acfe.org). In this case, three auditors were prosecuted for filing false financial statements of a client with the government, and all three were held criminally liable. What are the
purposes of the two parts of the report of management? An indication of the controls relevant to the assessment of control risk. Compare i. For maximum effectiveness, all disagreements about the account balance should be directed to a designated person who has no responsibility for handling cash or recording sales or accounts receivable. Sales
cutoff at year-end is proper. As the chapter story illustrates, Enron's complex and confusing business structure helped disguise material misstatements in Enron's financial statements for several years. What are the most important management assertions related to customer billing? Nefret created a 250-page list of approximately 1,000 vendors,
supporting advertising credits of $500,000. through l.) satisfies in the audit of sales, accounts receivable, and cash receipts for fiscal year ended December 31, 2016. The three together overrode existing internal controls over the processing of payments, and concealed the fraud from management and the auditors. The rules of conduct and
interpretations provide guidance on permissible financial and other interests to help CPAs maintain independence. The fact that the CPA has processed or maintain ecords does not eliminate the need to make sufficient audit tests. Hillsburg Hardware Company Five-Year Financial Summary (in thousands) BALANCE SHEET DATA: 2016
2015 2014 $ 51,027 $ 49,895 $ 49,157 Total assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current assets 61,367 60,791 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Total stockholders' equity 22,463 Current liabilities 13,216 12,350 Long-term notes payable 24,120 Long-term notes 
Concerning Forward-Looking Statements (2) changes in the general business environment, (3) the intensity of the competitive arena, (4)
new national wholesale hardware chain openings, and (5) certain other matters influencing the Company's ability to react to changing market conditions. The report is quite similar to the audit report for nonpublic entities in Figure 3-1, with some differences in wording. 5-23 (Objective 5-6) Under Section 11 of the Securities Act of 1933 and Section
10(b), Rule 10b-5, of the Securities Exchange Act of 1934, a CPA may be sued by a purchaser of registered securities. Companies with small IT systems can purchase replacement computers in an emergency and reprocess their accounting records by using backup copies of software and data files. For the population in Table 17-1, the auditor may
decide to audit only items over $5,000 and ignore all others because the total of the smaller items is immaterial. Invoices are sent for shipped goods, but are not recorded in the sales journal. Because the authority for expenditures and receipts of governmental agencies is defined by law, there is considerable emphasis on compliance in these audits
Disclaimer He or she is unable to form an opinion as to whether the financial statements are fairly presented, or he or she is not independent. Common examples to physically restrict unauthorized use include keypad entrances, badge-entry systems, security cameras, and security personnel. (6) Recommending adjusting entries to the client's financial
statements and preparing financial statements, including footnotes, for the client. When coming into contact with company personnel, such as the inventory warehouse manager or purchasing agents, the auditor may inquire about the existence or suspicion of fraud. To kick off with the planning process, (1) Discuss the objectives of the audit test for
the sales and collection cycle. (2) Progress payment due as of December 31, 2016, per contract for construction of new custom electric sign; sign installation completed on January 15, 2017. attitudes/rationalize the theft of assets.
Request various other confirmations. Recently, it was announced that Uthman's vice president will be retiring soon, and Uthman has hinted that he would like Jamal to join his company with a higher pay than he is currently receiving at Gilgamesh. tour Client Facilities and Operations A tour of the client's facilities is helpful in obtaining a better
understanding of the client's business operations because it provides an opportunity to observe operations firsthand and to meet key personnel. For each of the auditor's decision making in the audit. Audit staff members should not subordinate their judgment to
supervisors on the audit. Concern for sufficient appropriate evidence and cost control necessitates planning the engagement. Management's testing of internal control will likely include the same types of procedures. Define and describe audit sampling for exception rates. • Nature of the client's operations. For each characteristic, provide one
example of a type of evidence that is likely to be reliable. However, Mr. Makay does not believe the matter will be resolved for another few months nor does he foresee a favorable settlement. The contracts may include pension plans, leases, stock options, and so on. You also observe that the gross margin percent has significantly increased compared
with that of the preceding year: Control risk IDNC Acceptable audit risk IDNC Acceptable audit of a newly obtained client, Henderson Energy Corporation, for the year ended December 31, 2016. It is more difficult to objectively evaluate whether the
efficiency and effectiveness of operations meets established criteria than it is for compliance and financial statement accounts are affected. A threat is at an acceptable level when a reasonable and informed third party who is aware of the
relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. Explain how materiality affects audit reporting decisions. We'll first look at one important part of every audit, the sales and collection cycle, to examine the practical application of auditing concepts. Like other
differences, these must be investigated. Management, not the auditor, must establish and maintain the entity's internal controls. These are summarized in Figure 2-4. This chapter shows that it is essential for auditors to select the appropriate evidence to verify the account balances in the sales and collection cycle, after considering performance
materiality, identifying significant risks, performing risk assessment procedures to assess inherent and control risks, and performing tests of controls and substantive tests of transactions. The reasoning for the court's conclusion that an audit had taken place was the performance of "some audit procedures" by the CPA firm, including the preparation
of a worksheet entitled "missing invoices." Had the CPA followed up on these, the fraud would likely have been uncovered. probabilistic Sample Selection In a simple random sample, every possible combination of population items has an equal chance of being included in the sample. In each case, the person
knows that the behavior is inappropriate but chooses to do it anyway because of the personal sacrifice needed to act ethically. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. For example, a company's objective may be to obtain the
leading market share of industry sales. As the engagement progresses, auditors obtain additional information about the client, and acceptable audit risk may be modified. This chapter covers planning analytical procedures and substantive analytical procedures a
CPAs in the United States must follow the AICPA Code, the AICPA Professional Ethics Figure 4-2 Ways the Profession and Society Encourage CPAs to Conduct Themselves at a High Level CPA examination Quality control Auditing standards and interpretations Conduct of CPA firm personnel Continuing education requirements Legal liability Peer
review PCAOB and SEC 108 Part 1 / THE AUDITING PROFESSION Code of Professional Conduct AICPA practice and quality centers Executive Committee closely monitors IESBA activities to converge the U.S. guidance, where appropriate, to guidance in the IESBA Code. Alternatively, auditors can use tables such as those shown in Table 15-8 (p. The
perpetuals indicated that 112 items were on hand, when there were actually 106. As a general guideline, the following policies are to be applied: 1. Company 3-El&Fan, same as Al&Bee, is a medium-sized retailer selling handbags and accessory items. Internal auditors are employed by all types of organizations to audit for management with oversighted.
by the board of directors, much as the GAO does for Congress. What are the advantages and disadvantages of systematic sample selection cycle: 1. For example, management that lacks integrity and is motivated to misstate financial statements
is one of the factors in acceptable audit risk, but it may also affect control risk. 24 Preface Summary of the Audit Process PHASE I Plan and design an audit approach Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary analytical procedures Set preliminary judgment of materiality and
performance materiality Identify significant risks due to fraud or error Assess inherent risk Understand internal control and assess control risk Finalize overall audit strategy and audit plan PHASE II Perform tests of controls and substantive tests of transactions Plan to reduce assessed level of control risk? (in $'000) prior year Q1 Q2 Q3 Q4 total
 Sales 35 44 46 34 159 Accounts receivable 3.5 4.5 4.5 3.5 16 (in $'000) Current year Q1 Q2 Q3 Q4 total Sales 30 40 20 70 160 Accounts receivable 3 4 5 3.5 15.5 required 13-32 (Objectives 13-2, 13-3) Auditors develop overall audit plans to ensure that they obtain sufficient appropriate audit evidence. The AICPA provides for a number of specialist
designations. Categories of Inquiry An auditor uses informational inquiry to obtain information about facts and details that the auditor does not have, usually about past or current events or processes. Discuss fully, but in this part do not include fraud in the discussion. The computer system verifies that all payroll payments have a valid employee
identification number assigned by the human resources department at the time of hiring. Topics covered include assurance services; agreed-upon procedures engagements; attestation engagements; other audit engagements; internal financial auditing; governmental financial auditing; and operational
auditing. The principles underlying an audit provide a framework to help auditors fulfill the following two objectives when conducting an audit of financial statements: 1. Rights and obligations—the company holds or controls rights to the assets, and liabilities are obligations of the company at a given date. It is difficult for an auditor to predict
financial failure before it occurs, but certain factors are good indicators of its increased probability: • Liquidity position. As I am not as experienced as Adam, the most conservative approach is to follow last year's audit strategy relying on tests of control." Francis thought. These other assurance service engagements focus on improving the quality of
information for decision makers, just like attestation services. Physical examination (auditing standards refer to this as "inspection of tangible assets") is costly because it normally requires the auditor's presence when the client is counting the asset, often on the balance sheet date. 1 5 Low 100 100 0 0 5.0 4. The auditor will therefore assign a high
perhaps 100 percent, risk factor to control risk. Source: Securities and Exchange Commission accounting and auditing Enforcement release No. 3232, January 20, 2011 (www.sec.gov). As discussed in Chapter 1, as a result of the Dodd-Frank federal financial reform legislation passed by Congress in July 2010, only larger public companies
(accelerated filers) are required to obtain an audit report on internal control over financial reporting. Under what circumstance is each appropriate? There is logic to the type of audit documentation prepared for an audit and the way it is arranged in the files, though different firms may follow somewhat different approaches. Use nonstatistical
sampling in tests of controls and substantive tests of transactions. (2) Goods shipped FOB Pinnacle Manufacturing on December 29, 2016; arrived at Pinnacle Manufacturing on January 4, 2017. Title insurance policies for real estate 6. Recompute information on vendors' invoices. Distinguish between general controls and application controls and give
two examples of each. ObjeCtive 14-4 apply the methodology for controls over sales transactions to controls over sales returns and allowances. If the material weakness has been identified but not included in management's assessment. Bank
statements 8. When we refer to "auditing standards," the term applies to all audits unless otherwise noted. Christopher J. The Center for Audit Quality (CAQ) is a public company auditors, and the capital markets. Completeness—all disclosures that should have been included in theateness—all disclosures that should have been included in the sho
financial statements have been included. Programming assignments are made based on who is least busy among the programming staff at the time. The auditor can increase planned detection risk when controls are effective because effective internal controls are effective internal controls.
indicated in the following illustrative example.* Weaknesses in processes recommendations 1. The application of guidelines, such as the ones we present here, requires considerable professional judgment. Similarly, if the auditor concludes that a client has effective rather than ineffective internal controls over recording fixed assets, a smaller sample
size in the audit of acquisitions of fixed assets may be warranted. Thus, the auditor defines two populations—a population of sales invoices in the Board permit them to temporarily or permanently deny a CPA or CPA firm from being associated
with financial statements of public companies, either because of a lack of appropriate qualifications or having engaged in unethical or improper professional conduct. This approach is acceptable as long as the amounts are not material. What does the trend of the A/R Allowance figures suggest to you? Knowledge about the design of the client's control
environment, risk assessment, control activities, information and communication, and monitoring activities and information about whether internal control components have been implemented assist the auditor in assessing control risk for each audit objective. It is normally desirable to account for all unconfirmed balances with alternative procedures
even if the amounts are small, as a means of properly generalizing from the sample to the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to the clarified AICPA auditor responsibilities for Understanding Internal Control One of the principles in the preface to t
material misstatement, whether due to fraud or error, based on an understanding of the entity's internal control."1 Auditing standards require the audit or every audit engagement. Sample Size Items to Select An audit of financial statements and its environment, including the entity's internal control."
usually covers a period such as a year. Academic research on the topic of professional skepticism suggests there are six characteristics of skepticism: 1 1. 10 Chapter Learning Objectives After studying this chapter, you should be able to 10-1 Define fraud and distin- 10-2 10-3 10-4 10-5 10-6 10-7 10-8 guish between fraudulent financial reporting and
misappropriation of assets. The librarian has READ and CHANGE access rights to program files. In signing those statements fully comply with the requirements of the Securities Exchange Act of 1934 and that the information contained in the financial statements fairly presents, in all material
respects, the financial condition and results of operations. assessed control risk Cash receipts are recorded on the correct dates (timing). Search for knowledge—a desire to investigate beyond the obvious, with a desire to corroborate 4. Make No reference in the audit report When no reference is made to the other auditor, a standard unmodified
opinion is given unless other circumstances require a departure. There are no circumstances requiring the addition of an emphasis-of-matter paragraph or modification of the wording or auditor's opinion in the report. Auditors can define the population to include any items they want, but when they select the Define attributes and exception
Conditions Define the population Chapter 15 / Audit SAmpling for teStS of ControlS And SubStAntive teStS of transaction Condition 1. The auditor needs a framework for assessing control risk. Now, we will study the design of tests of
controls and substantive tests of transactions for each of the five classes of transactions in the cycle. Extensions of price times quantity are correctly added. Because Cullen takes an active role in managing the IT department, the COO rarely discusses IT issues with the board or CEO. If a principal auditor decides to refer in his
or her report to the audit of another auditor, he or she is required to disclose the (1) name of the other auditor. Because they operate the business daily, a company's management knows more about the company's transactions and related assets, liabilities, and equity than the auditor. Analytical Procedures Analytical procedures, especially gross
margin percentage and inventory turnover, often help uncover inventory fraud. From vendor Receiving report 1 Invoice E 6 Req. For example, if the auditor wants to use a low assessed control risk, a larger sample size for inspection, observation, and reperformance procedures should be applied. We believe that our audit provides a reasonable basis
for our opinion. A combination of two factors has the greatest effect on sample size: TER minus EPER. Integrity and ethical values are the product of the entity's ethical and behavioral standards, as well as how they are communicated and reinforced in practice. When determining TER, the auditor considers the degree of
firm's or a partner's excessive reliance on revenue from a single client, and if necessary, take actions to reduce this excessive reliance. auditor responsibilities for reporting on Internal Control cOncept check 1. For example, the tests may indicate that the application of a control was curtailed midway through the year or that the person applying it
 made frequent misstatements. This ratio enables auditors to assess potential misstatements in operating expenses and related balance sheet accounts. CondiTions for fraud arising from fraudulent financial reporting and misappropriations of assets are described in the auditing standards. (3) the understanding of internal
invoice number (13a). The inventory amount is material in relation to Brentwood Industries' financial statements. Auditor's Opinion Opinion In our opinion, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly, in all material respects, the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to above present fairly and the financial statements referred to a fi
 Assuming no safeguards are in place and Janes accepts the offer or gift in each situation, discuss whether she has violated the rules of conduct. Unintentional misstatements at year-end can often be easily found by the auditor through confirmation procedures. You would like to form an expectation on the time required for these simultaneous
 engagements for the audit junior. Other aICpa Functions Chapter 2 / The CPA Profession 55 CPAs must meet continuing education requirements to maintain their licenses to practice and to stay current on the extensive and ever-changing body of knowledge in accounting, auditing, attestation and assurance services, management consulting and risk
will the auditors use the aging information in the audit of accounts receivable? What might be a plausible explanation for gaps or duplicates observed? For each of the preceding questions, state the transaction-related audit objectives being fulfilled if the control is in effect. The recent consolidation of Builder's Plus Hardware, Inc., one of the top ten
largest national hardware store chains, is a case in point. It also analyzed reviews to verify trustworthiness. Fateen has been following this practice successfully for several years and feels confident that he has developed a
foolproof method to earn some extra income. The reason for an expectation of a high level of profession, regardless of the individual providing it. required * Based on AICPA question paper, American Institute of Certified Public Accountants. What
does it mean to approach an audit with six characteristics of professional skepticism? Why do individuals act unethically? Before hiring Banana, Orange & Company as their new auditors, Tom requested that the firm review the situation. The COSO internal control components include the following: 1. Many industries have unique accounting
requirements that the auditor must understand to evaluate whether the client's financial statements are in accordance with accounting principles. The objective
calculated on the basis of the audited value of the sample items rather than the misstatements. Identify changes in account balances or ratios that you believe indicate the potential for fraud, and describe the nature of the potential for fraud, and describe the nature of the potential fraud. The same approach can be applied to create estimates in other situations, such as tuition revenue at universities
(average tuition multiplied by enrollment), factory payroll (total hours worked times the wage rate), and cost of materials sold (units sold times materials cost per unit). The opening story about Manion's overreliance on the accuracy of the computer-produced accounts receivable aging illustrates the importance of testing controls and also the
 efficiency and effectiveness of using audit software. Jeanine was not disappointed. Even in a less complex IT environment, the auditor is still responsible for obtaining an understanding of general and application computer controls because such knowledge is useful in identifying risks that may affect the financial statements. The Dutton Company 28
Often, computer software is used to perform many of these tests. Sort the "invoice date" column in ascending order. If there is a large amount of variation is small. To document the tests and provide information for review, auditors commonly include a
schedule of the results. required For each of the 14 factors listed above, indicate whether the item would likely increase audit risk, or have no effect on audit risk, decrease audit risk, decrease audit risk, decrease audit risk, or have no effect on audit risk, decrease audit risk, decrease audit risk, decrease audit risk, or have no effect on audit risk, decrease audit risk, and the audit risk model as it is used for planning audit evidence requirements in the audit of inventory
The auditor uses this information to develop the tests of controls and substantive tests of transactions audit program. (Total) d. When statistical evaluation methods must be used with the sample results to make the sampling risk computations. Obtain and print
statistical information for Invoice Amount. In addition, a review of the individual misstatements indicated that no misstatement was by itself material. Top executives at Bristol-Myers Squibb were found guilty of fraudulent channel-stuffing practices in which they encouraged wholesalers to accept inventory products above and beyond what they would
normally purchase, by offering pricing discounts and by helping to cover inventory carrying costs, effectively making the sale a consignment arrangement. ARO represents the auditor's risk of incorrectly accepting the control as effective, and a larger sample size is required to lower this risk. This can be done by extending tests of duplicate sales
invoices to include verifying prices, extensions, and footings (substantive tests of transactions) or by increasing the sample size for the confirmation of accounts receivable (substantive tests of transactions) or by increasing the sample size for the confirmation of accounts receivable (substantive tests of transactions) or by increasing the sample size for the confirmation of accounts receivable (substantive tests of transactions) or by increasing the sample size for the confirmation of accounts receivable (substantive tests of transactions) or by increasing the sample size for the confirmation of accounts receivable (substantive tests of transactions).
sample, Jack Bean, the senior, had left the client's office and couldn't answer her questions about the appropriate size of the judgmental sample. This indicates that the auditor searched for material unrecorded transactions and events that occurred up to February 15, 2017. Below are just a few examples taken from the court complaint filed against a few examples taken from the court complaint filed against a few examples taken from the court complaint filed against a few examples.
her of purchases Ms. Sachdeva made on her American Express charge card that were later paid for by wiretransferring money from Koss Corp. This allows the auditors and directors to discuss matters that might relate to such things as management integrity or the appropriateness of actions taken by management. The programmer modified the
program and returned it to the librarian, who placed it into the files for live production use. CPA firm is also performing attestation services for the same client. 4-9 (Objective 4-6) Many people believe that a CPA cannot be truly independent when payment of
fees is dependent on the management of the client. multiple choice Questions fRom cpa examinations 15-22 (Objectives 15-5, 15-7) The following items apply to determining sample sizes using random sampling from large populations for attributes sampling. The operating system allows an employee with "READ" capabilities to only view the contents
of the program or file. It is common for auditors to summarize all entries that have not been recorded in a separate audit of Spencer, Inc. This chapter discusses nonstatistical and statistical sampling for tests of
controls and substantive tests of transactions. A 5 percent risk without a specific materiality measure could imply that a $100 or $1 million misstatement is acceptable. Most accounting populations that auditors sample will, of course, include far more items totaling a much larger dollar amount. Add the sales journal entries to determine whether they
were correctly totaled. Each bet was supposed to be offset by a trade in the opposite direction to keep risk at a minimum, with the bank making a profit or loss based on the difference between the parallel bets. Cullen has developed a trust with each employee and, as a result, delegates extensively to each individual. The purpose of an entity's
accounting information and communication system is to initiate, record, process, and report the entity's transactions and to maintain accountability for the Audit Process to the sAles And collection cycle tabLe 14-2 transaction-related audit
Objectives, Key Existing Controls, tests of Controls, tests of Controls* Con
(C1). Recall that with nonstatistical sampling, the auditor cannot calculate CUER but instead compares TER with the sample exception rate (SER) and uses his or her judgment to decide whether the difference is sufficiently large. He never heard from Sarah and assumed everything was okay. Identify the education requirements to be eligible to sit for
the CPA exam in your state. audit of Internal Control over Financial reporting For an audit of internal control over financial reporting, management asserts that internal control over Financial reporting For an audit of Internal Control over Financial reporting, management asserts that internal control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For an audit of Internal Control over Financial Reporting For Audit On Internal Control over Financial Reporting For Audit On Internal Control over Fin
Clarity Project affecting compilation and review standards with the issuance of SSARS No. 21, Statement on Standards for Accounting and Review Services: Clarification and Recodification and Review standards with the issuance of SSARS No. 21, Statement on Standards for Accounting and Review Services: Clarification and Review Servi
auditor. • Procedures are applied daily. If the noncompliance has a material effect and has not been adequately reflected in the financial statements, the auditor should express a qualified or adverse opinion on the financial statements. State the exception condition for the auditor should express a qualified or adverse opinion on the financial statements.
performance of internal verification. (1) A fee based on whether the CPA's report on the client's financial statements results in the approval of a bank loan. To address risks associated with reliance on technology, organizations often implement specific IT controls. Undertake only those professional services that the member or the member's firm can
reasonably expect to be completed with professional competence. The remainder of this chapter addresses the AICPA Code and related PCAOB and SEC requirements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise
have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement. What is the legal implication of Goligal Associates if they continue to service Desire Records Inc.? The medical people have a
tradition of doing all aspects of their job correctly, but because of a shortage of accounting personnel, there is not time for internal verification or careful performance. The primary purpose of this information is to understand the client's business and assess the risk of financial failure, but any other relevant conclusions are also desirable. Cash
receipts Journal or Listing This listing or report is generated from the cash receipts transaction file and includes all transactions for a time period. Consider: Need to issue a separate report on internal control over financial reporting for accelerated filer public companies Nature, extent, and timing of substantive tests (extensive planned substantive planned 
balances • Significant balances • Less significant balances Lowest assessed control risk Moderate assessed control risk ARO of high ARO is not applicable • TER of 5% • TER of 6% Note: The guidelines should recognize that there may be variations in
AROs based on audit considerations. The types of internal controls will vary based on the type and complexity of the IT system, and we briefly discuss a few of these systems below. The sales are made in the same period as the related sales
are recorded and are based on historical trends, as well as analyses of other relevant factors. Which of the following, if material, is a fraud as defined in auditing standards? (4) Perform substantive analytical procedures. However, if we use industry data to develop expectations about the two ratios for 2016, we should expect both ratios for the client
to increase. The concern is that such guidelines might be applied without considering all the complexities that should affect the auditor's final decision. Cooper receives the cancelled checks and bank statements. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Information
provided by others must be relied upon. Referral fees for recommending or referring the services of another CPA are not considered commissions and are not restricted. The total of the individual account balances in the master file equals the total balance of accounts receivable in the general ledger. Although our focus in this chapter is on controls
 over transactions, the auditor must also understand controls over balances and presentation and disclosure, particularly in an integrated audit of the financial statements and internal control over financial report appears on the preceding page.
When the auditor uses monetary unit statistical sampling to examine the total dollar value of invoices, each invoice (1) has an equal probability of being selected. Namie 53 Vice President operations (c) Joseph a. The Center's mission is to foster confidence in the audit process and to make public company audits even more reliable and relevant for
investors. Auditing should be done by a competent, independent person. (2) The auditor will increase the planned detection risk. Audit Procedures • Examine the cash disbursements journal in the accounting system and compare the planned detection risk. Audit Procedures • Examine the cash disbursements journal in the accounting system and compare the planned detection risk.
Current Long-term Total end. Describe any risks of material misstatement at the assertion level. Explain to her the objectives of the tasks. For each control, identify a likely misstatement, assuming that the control does not exist or is not functioning. Compare the date on a sample of shipping documents throughout the year with related duplicate sales
invoices and the accounts receivable master file. Additionally, inquiries of those charged with governance provided by the board of directors and others, which is an important essential control. Auditors are responsible for obtaining reasonable assurance that
material misstatements are detected, whether due to fraud or error. Computer automatically posts transactions to the accounts receipts, one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the amount and cash receipts for the rest, and one to a vendor's credit memo for part of the rest.
credit memo. 62 For a CPA firm, quality control comprises the methods used to ensure that the firm meets its professional responsibilities to clients and others. The act makes it illegal to offer a bribe to an official of a foreign country for the purpose of exerting influence and obtaining or retaining business. Chapter 6 illustrates an effective decision
making process that guides auditors' thinking to help them be aware of their own judgment tendencies, traps, and biases. Acceptable audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit risk is a measure of how will not accept that the financial statements may be materially misstated after the audit risk is a measure of how will not accept that the financial statements may be materially misstated after the audit risk is a measure of how will not accept that the financial statements may be materially misstated after the audit risk is a measure of how will not accept that the financial statements may be materially misstated after the audit risk is a measure of how will not accept the financial statements may be materially misstated after the audit risk is a measure of how will not accept the financial statements may be materially misstated after the audit risk is a measure of how will not accept the audit risk is a measure of how will not accept the financial statements are not accept the financial statements.
Auditors may also learn about related parties by reviewing SEC filings and examining stockholders' listings to identify principal stockholders. Our auditors were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board of Directors. A member in public practice shall be independent in the
performance of professional services as required by Standards promulgated by Council. Separation of Transactions from having control over the related asset, to reduce the likelihood of embezzlement. The court
 of appeals also stated that proof of recklessness may meet the requirement of intent in Rule 10b-5, but that it need not address whether there was sufficient recklessness in this case because the CPA firm had knowledge of the misstatement. Design and perform substantive analytical procedures for accounts in the sales and collection cycle. • Column
2 lists one or more illustrative internal controls for each transaction-related audit objective. Moreover, the system includes data such as expected restock dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability dates for items that are currently sold out and expected availability
transactions, substantive analytical procedures, and tests of details of balances. Human resources Policies and procedures should be established to provide the firm with reasonable assurance that Each professional must be evaluated on every engagement using the firm's individual engagement evaluation report. See Chapter 6, pages 161-162, for
the six transaction-related audit objectives. Fran also assessed inherent risk as medium for realizable value. Known misstatement required 7. The firm's legal and professional responsibilities are such that clients who lack integrity or argue constantly about the proper conduct of the audit and fees can cause more problems than they are worth. We
have also audited Hillsburg Hardware Company, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Note that the potential understatement of the reserve was
signaled by the analytical procedures in Table 16-3 (p. How the auditor might respond to the susceptibility of material misstatements due to fraud. In other words, the CUER for attribute 6 is 6.6 percent at a 5 perce
quality of the audit meets professional standards. and, over time, auditors may be lured into placing too much trust in management, which causes them to avoid negative encounters with members of management, which causes them to avoid negative encounters with members of management. The auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor may obtain knowledge and information from the auditor's risk assessment should be ongoing throughout the auditor's risk asses
performance of audit procedures that suggest fraud may be present. Each worker takes a time card on Monday morning, fills in his or her name, and punches the time clock upon their daily arrival and departure. He practiced public accounting with both a local CPA firm and the predecessor firm to Ernst & Young. Would the issues or outcome be
significantly different if the suit was brought under the Securities Exchange Act of 1934? This is not a violation of either objectivity or integrity, because it is acceptable for the CPA to be a client advocate in tax and management services. Rhonda's work was not adequately documented, and what was there indicated that her testing relied almost
transactions audit procedures. She was not in communication with her former colleagues since her marriage. Account for a sequence of purchase orders and voucher document packages. The audit program omits several necessary audit procedures. Notice that the top part of the form includes a definition of the objective, the population, and the
sampling unit. For each specific transaction-related audit objective, identify the appropriate management assertion. When an organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization such as the IRS wants to determine whether individuals or organization whether individuals or organization such as the IRS wants to d
for that objective. During the current year audit, Cai examined the amount recorded in the general ledger allowance account and reconciled that amount to the amount to the amount to the amount recorded in the general ledger allowance account and reconciled that amount to the amount recorded in the general ledger allowance account and reconciled that amount to the amount to the amount to the amount to the amount recorded in the general ledger allowance account and reconciled that amount to the amount recorded in the general ledger allowance account and reconciled that amount to the amount to the amount recorded in the general ledger allowance account and reconciled that amount to the amount recorded in the general ledger allowance account and recorded in the gen
of Tanzania. Analyze the misstatements. Examples of Risk Factors Exampl
receivable For the following procedures, identify which audit objective each procedure is intended to satisfy. Part A establishes the five fundamental principles related to integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Rufus Austin Antiques 5. Her initial reaction was to accept the documentation
so Chen could move on to other testing. The auditor must therefore obtain additional evidence about the operating effectiveness of controls throughout all, or at least most, of the period under audit. This process requires great care and uses one of several methods discussed shortly. The process of documenting helps the auditor to be more objective
and complete in assessing the reasoning used in reaching a judgment decision. In addition, we intend to maintain and further develop our customer base through recently implemented post-sale service programs." The operating results in this report demonstrate that our objectives have been achieved, resulting in a net income increase of $740,000
from 2015 to 2016. 0 py $ 102 x (102) x $ 0 $ $ 0 py 105 x (105) x $ 0 $ $ 0 py 105 x (105) x $ 0 $ $ 601 x = Tested py = Agrees with prior year's audit schedules. Inadequate separation of duties is practically a license for employees to steal. The assigned staff on the audit engagement lacks the necessary skills to identify actual errors in
regulations. Your audit director is of the opinion that your colleague needs to revisit his investigation after you have finished yours. 446 Part 2 / The AudiT Process Figure 12- 13 CENTRALIZED PURCHASING DEPARTMENT Pinnacle Manufacturing — Acquisition and Payment Cycle RECEIVING DEPARTMENT Pinnacle Manufacturing — Acquisition after you have finished yours.
DISBURSEMENTS CLERK Receive and check goods Receive wendor's invoice Review document package for completeness, initial, and write date on invoice Receiving report INV Prepare purchase order from approved by supervisor Purchase order P.O. R.R. Key enter and process cash disbursement transaction data R.R.
                                                                                                                        uses an adequate detailed chart of accounts. (Cash dispursements transactions will have to be auditor can reach a conclusion about the ending balance in the cash account.) One way the auditor can verify recording of transactions is to perform tests of
controls. To prevent other Peregrine employees from learning about the real bank balances, Wasendorf insisted that only he could open mail from the bank. Inquiries and substantive analytical procedures would be relied on for assurance about events between the interim audit date and fiscal year-end. Customers The majority of our customers are
located in Illinois, Michigan, Wisconsin, Ohio, and Missouri. Acceptable risk of incorrect rejection (ARIR). 7-30 (Objective 7-4) Following are 10 audit procedures with words missing and a list of several terms commonly used in audit procedures.
for uncollectible accounts. SALES TRANSACTION-RELATED AUDIT OBJECTIVES D med. 6-29 (ObjeCtive 6-8) The following are various management assertions (a. An initial public offering of WRS stock is planned in 2017. Two ratios are leasier to
detect when goods are shipped on credit to customers. An increase in accounts receivable is expected since sales overall are increasing. The risk of overreliance. The owner is extremely pleased with the efficiency of the company. Include the numbers in both
random order and sorted numbers, from low to high, Sample Size The major factors affecting sample size for confirming accounts receiv- able fall into several categories and include the following: Sampling Decisions • Performance materiality • Inherent risk (relative size of total accounts receivable, number of accounts, prior-year results, and
expected misstatements) • Control risk • Achieved detection risk from other substantive tests (extent and results of substantive analytical procedures, and other tests of transactions, and the substantive analytical procedures, and the substantive analytical proc
desirable with most confirmations. Define the population precisely (including stratification, if any): Sales invoices for the period 1/1/16 to 10/31/16. The risk of material misstatement exists at two Part 2 / The AudiT Process levels: the overall financial statement level and at the assertion level for classes of transactions, account balances, and
presentation and disclosures, 492 In this chapter, we've discussed account balances, classes of transactions, business functions, and related documents and records for the sales of OnePlus Technology (the "Existing Segment"), and included the performance of the
sales and collection cycle: 1. Print the output. The client fails to recorded cash balances. If management cheats customers through overcharging for goods or engaging in high-pressure sales tactics, employees may feel that it is acceptable for them to behave in the same fashion by cheating on expense or time reports. DMO
Enterprises, Inc., engaged the accounting firm of Martin, Seals, & Anderson to perform its annual audit. What are the auditor's responsibilities for related parties and related parties a
appropriate to only use negative confirmation except in which circumstance? At the end of the day, there was a meeting attended by Lehman, Trent, the underwriter of the stock offering, and the company's attorney. Solicitation by the use of coercion, overreaching, or harassing conduct is prohibited. The largest sample (a size of 100) is selected for
tests of attributes 2 through 5, because of the degree of precision required. Monetary misstatements in populations of account balance details Knowing the exception rate is particularly helpful for the first two types of exceptions, which involve transactions. (1) Has he violated the AICPA Code of Professional Conduct? There are a number of other
techniques auditors can employ to avoid potential traps, such as reassessing how the decision or judgment was reached, explaining the judgment rationale to others, and biases might have influenced the auditor's decision-making process.
attitudes/rationalization The attitude of top management toward financial re- porting is a critical risk factor in assessing the likelihood of fraudulent financial statements, as illustrated by Figure 12-3 illustrated by Figure 12-3 only illustrates
the control risk matrix for transaction-related audit Senior executives at Livent, Inc., the Toronto theater owner and producer of Broadway-style shows including Show Boat, Ragtime, and Phantom of the Opera, took their theatrics to a new level when they allegedly engaged in a pervasive fraud to materially distort their financial statements over an
eight-year period. Only include identified minor risks if there are insufficient significant risks. Are shipping documents controlled from the office in a manner that helps ensure that all shipments are billed? 394 Part 2 / The AudiT Process cOncept check 1. If that has occurred, the auditor will find no differences in comparing actual data with budgeted
data, even if there are misstatements in the financial statements. The report did not refer to generally accepted accounting principles or to the consistent application of such
principles, international accounting and auditing Standards Objective 3-9 Understand use of international accounting and auditing standards by U.S. companies. Granted, fraud committed with collusion between management can be hard to detect, but surely there must have been something else the CPA firm could have done, right? 49) shows,
attestation services and accounting and bookkeeping services are a major source of revenue for most large CPA firms. The customer and programmer split the savings from the unauthorized discount. Sources: Press release from the Securities Commission Malaysia, Audit Partner Jailed One Year, Fined RM400,000 for Misleading Disclosure of
Financial Information .my/post archive/audit-partner-jailed-one-year-fined-rm400000-for-misleading-disclosure-offinancial-information/. Recompute prices and extensions on sales invoices and trace price on sales invoices and extensions of extensions
focus on identifying areas that may represent specific risks relevant to the audit 3. Auditors should also attempt to avoid preconceived ideas about the information being provided. We next examine some widely used financial ratios. Account for a seguence of cancelled checks. Chapter 11 / Internal Control and CoSo Framework 399 11-15 (Objective
11-4) Identify risks for extensive IT-based accounting systems. For accelerated filer public companies, the auditor must evaluate the control deficiencies to determine their effect on the auditor's report also includes an additional paragraph before the opinion that addresses the inherent limitations of
internal control. Auditor's direct knowledge. Designed to obtain evidential matter about particular assertions related to account balances or classes of transactions 6. If the information indicates an increased risk of fraud, indicate which fraud condition (incentives/pressures, opportunities, or attitudes/rationalization) is indicated. To illustrate the
calculation, assume that in auditing inventory the auditor found $3,500 of net overstatement amounts in a sample of $50,000 of the total populations, including all U.S. public companies, have a whistleblowing process for employees to report actual or suspected wrongdoing or potential violations of the code of conduct
or ethics policy. For example, when a borrower provides financial statements to a lender, there is considerable likelihood that the borrower will bias the statements to increase the chance of obtaining a loan. Pinkas, 58 years old, lives in Ohio. Many pointed to Enron's incredibly complicated business structure and related vague and confusing financial
statements. The use of e-commerce systems also exposes sensitive company data, programs, and hardware to potential interception or sabotage by external parties. 411) and is presented here for further review. What is the vision and mission of the Global Reporting Initiative? Table 4-1 summarizes the organization of the Code of Professional
Conduct. We will deal with tests of controls for both audits of financial reporting and audits of financial statements. 5-15 (Objective 5-6) The following questions deal with liability under the 1933 and 1934 securities acts. An auditor may fully comply with auditing standards and still fail to uncover a material misstatement due to
fraud. Auditors often supplement their review of minutes with inquiries of the audit committee or full board about their awareness of events that might affect financial reporting. This largely involves equipment located at its multiple energy production facilities. Now assume TER is 8% and EPER is zero, for an 8% precision. The AICPA provides a
considerable number of seminars and educational aids in a variety of subjects, such as online continuing education opportunities and reference materials in its CPExpress online learning library and its daily email alert about emerging professional issues through its CPA Letter Daily. Because of the inherent limitations of an audit, together with the
inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. A clerk computes the approximate dollar amount of the order and sends it to the credit department for approval. Figure 13-7 builds on Figure 13-7
5 by also showing how tests of controls and substantive tests of transactions affect the design of the population. The inventory master file is
maintained electronically. The auditor should first obtain an understanding of the entity's financial reporting process, as well as controls over journal entries and other adjustments, and inquire of employees involved in the financial reporting process, as well as controls over journal entries and other adjustments. John &
Peter also performed a purchases cutoff test by vouching accounts payable invoices received for 9 weeks after year-end. Locate the actual number of exceptions found in the audit tests at the top of the table. (4) Debit entries in the accounts receivable master file are correctly supported by sales invoices. Two requirements are to keep the current ratio
above 2.0 and debt-toequity below 1.0 at all times. Compare your answers in part c. "An audit involves obtaining evidence about the financial statements are free from material misstatement, whether caused by fraud or error" instead of "An audit
involves checking to identify all instances of fraud or error." d. modificationS to the opinion in the aUdit report Objective 3-5 Identify the types of audit reports that can be issued when an unmodified opinion is not justified. Such services are valued because the assurance provider is independent and perceived as being unbiased with respect to the
information examined. As we discussed in Chapter 6, the auditor has a responsibility to respond to fraud or errors, are detected. We'll examine it in more detail later in this chapter. (3) evaluation. Financial statements are
printed monthly by the controller and reviewed by the president. The auditor's consideration of whether the calculated allowance for sampling risk is sufficiently large also depends on the sample size used. For each of the internal controls, state the transaction-related audit objective(s) the control is meant to fulfill. Recalculation is usually low cost
because it involves simple calculations and tracing that can be done at the auditor's convenience. (2) control risk is assessed at less than the maximum. 9-2 (Objective 9-1) Why is it important for the auditor to consider the risk of material misstatement at the overall financial statement level? An audit also includes assessing the accounting principles
used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Other terms Common law Laws that have been developed through court decisions rather than through government statutes. The PCAOB is proposing a numerical reorganization of their standards by topical area. The reason that
many diverse users are willing to rely on CPA reports is the users' expectation of an unbiased viewpoint. Others develop their own customized audit software. Interpretations indicate that independence is considered impaired if billed or unbilled fees remain unpaid for professional services provided more than one year before the date of the report. It
is highly subjective to do so. Compare and contrast transaction-related audit objectives with balance-related audit objectives with balance-related audit objectives. When these conditions are met, the standard unmodified opinion audit report for an audit of a nonpublic company, as shown in Figure 3-1, is issued. She was asked to perform the
following tests by her supervisor. Even though adjusting entries discovered in the audit are often prepared by the auditor, they must be approved by the client because management has primary reasons why people act unethically: The
person's ethical standards are different from those of society as a whole, or the person chooses to act selfishly. For the vendor with the largest total amount identified in part c., identify and print out any transactions that exceeded $1,000 for subsequent follow-up. Clearly, the losses in the stock market have affected the earnings of the charity
foundation. To obtain sufficient appropriate evidence to support that assessment, the audit of the effectiveness of internal control be integrated with the audit of the financial statements. tabLe 15-5 Guidelines for ARO and TER for Nonstatistical Sampling: Substantive
Tests of Transactions Planned Reduction in Substantive Tests of Controls ARO for Substantive Tests of Controls ARO for Substantive Tests of Transactions TER for Substantive Tests of Transactions for Transactions For Substantive Tests of Transactions TER for Substantive Tests of Transactions for Tests of Transactions For Substantive Tests of Transactions TER for Substantive Tests of Te
related accounts Moderate Excellent1 Good Not good High Medium Medium-low Percent or amount based on materiality considerations for related accounts Note: The guidelines should also recognize that there
may be variations in AROs based on audit considerations. summAry of Key evidence-related terms Several evidence-related terms have been used in the past several chapters. During 2016, the client made changes to this software system.
classes of transactions and the related accounts and disclosures in the financial statements. J.P. (2014) The Petrobras affair Published on Sep 8th 2014 on Economist Online, London, UK 2. As a percentage of net sales, general and administrative expenses decreased by 0.42% since 2015 and decreased by 0.55% from 2014 to 2015. The accounts
payable clerk matches vendor invoices with related purchase orders and investigates any differences noted. The Sarbanes-Oxley Act greatly increases the responsibilities of public companies and their auditors. Performance materiality is inversely related to the amount of evidence an auditor will accumulate. Erica Gomez was the
lead auditor at Kiholand BV. An example of fraudulent financial reporting is the intentional overstatement of sales near the balance sheet date to increase reported earnings. Auditors face two shortcomings in evaluating the allowance by reviewing individual noncurrent balances on the aged trial balance. Cutoff misstatements can occur for sales, sales
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returns and allowances, and cash receipts. 452 $9,460,776 $33.27-$677,632.97 $230,000 16,243 $92,883,712 23,661 $87,280,031 1 1 2 1 2 $52,349 $9,552 available online. As a result, U.S. standards are mostly consistent with international standards, except for certain requirements that reflect unique characteristics of the U.S. environment
such as legal and regulatory requirements. Examples when the objective applies are considering the adequacy of the allowance for uncollectible accounts receivable and write-downs of inventory for obsolescence. The burden of initiating the communication rests with the successor auditor, but the predecessor auditor is required to respond to the
request for information. Several invoices were lost when the office moved to a new location or negotiation or n
materiality concepts discussed in this chapter are directly related to those we introduced in Chapter 3. A related party is defined in auditing standards as an affiliated company, or any other party with which the client deals, where one of the parties can influence the management or operating policies of the
other. 10. 9974 Lack of indication of internal verification of price extensions and postings of sales invoice. He then asks her to investigate the company and write a report that includes the following information: 1. These procedures are designed to ensure that responses will be received directly by the auditor. Our report will be addressed to the board
of directors of Babb Clothing Co. We cannot provide assurance that an unmodified opinion will be expressed. Account for a sequence of shipping documents and trace each to the sales journal (inspection and reperformance). The method of accounting for the trucks is therefore changed to lease capitalization. 9-29 (Objectives 9-1, 9-2) This problem
requires you to access PCAOB Auditing Standard No. 12, Identifying and Assessing Risks of Material Misstatements (pcaobus.org). One category of assurance services provided by CPAs is attestation services. The question of level of care becomes more difficult in the environment of a review or a compilation of financial statements in which there are
fewer accepted standards to evaluate performance. We will organize the following discussion around this illustration and apply it to sales and cash receipts for Hillsburg Hardware Co. As discussed in Chapter 12, to obtain an understanding of internal control for sales, auditors study the client's flowcharts or other control documentation, make
inquiries of the client using an internal control guestionnaire, and perform walkthrough tests of sales. I ntegrity is an important principle for auditors to follow. Confirm all amounts over $100,000 and a statistical sample of the remainder (10). Under certain circumstances, the CPA may want to emphasize specific matters regarding the financial
statements, even though he or she intends to express an unmodified opinion. The materiality decision is a difficult one, requiring considerable judgment. Waseem: We noticed the same thing last year, too. Bryan Longview has been working six months as a staff assistant for Barton & Barton, CPAs. Currently he is assigned to the audit of Reyon
Manufacturing Company under the supervision of Charles Dickerson, an experienced audit risk, the auditor must first assess each of the factors affecting acceptable audit risk. Part 1 / THE AUDITING PROFESSION
Experience Requirement Varies widely from no experience to 2 years, including auditing. Figure 14-5 (p. Any identified fraud risk is considered to be a significant risk. Qualitative Factors also affect Materiality Certain types of
misstatements are likely to be more important to users than others, even if the dollar amounts are the same. 34-37. Auditors decide whether or not to use confirmations depending on the reliability needs of the situation as well as the alternative evidence available. If auditors use audit software to determine sample size, they enter values for
population size, TER, ARO, and EPER and the software returns the appropriate sample size based on sampling distributions as discussed above. The ethical responsibilities of CPAs are enforced by the AICPA for members and by state boards of accountancy for licensed CPAs. esseNtial terms Audit committee—selected members of a client's board of
directors whose responsibilities include helping auditors to remain independent of management Confidential client information—client information—client information—client information—the ownership of stock or other equity shares by
members or their immediate family Ethical dilemma—a situation in which a decision must be made about the appropriate behavior Ethics—a set of moral principles or values Independence in appearance—the auditor's ability to maintain an unbiased viewpoint in the eyes of others Independence of mind—the auditor's state of mind that enables an
unbiased viewpoint in the performance of professional services; also described as "independent in fact" Independent in fact interest—a close, but not direct, ownership relationship between the auditor and the client; an example is the ownership of stock by a member's grandparent Privileged information for matter in fact.
—client information that the professional cannot be legally required to provide; information that an accountant obtains from a client is confidential but not privileged review questions 4-1 (Objective 4-1) What are the six core ethical values described by the Josephson Institute? required 46 a. Table 7-6 includes a few ratios and internal comparisons to
show the widespread use of ratio analysis. Monthly Statement This is a document sent by mail or electronically to each customer, indicating the beginning balance of their accounts receivable, the amount and date of each sale, payments received, credit memos issued, and the ending balance due. Auditing standards require the auditor to perform
several audit procedures to accumulate information to assess the risk of fraud. They often combine observation of processes with the inspection of documents and receiving reports related to disbursements, that are part of those processes to gain an understanding of the design effectiveness of internal
controls related to financial reporting. The most notable proposed change is the requirement to communicate in the audit report "critical audit matters," which represent matters the auditor judgments or that posed the most difficulty
to the auditor in obtaining sufficient appropriate evidence for forming an opinion. Which financial statement accounts are impacted by the use of these technologies in a typical grocery store? Amazon.com is one of the world's largest online retailers of all kinds of products. The year was 1938. Makin Uthman relies on Jamal's advice before making any
business decisions that could significantly affect the taxes or financial statements of his company. For example, fraud involving the misappropriation of cash from a small petty cash fund normally is of little significance to the auditor, unless the matter involves higher-level management, which may indicate a more pervasive problem involving
management's integrity. It was then discovered that some of the payees were fictitious suppliers. Did you prepare this schedule? Following conclusion of the period of suspension, he is required to submit his first five audits for review by a registered company auditor approved by ASIC. The same 14 steps are used for both approaches, and the
terminology is essentially the same. For which of the four scenarios would the write-off of uncollectible accounts and bad debt expense business functions not be applicable? COSO updated the Framework in 2013 to make it more relevant in the current business environment. Inspection is the auditor's examination of the client's documents and
records to substantiate the information that is, or should be, included in the financial statements, an auditor can be assessed the
entire loss to shareholders if the company is bankrupt and management is unable to pay. Management of internal control over financial reporting consists of two key aspects. The arrangements were usually agreed to in advance by the vendor and supported by evidence of the placing of the ad. Companies send the original to the
customer, and retain one or more copies. Research commissioned by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Fraudulent financial THrEE AUDITOrS OF MOOrE STEPHENS (UK) SANCTIONED FOr IMPrOPEr PrOFESSIONAL
CONDUCT The Order finds that the audit conducted by Stewart and reviewed by Harbor and Chopping failed to examine various related party transactions between Cronos, a lessor of marine cargo containers, and Stefan M. We introduce these principles as we discuss each of the five components in greater detail. Gross negligence Lack of even sligh
care, tantamount to reckless behavior, that can be expected of a person. In some audits, there is emphasis on certain tests of transactions and tests of details of balances. This critical function is the first point in the cycle at
which the company transfers ownership of assets. To illustrate typical tests of controls, let's return to the control risk matrix for Hillsburg Hardware Co. in Figure 12-3 (p. The vignette on the prior page illustrates the importance of confirming transaction terms. Is this consistent or inconsistent with the auditor's responsibility in the audit? 66 Part 1
THE AUDITING PROFESSION a. In such a circumstance, the auditor should follow a two-step approach. Selected information from the company's 2013 31 Dec 2014 26,117 53,759 164 0 0-60 days past due (allowance) 1,111 (72) 2,975 (542) More than 60
days (allowance) 235 (28) 0 1,510 2,975 100 542 Sales Trade receivables Not past due Total Trade Receivables Total Allowance required a. p Positive confirmation received. Table 12-2 includes some of the common uses of generalized audit software. A less common example is the exercise of significant management influence on an audit client by its
most important customer. Compare the sample size for a TER of 7% with that of 4%, all other factors being equal. In each audit, you should be able to determine the description of the client from the evidence mix in Table 13-3. Make recommendations for improvement. • Institute. When we refer in this text to the auditor, we mean the person
performing some aspect of an audit. Confirmations are considered to be highly reliable evidence because they are received directly from third parties. Chapter 12 / Assessing Control risk And reporting on internAl Controls 411 Determine assessed Control risk Supported by the Understanding Obtained Use of a Control risk Matrix to assess Control
risk PHANTOm BOOKS 412 After obtaining an understanding of internal control, the auditor's overall assessment of the auditor's overall assessment of the auditor's overall assessment of the auditor makes a preliminary assessment of the auditor's overall assessment of the auditor's o
16-1, 16-2, 16-4) Teklas is an automobile parts manufacturer based in Turkey. The origin of every document and record in the system. These changes can represent important trends or specific events, all of which will influence audit planning. Select all purchases greater than $100,000 and print the list for follow-up testing of proper approval. Now
she is sitting here, in 2017, in a room full of attorneys who are asking her questions about the 2011 audit. For each situation, state the applicable rule of conduct and whether it is a violation. Discuss how Calvin should react to such test results. Although ABC had poor internal control, John & Peter selected a sample of 50 for confirmation of the
several thousand vendors who did business with ABC. Reem Al Amon, president, discussed the new marketing plan for wider distribution of catalogues in the southwestern Jordan market. The CPA has available generalized audit software that will run on the client's computer and can process the client's electronic records. Also, through client
acceptance and continuance evaluation procedures, auditors reject most potential clients perceived as lacking honesty and integrity. Auditors should also consider tests that address misappropriation of assets, even when the amounts are not typically material. For example, a larger sample size is needed for the test of credit approval (attribute 8) if
the TER is decreased from 9 percent to 6 percent. 100 5. The charity uses their earning among others to fund programs that help in eradication programs in the US and many developing countries. 15-19 (Objective 15-6) Define attributes sampling. Management
anticipates that the transaction will close in the third quarter, and, while there will be some challenges in integrating to the long-term. Selling, General, and Administrative Expenses: Selling expenses increased by $1,911,000 or
14.8% from 2015 to 2016 and by $805,000 or 6.7% from 2014 to 2015. Obtain direct confirmation of accounts receivable and perform alternative procedures for nonresponses. Create a separate audit schedule labeled "Acquisitions Substantive Tests of Transactions." Decide and write one substantive test of transactions audit procedure for each
transaction-related audit objective for acquisitions. The adverse opinion report can arise only when the auditor selects a sample of 50 sales invoices to test for attached shipping documents and finds one exception, the auditor could examine the probability
table in Table 15-7 and know there is a 20.25 percent probability that the sample came from a population with a 5 percent exception rate, and a 79.75 percent exception rate.
100 inventory items from a large population to test for proper pricing. Like for TER, there is an inverse relationship between ARO and planned sample size. Most auditors use a higher inherent risk for valuation of accounts receivable where most accounts are significantly overdue than where most accounts are current. Use the fraud triangle and
information from Parts I and II of this case to identify incentives/pressures, opportunities, and attitudes/rationalizations for Pinnacle to engage in fraudulent financial reporting. (We'll explain how SE is calculated later.) We can now calculate a confidence interval of the population mean using the logic gained from the study of sampling distributions.
As a result, it was relatively easy for the client to transfer inventories to the locations being tested. Verification by the Quality Engineer before the accountant can issue a credit note for a return of faulty goods by a customer. However, compliance with those laws and regulations is often fundamental to operation of the business and necessary to avoid
material penalties. The client will only bill the customer 7 days after he or she downloads a song. Product number and description on the duplicate sales invoice. A partner in the office of the partner responsible for the attest engagement 5. For example, the Acts Discreditable Rule appears in all three
parts of the Code, and the citations are 1.400.001, 2.400.001, and 3.400.001, respectively A summary of the rules of conduct outlines the ethical requirements for CPAs who practice in accounting firms or work in organizations as part of
management. Trace selected shipping documents to the sales journal to be sure that each one has been included. Because of the high cost of tests of details of balances, auditors usually try to plan the audit to minimize their use. In situations Part 1 / THE AUDITING PROFESSION where management sues a CPA firm claiming a deficiency in the
previous audit, the CPA firm is not considered independent for the current year's audit. Auditors use sampling for tests of controls are operating effectively and whether the rate of monetary errors is below tolerable limits. according to an expert witness, around 80 percent of the
1,042 bills of lading related to the Macau subsidiary's transactions between 2007 and 2013 were false2. (3) inherent risk. • The Accounting and Review Services Committee (ARSC) was formed as a major committee of the AICPA to set forth guidelines for unaudited financial statements of nonpublic companies. Describe the three broad objectives
management has when designing effective internal controls. Other programs and controls may be implemented at a company-wide level, such as the training of all employees about fraud risks and strengthening employment and promotion policies. analysis of audit 1 This client is a large company with sophisticated internal controls and low inherent
risk. The confidence coefficients for ARIA are therefore different from the confidence level. Second, it is difficult to compare the results of the current year with those of previous years on such an unstructured accounts receivable Is Stated at realizable Value Chapter 16 / Completing the tests in the sales and ColleCtion CyCle: aCCounts ReCeivable
575 Figure 16-4 Analysis of Allowance for Uncollectible Accounts for Hillsburg Hardware Co. Hillsburg Hardware Co.
Schedule Prepared by TW Approved by SB Estimated Allowance $ 1,240,000 Difference $ TB 94,789 — Traced to aged accounts receivable trial balance. The second copy of
the invoice, which has been validated by the cash register, is given to the customer. We will discuss factors affecting acceptable audit risk shortly. For example, it may be far less expensive to calculate and review sales and accounts receivable ratios than to confirm accounts receivable. The system of quality control should include policies and
procedures that address six elements. A smaller precision, which is called a more precise estimate, requires a larger sample. Significant recurring operating losses or working capital deficiencies 2. The client provides music downloads to its customers. Almost no misstatements are expected in payroll and personnel, but many are expected in inventory
and warehousing. or e. Why is business failure a concern to auditors? These tables assume a very large (infinite) population size, which results in a more conservative CUER than for smaller populations. the significance of this threat and whether to accept or continue withing the conservative CUER than for smaller populations.
the client. The partners of the firm eventually became dissatisfied with Small's productivity and warned him they would be forced to discharge him unless his output increased significantly. The Starbucks Coffee Company sells regular and specialty coffees and teas in over 20,000 stores spanning more than 60 countries. The chapter ended with a
discussion of the impact of a more complex information technology environment on control risk assessment and testing. In some cases, it also recognized revenue without a request for product from HSN. If this is the only error discovered by the auditor, the projected error of the sample would be (1) $1,000. Identifying significant risks as part of
planning is important, given auditing standards require the auditor to obtain an understanding of the entity's controls, and the auditor must perform substantive tests related to assertions deemed to have significant risks. During the short period of
operation in drilling, the company has had three dry wells and no successes. An example is the failure of a CPA firm to deliver a tax return on the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it still looked as if the audit team was putting in 70-hour weeks, and it stil
customer orders (C2). The last three steps result from performing audit tests. The 1998 restatement of Livent's financial statement of reported income. release No. 3371. I n Chapter 16, we moved into phase III of the audit process by examining substantive analytical procedures and
tests of details of balances for accounts receivable. (The returned goods should be treated as current period in which they occur, under the assumption of approximately equal, offsetting amounts at the beginning and end of each accounting
period. For example, many of the controls for payroll transaction-related audit objectives reside within the software program maintained and supported by the payroll services company, not the audit client. trace recorded sales from the sales journal to the file of supporting documents, which includes a duplicate sales invoice, bill of lading, sales order,
and customer order. Which of her tasks cause you concern? Audit procedures often incorporate sample size, items to select, and timing into the procedure. Meeting adjourned 7 pm. (2) machine capacity. (1) Accuracy (3) Completeness (2) Occurrence (4) Posting and summarization b. Allowing one person to perform both functions increases the risk of
that person disposing of the asset for personal gain and adjusting the records to cover up the theft. Similarly, the auditor will first assess the risk of fraud for the overall audit, and later consider whether any fraud risks exist that may affect fraud risk assessments for specific accounts and the audit procedures and sample sizes for tests of details of
balances for accounts that are affected. Table 16-5 shows the audit program in a performance format. other rules of coNDuct Objective 4-7 Understand the requirements of other rules under the AICPA Code. Many large companies have varied and extensive inventory in multiple locations, making it relatively easy for the company to add fictitious
inventory to accounting records. Part 1 / THE AUDITING PROFESSION Integrity means impartiality in performing all services. d. These 10 GAAS standards generally address the same concepts as the principles. Observe endorsement of incoming checks (5). Signed W-4s (Employee's Withholding Exemption Certificates) 16. An essential part of the
auditor's responsibility in auditing cash receipts is to identify deficiencies in internal control that increase the likelihood of fraud. During the period between October 19, 2001, when Enron alerted Andersen that the SEC had begun an inquiry into Enron's accounting for certain special purpose entities, and November 8, 2001, when the SEC served
Andersen with a subpoena in connection with its work for Enron, Andersen personnel shredded extensive amounts of physical documentation and deleted computer files related to Enron. required For each error or fraud, select one internal control that if properly designed and implemented, most likely would be effective in preventing or detecting the
errors and fraud. Objective 4-6 Understand Sarbanes-Oxley Act and other SEC and PCAOB independence requirements and additional factors that influence auditor independence. Note that the topic of this chapter is closely related to earlier discussions of auditor's responsibilities, transaction cycles, audit objectives (Chapter 6), along with
materiality and planning the audit (Chapter 8). Overstatement or understatement or u
firm located outside of Chicago. The chapter also describes how auditors of accelerated filer public companies integrate evidence to provide a basis for their report on the effectiveness of internal control over financial reporting with the assessment of control risk in the financial statement audit. Although the audit was performed in conformity with
auditing standards, there were some relatively minor misstatements. The Securities and Exchange Commission (SEC), an agency of the federal government, assists in providing investors with reliable information upon which to make investment decisions. Statement of Condition Merchandise inventory and trade accounts receivable together accounted
for over 95% of current assets in both 2016 and 2015. Misstatements in accounts receivable and related income statement accounts receivable and related income statement accounts. In this section, we'll explain each of the eight business functions and describe typical documents may be
effective for identifying possible problem areas, where the auditor may do additional analysis and audit testing, as well as business problem areas in which the auditor can provide other assistance. Using the Invoices file, filter the file to retain only those invoices that are still outstanding and save this filter as "Accounts Receivable." (Filter) Determined
the number and total dollar amount of the outstanding invoices (Total). Similar to the PCAOB's proposal to require auditor's report, the new IAASB standards require auditor's report, the new IAASB standards require auditor's report.
assertion. While the primary purpose of an assurance Service is to improve the quality of information, the primary tabLe 1-1 Other assurance Services Examples Other assurance Service activities Controls over and risks related to investment, including policies related to derivatives assess the processes in a company's investment practices to
identify risks and to determine the effectiveness of those processes Mystery shopping Perform anonymous shopping to assess risks of accumulation, distribution, and storage of digital information assess security risks and related controls over electronic data, including the
adequacy of backup and off-site storage Fraud and illegal acts risk assessment Develop fraud risk profiles, and assess the adequacy of company systems and policies in preventing and detecting fraud and illegal acts Organic ingredients Provide assurance on the amount of organic ingredients included in a company's products Compliance with
entertainment royalty agreements assess whether royalty agreements assess whether royalty agreements ISO 9000 certifications Certify a company's compliance with ISO 9000 quality control standards, which help ensure company products are of high quality Corporate responsibility and sustainability report on whether the
insurance to the accounting staff of her client. A recent investigation has disclosed that Nefret materially overstated net income. For this problem, use the file labeled "Purchase Orders" in the "Acquisitions Payment" subfolder of the ACL Rockwood project. Income Taxes: The deferred income tax account includes temporary differences between book
(financial accounting) income and taxable income (for IRS reporting purposes). The auditor can accomplish this by examining internal documents, and evidence of cash receipts and trace amounts to the cash receipts journal, testing for names, amounts, and dates
They involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditors. For public companies, the auditors are required by the auditors. For public companies, the auditors are required by the auditors.
to understand the client's business and industry and to assist in determining the nature, extent, and timing of audit procedures. Table 15-6 shows the effect on sample size of independently increasing each factor. Confirmation that was requested
by the auditor. In other cases, the member may conclude that the threat is so severe that no safeguards can eliminate the threat or reduce it to an acceptable level. Let's discuss some specific activities briefly: • Standard and rule setting. The revised Code also provides a conceptual framework to provide guidance for members in situations where an
interpretation of the rules does not exist. Incidences of channel-stuffing like this illustrate why an auditor should consider confirming sales transaction terms, such as right of return or side appropriate evidence to satisfy any audit
objective. Kellum & Kellum, LLP Brentwood, Tennessee February 2, 2017 *The introductory, scope, definition of internal control, inherent limitations of internal control, and reference to the opinion on the financial statements paragraphs use standard wording and are not included. 172 Auditing standards require that an audit be designed to provide
reasonable assurance of detecting both material errors and fraud in the financial statements. Count j. Communications from banks, attorneys, or customers is generally considered more reliable than answers obtained from inquiries of the client. Only reports involving other auditors use different wording in the introductory, scope, and opinion
paragraphs. During the recent year, Henderson acquired a regional electric company, which expanded the number of energy production facilities. A review report that provides limited assurance about whether financial statements are fairly stated in accordance with U.S. GAAP. 72) with the wording for a public company audit under PCAOB auditing
standards in Figure 3-3 (p. In converting from a design format audit program to a performance format audit program, procedures are combined. With the increasing volume and complexity of various types of financial instruments and challenges associated with fair value accounting, Chapter 23 addresses issues associated with auditing financial
instruments and obtaining sufficient appropriate audit evidence for fair value account estimates. 16-4 (Objective 16-3) Your client, Amah's Zone.com, organizes a special year end sale, beginning from Boxing Day to New Year's Day every year. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to
any professional services performed. Similar rules apply to other individuals in a position to influence the audit engagement of fice. A firm's governance includes its organizational structure, as well as the activities of the board of directors and the audit committee. It is cost effective B. In some cases, the auditor's
consideration of management's antifraud programs and controls identifies deficiencies that fail to mitigate these risks of fraud. Simply stated, auditors are to remain alert for the possibility of the presence of material misstatements whether due to fraud or error throughout the planning and performance of an audit. Foreseen user Rusch Factors v
Materials published by the AICPA, such as the Journal of Accountancy and industry audit guides, furnish assistance on specific questions. Makeup of the population of material misstatement. Companies may also understate bad debt expense, in part because
significant judgment is required to determine the correct amount. There were more than 40 locations. However, performance materiality can vary for different classes of transactions, Part 2 / The AudiT Process account balances, or disclosures, especially if there is a focus on a particular area. According to the bank's records, there is currently an
outstanding loan of $380,000 to Danville Bus Services, a company that schedules charter bus trips between Copenhagen and other cities in Scandinavia. Auditors must determine the types and amount of evidence necessary and evaluate whether the information corresponds to the established criteria. The PCAOB now has responsibility for auditing
standards for U.S. public companies and broker-dealers registered with the SEC, while the ASB continues to provide auditing standards for private companies and expanded to Asian region such as Hong Kong, Japan and Korea. Developing KRIs can result
in improved performance by reducing losses and identifying risks that can be strategically exploited to the company's benefit. Identify which of the conditions requiring a deviation from a standard unmodified opinion audit report is applicable, if any. The following is a modification of the audit procedure previously used to include all four audit
evidence decisions. Most risks auditors encounter are difficult to measure and require careful consideration before the auditor can respond appropriately. For automated controls, the auditor determines that
general controls are effective and there is minimal risk that the automated control has been changed since the understanding was obtained. C hapter 14 dealt with designing tests of controls and substantive tests of transactions for the sales and collection cycle. Although Hillsburg is a publicly traded company, its stock is not widely held or extensively
followed by financial analysts. Ratio estimation can result in sample sizes even 626 Part 3 / APPlicAtion of the population is proportionate to the recorded value of the population items. An example of a report used in the audit of a
nonpublic company is provided in Figure 12-6. For which attributes are the sample results unacceptable? Sample sizes near or above the upper range are appropriate where other sources of evidence are less persuasive, where there are concerns about the operations of the control, when controls have changed, or where deficiencies have been
experienced in the past. In audits, failure to meet auditing standards is often conclusive evidence of negligence. An auditor can easily test this by comparing recorded sales with the related shipping documents for the last few days of the subsequent period. 17-4 (Objective 17-2) Distinguish between the point
estimate of the total misstatements and the true value of the misstatements in the population. The fair market value of each bus, using the current "blue book" for buses, which estimates the approximate wholesale prices of all used bus models, using the poor, good, and excellent conditions guidelines established in Part 3. Does the computer
automatically post transactions to the accounts receivable master file and general ledger? An aim of the allocation is to minimize audit costs without sacrificing audit quality. This is the case even if a CPA sells the practice to another CPA firm or is willing to permit a successor auditor to examine the audit documentation prepared for a former client. In
some cases, however, a lower acceptable audit risk may be more appropriate for one account than for others. The calculation of the point estimate for the point estimate for the point estimate for one account balance can be either overstated or understated, but not both; therefore, ARIA is a one-tailed statistical test. 1 Source: Copyright American
Institute of CPAs. All rights reserved. Chapter 14 / Audit of the SAleS And ColleCtion CyCle 513 discussion Questions of the type generally found in internal control questionnaires used by auditors to obtain an understanding of internal control in the
sales and collection cycle. For example, a CPA may be engaged to design and install a new information technology system for a client as a consulting engagement. The stock price dropped sharply and a class action suit was filed naming Lake's firm among the defendants. If all accounts included in the general ledger were disclosed separately on the
statements, most statement users would be more confused than enlightened. For other objectives, sufficiency is determined primarily by the number and quality of procedures performed to meet the audit objective. The IAASB, AICPA, and PCAOB must constantly set standards and revise them to meet the changing needs of auditing. elder randy elder
who has served as a coauthor of this textbook since the 8th edition, is Professor of Accounting at Syracuse University. Hogan to be identified as the authors of this work have been asserted by them in accordance with the Copyright, Designs and Patents Act 1988. In projecting the sample results to the population for the attribute with one control
deviation identified, Annie entered the confidence level, sample size, and one deviation into the audit software sampling module and determined that the computed upper exception rate for the attribute is 7.92%. 1 5 5 93 100 10 10 16.4 5. If you choose to use the simple random sample section method, (1) Establish a numbering system for the
population. There is a 10 percent statistical risk that the population is understated by more than $1,760, and the same risk that it is overstated by more than $19,840. It is unacceptable to use the phrase except for with any other type of audit opinion. required 4-29 (Objective 4-2) Robert Chin migrated to the United States of America from Malaysiated by more than $19,840. It is unacceptable to use the phrase except for with any other type of audit opinion.
after completing his accounting bachelor's degree from a university in New Orleans. What percentage of the frauds involved improper revenue recognition? These services range from simple suggestions for improving the client's accounting system to advice in risk management, internal controls, information technology and e-commerce system
design, mergers and acquisitions due diligence, business valuations, and actuarial benefit consulting. Inherent risk is inversely related to planned detection risk and directly related to evidence. State the audit procedure that can be tested by sampling. duplicate sales order and test for customer name, product description, quantity, date, and indication
of internal verification. 5-6 (Objective 5-4) A common type of lawsuit against CPAs is for the failure to detect a fraud. Decide the appropriate action. ......Page 108 Code of Professional Conduct ......Page 110 Independence Rule ......Page 114 Sarbanes-Oxley
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......Page 881 Multiple Choice Questions from CPA, CIA, and CMA Examinations......Page 882 Discussion Questions and Problems ......Page 885Index ......Page 885Index ......Page 887 Citation preview Auditing And AssurAnce services An integrAted ApproACh sixteenth edition gloBAl edition Alvin A. Because it is fairly costly to confirm receivables a
second time, assume an ARIR of 25 percent. Discuss why most auditors use before-tax net earnings when calculating materiality based on the income statement. It was estimated that $$14.5 to $34.6 billion lost in the 2011 tōhoku earthquake and tsunami. Ms. Sachdeva avoided using wire transfers during the month of
June because she knew this was the month the auditors would review the bank records. The only difference in sample selection for statistical and nonstatistical sampling. This rule shall not be construed (1) to relieve a member of his or her professional obligations
                        iance with Standards Rule or the Accounting Principles Rule, (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member s professional practice under
AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy. Notice that the total
is the same as accounts receivable on the general ledger trial balance in Figure 6-5 on page 154. For example, an entity may have recorded an unusual sales transaction that involves terms different from the normal course of business. An audit of a British private company to be used for a loan from a publicly traded bank in the United Kingdom q. How
do these risks impact the efficiency and effectiveness of the audit? (Filter) c. Inquiries of internal audit personnel may provide important information about key risks to the business affecting not only financial reporting, but also operations and compliance with laws and regulations that may increase the likelihood of material misstatements. If a revised
risk is used in the audit risk model to determine a revised planned detection risk, there is a danger of not increasing the evidence sufficiently. 7-17 (Objective 7-8) Identify the types of information included in the current file. There is a trade-off between tests of controls and substantive tests. Hogan, published by Pearson Education © 2017. Metadyne
Corp. Inquiries indicated that WRS initiated a new policy and quaranteed several municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf of the municipality if it failed a federal funding paid to WRS on behalf o
policies. Therefore, no charge was made for those goods. Figure 3-9 shows the audit report assuming the auditor had concluded that the facts in Figure 3-8 required a disclaimer rather than a qualified opinion. With the completion of the Clarity Project for auditing standards, the ASB has now begun clarifying the Statements on Standards for
Attestation Engagements Sources: 1. It'll be a little like putting students to a common test. The classic fraud at McKesson-Robbins illustrates that financial statement fraud is not just a recent occurrence. A summary of Hochfelder is included in Figure 5-7. Agrees with permanent file schedule of long-term debt. TER represents the highest exception
rate the auditor will permit in the control being tested and still be willing to conclude the control is operating effectively (and/or the rate of monetary misstatements in the transactions is acceptable). For example, auditors often compare current year gross margin with industry averages, as well as margins for previous years. Select Staff for
engagement The auditor must assign the appropriate staff to the engagement to comply with auditing standards and to promote audit efficiency. Nevertheless, you are unwilling to take complete responsibility for their work. Most contracts are of primary interest in individual parts of the audit and, in practice, receive special attention during the
different phases of the detailed tests. (3) professional judgment be exercised by the auditor. An Integrated Approach presents an integrated concepts
approach to auditing that details the process from start to finish. To assist the instructor in selecting questions for use in examinations and quizzes, each question has been assigned one of three difficulty ratings—easy, medium, or challenging. If the combined misstatements exceed $442,000, the statements will not be considered Chapter 8 / Audit
PlAnning And MAteriality 277 Figure 8-6 Illustrative Materiality Guidelines BERGER AND ANTHONY, CPAs Gary, Indiana 46405 POLICY STATEMENT No. 32IC Title: Materiality Guidelines Charles G. The most common cause of an adverse opinion in the auditor's report on internal control is when management identified a material weakness in its
report. Deviations from the client's established controls 2. required 16-26 (Objective 16-3) The following are the eight balance-related audit Objective Detail tie-in
Classification Existence Cutoff Completeness Realizable value Accuracy Rights test of Details of Balances, test of Control, or Substantive test of transactions audit procedure 1. Chapter 12 / Assessing Control risk And reporting on internal Controls 421 financial statements. The AICPA Peer Review Program is administered by the state CPA societies
under the overall direction of the AICPA peer review board. Partners of an LLP are personally liable for the partnership's debts and obligations, their own acts, and acts of others under their supervision. Make the Decision Once the analysis of the facts and information has been completed, the auditor applies judgment to make a decision. required
Analyze each situation and provide your assessment of the potential resolution of each scenario, including potential liability for the auditor or audit firm involved. Lau Ah Pek Berhad is not willing to invest in accounting software. Lehman indicated that a better form of confirmation would be required to support the receivable. After the design of tests
of controls and substantive tests of transactions for each audit objective and each class of transactions is completed, the auditor organizes the audit procedures into a performance format and a performance format and a performance format and a performance format a performance forma
the design of the client's control environment, risk assessment, control activities, information and communication, and monitoring activities and information about whether internal control components have been implemented assist the auditor in assessing control risk for each transaction-related audit objective. Actions, policies, and procedures that
reflect the overall attitude of management, directors, and owners of the entity about internal control relate to which of the following internal control components? planned audit eper ter arO 0% 6% 5% 49 Attribute 2 0.50% 5% 10% attribute 1 560 actual results Initial Sample Size

Sample Size Number of exceptions CUer 50 1
                                               10% 55 55 Attribute 4 1% 6% 5% 78 80 Attribute 5 0% 4% 74 80 Attribute 6 0.50% 6% 10% 64 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle 5.8% 0 3.7% 2 7.5% a. He assessed inherent risk as high (100%) because inventory, by its nature, is subject to many types of
misstatements. In its August 2013 exposure draft, the PCAOB included a number of proposed revisions to the wording in the standard audit report, while retaining the pass/fail model whereby auditors provide their opinion on whether or not the financial statements are in conformity with GAAP. The sales system automatically determines whether a
customer's purchase order and related accounts receivable balance are within the customer's credit limit. This key control will reduce the likelihood of fictitious sales. Completeness all required disclosures related to notes payable are included in the financial statement footnotes. In combining the misstatements in Table 8-2, we can
observe that the known misstatements and direct projection of likely misstatements for the three accounts adds to $45,500. Proponents contend that it is appropriate for auditors to accumulate additional evidence, assign more experienced personnel, and review the audit more thoroughly on audits where legal exposure is high or other potential
adverse actions affecting the auditor exist, as long as the assurance level is not decreased below a reasonably high level when low engagement risk exists. Cashiers use the scanners to read bar code labels attached to each product, which the system then uses to obtain unit prices, calculate transaction totals, including sales taxes, and update
perpetual inventory databases. Part 1 / THE AUDITING PROFESSION 4-25 (Objectives 4-5, 4-6) The following relate to auditors' independence: a. When auditors perform audit procedures for each segment of the auditors' independence: a. When auditors perform audit procedures for each segment of the auditors' independence: a. When auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit procedures for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors perform audit performance for each segment of the auditors performance for each segment of the auditors performance for each segment of the auditors performance for each segment of the auditors
require the auditor to consider when assessing the risk of material misstatements in revenue? Audit procedures 10 and 11 will have to be tested separately using a sample of shipping documents. Figure 3-4 Separate Report on Internal Control over Financial Report on Internal Control over Financial Report of Shipping documents.
ACCOUNTING FIRM To the Board of Directors and Shareholders of Westbrook Company, Inc.: We have audited Westbrook Company, Inc.'s internal control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway
Commission (the COSO criteria). Identifying control deficiencies to determine their effect on the nature, timing, or extent of auditing procedures to be applied and suggestions to be made to the client. A qualification of both the scope and the opinion or of the opinion alone. If the auditor wants a lower assessed
control risk, more extensive tests of controls are applied, both in terms of the number of controls are applied, both in terms of the extent of the years in the three-year period ended December 31, 2016, in conformity with accounting principles
generally accepted in the United States of America. Either type of misstatement can be material or immaterial. As we just discussed, the use of the lack of duty defense in response to actions under Rule 10b-5 has had varying degrees of success, depending on the jurisdiction. The company sends the original to the customer and retains one or more
copies. (1) Writing down obsolete inventory prior to year end (2) Failing to correct deficiencies in the client's internal control (3) An unexplained increase in gross margin (4) Borrowing money at a rate significantly below the market rate b. Include a "D" in the matrix in each column for the objective(s) to which each control deficiency applies. Ideally,
Chapter 13 / Overall audit Strategy and audit PrOgram 471 substantive analytical procedures are done before tests of details of balances so they can then be used to determine how extensively to test balances. Discuss whether you believe these paragraphs in the ISA audit report improve auditor communications to users of the financial statements.
Substantive tests of transactions and tests of details of balances are therefore minimized. Culture of honesty and high ethics Setting the tone at the top Management and the board of directors are responsible for setting the tone at the top Management and the board of directors are responsible for setting the tone at the top Management and the board of directors are responsible for setting the "tone at the top" for ethical behavior in the company, kathy Hurtt, Auditing: A Journal of Practice & Theory, May 2010. Compared
the quantity on each duplicate sales invoice with the quantity on related shipping documents (substantive tests of transactions). In order to do this, you must complete the steps needed to prepare a high-quality performance format audit program for tests of transactions for acquisitions and cash disbursements. Observe
whether monthly statements are sent (6). Controls Over the reliability of Financial reporting Auditors focus primarily on controls related to the first of management's internal controls to minimize errors and fraud, auditors
assess risks to decide the evidence needed in the audit. In the longer term, what will be the effect of not reporting the hours this time when other ethical conflicts arise? LiaBiLity to third parties under common law and related defenses. To gain an understanding of the
client's governance system, the auditor should understand how the board and audit committee exercise oversight, including consideration of the company's code of ethics and evaluation of ethics are considered as a constant of evaluation of ethics.
in Figure 3-8 (p. For example, confirmations test for monetary misstatements in accounts receivable and are therefore substantive tests. Notice how the auditor's expectation of interest expense for short-term notes payable and combines that with the auditor's calculation
of an estimated interest expense for long-term notes payable to arrive at the expected amount of total interest expense of $2,399,315. The firm's director of accounting and auditing is available for consultation and must approve all engagements before their completion. The reason for using stratified sampling rather than unrestricted random
sampling is to (1) reduce as much as possible the degree of variability in the overall population. For example, sales agents may enter customer orders online. Negative confirmations do, however, provide some evidence of the existence assertion. Management participation The threat that a member will take on the role of client management or
otherwise assume management responsibilities, such as may occur during an engagement to provide nonattest services. errors Fraud (1) Limited (2) Reasonable (3) Limited (4) Reasonable Negative Reasonable Limited Limited and Indicate (3) Reasonable (3) Limited (4) Reasonable (3) Limited (4) Reasonable (5) Reasonable (6) Reasonable (7) Reasonable (8) Reasonable (8) Reasonable (9) R
company is medium sized but has few effective controls and significant inherent risks. (2) DMO is entitled to rescind the audit contract and thus is not liable for the $48,000 fee, but it cannot recover damages. When the storeroom is under the control of a competent employee, there is further assurance that theft is minimized. Our current customer
base consists of more than 400 independently owned hardware stores. (1) To coordinate the audit (2) To assist in preparation of the audit work performed b. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this
letter. The future of the company looks bleak; both sales and cash position have declined substantially. Why would a bill and hold transaction normally not qualify as a sale? Chapter 12 outlines the auditor's responsibilities to
understand the design and operating effectiveness of internal control, and also highlights auditor reports on internal control over financial reporting. Benjamin Na & Matthew Karabus (2014) The increasing scope of auditors' negligence: Livent Inc. That opinion enhances the users' degree of confidence they can place in the information presented in
the financial statements. For example, management's review and evaluation of results for operating units or subsidiaries increases the likelihood that manipulated results will be detected. Why is this step so important, and what should the auditor do if one of the confidence limits is larger than the tolerable misstatement? To rely on a client's internal
controls to report on internal control over financial reporting and to reduce planned audit evidence for audits of financial statements, the auditor must first obtain an understanding of each of the five components of internal control. Your client's year end is 31 December. Nine months later, Clarion's earnings dropped significantly, and as a result, the
stock dropped 20% beneath the offering price. Executive Officers The following list provides names, ages, and present positions of the company's officers: Name age Position John P. Third, there was a signed confirmation confirmation confirmation confirmation confirmation confirmation confirmation from the company's officers.
completed several weeks later, Lake called Ennis to do the statistical evaluation. He was an investment d. While most U.S. companies prepare their financial statements in accordance with GAAP, some entities might use other financial reporting frameworks.
such as IFRS. (1) Presumptive (2) Judgmental (3) Criticizing (4) Questioning 9-26 (Objectives 9-5, 9-7) The following questions concern the audit risk model. Indicate the name of the assertion made by management. Auditors base their statistical inferences on sampling distributions. Auditors normally define these objectives as a part of designing the
audit program, which was discussed for the sales and collection cycle in Chapter 14. the Likelihood that a Client Will have Financial Difficulties after completion of the audit, auditors face a greater chance of being required to defend the quality of the
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audit than if the client were under no financial strain. It is the duplicate sales invoice. However, companies may overstate inventories and net income by recording excess labor costs in inventory. Using the audit program in Figure 15-2 (p. 1 The deMAnd
for AudiT And oTher AssurAnCe serViCes Chapter Monozukuri by KOBELCO Learning ObjeCtives Kobe Steel, Ltd. However, the investigation disclosed that Nefret's president made telephone calls to some suppliers who had received confirmation requests from Abdul & El-Emir and told them how to respond to the request. The Code and auditing
standards stress the need for independence in an audit engagement. Assume the auditor controls that should reduce control risk for each transaction-related audit objective. The Controller updates the accounting software for the credit memo. (4) An auditor may select audit
procedures that are not appropriate to achieve the specific objective. Observe whether accountant reconciles the bank account. Estimate an expected point estimate an expected point estimate. The purpose of Part III is to identify fraud risks and the response to these fraud risks in the audit of Pinnacle Manufacturing. Management is in a position to make accounting and
reporting decisions without employees' knowledge. The other auditor who performs work on the financial information of a component is called the component is called the component auditor under AICPA auditing standards. The manager of the procurement section- which includes store management-is Robert's younger brother. Although the design depends on the
objectives involved, audit documentation should possess certain characteristics: • Each audit file should be properly identified with such information as the cli- ent's name, the period covered, a description of the contents, the initials of the preparation, and an index code. The auditor can test the control by examining the
documents to make sure that they are complete and properly matched and that required signatures or initials are present. The action was based solely on a claim that Ernst & Ernst failed to conduct a proper audit. The upper confidence Chapter 17 / Audit SAmpling for teStS of the state of the
detAilS of BAlAnCeS 625 level) and a lower confidence limit (LCLx) is Xn - Z # SE ($46 - $18 = $28 at a 95 percent confidence level). You see where it shows Baldwin, and then the red sort of cross-like mark? It is also unreasonable to expect a small firm to have internal auditors. For example, deficiencies in management's integrity or competence,
ineffective oversight by the board of directors, or inadequate accounting systems and records increase the likelihood that material misstatement disclosures. Chapter 17 / Audit SAmpling for teStS of detAilS of BAlAnCeS 633 (3)
allow the person selecting the sample to use personal judgment in deciding which elements should be included in the sample. In discussions with management, you conclude that management, you conclude that management is planning to sell the business in the next few months. Familiarity The threat that, due to a long or close relationship with a client, a member will become too
sympathetic to the client's interest or too accepting of the client's work or product. Not only do the international auditing Standards assertions pCaOB auditing Standards assertions pCaOB auditing Standards assertions pCaOB auditing Standards assertions for Each Category of assertions assertions about
transactions, Balances, and presentation and Disclosure assertions about Classes of transactions about account Balances assertions about presentation and Disclosure Existence or occurrence—assets or liabilities exist at a given date, and recorded transactions have occurred during the period. This section must include the
heading "Auditor's Responsibility" followed by three paragraphs that describe the auditor's responsibility. The auditor assesses risks at the overall financial Illustration Concerning risks and External
Environment Business Operations and Processes Management and Governance Assess Client Business Risk of Material Misstatements Measurement and Performance Audit Risk (CR) PDR = AAR IR x CR Chapter 9 / Assessing The Risk of MATeRial MissTATeMenT 309
tabLe 9-1 Illustration of Differing Evidence Among Cycles Sales and Collection Cycle Acquisition and Payment Cycle Auditor's assessment of expectation of material misstatement before considering internal control (inherent risk) Expect some
misstatements Expect many misstatements Expect few misstatements Expect
misstatements (control risk) (medium) (low) (low
(planned detection risk) Medium level Medium
government authorities, the public, and others within the organization. Most CPA firms do not organize as general corporations because they are prohibited by law from doing so in most states. After the software is transferred to the librarian in a controlled manner to ensure only authorized software is
ultimately accepted as the authorized version. For example, companies may capitalize repairs or other operating expenses as fixed assets. Allowances are evaluated and updated when conditions occur that give rise to collection issues. Chapter 8 discussed how auditors gather information relevant to inherent risk assessment during the planning
phase. 546). Nonaudit services that are not prohibited by the Sarbanes-Oxley Act and the SEC rules must be preapproved by the company's audit committee. Estimate the total misstatement in the income statement in the income statement in the income statement of the company's audit committee.
a strong incentive for management to meet unduly aggressive earnings expectations may affect the entire audit, while the susceptibility of inventory to theft may affect only the inventory account. Shipping clerks compare goods received from warehouse with approved sales orders.
inventory items and cover the theft by adjusting the accounting records. Control activities 4. Use audit software to trace postings from the batch of sales transactions to the subsidiary records and general ledger (reperformance). Existing
accounts receivable are included 4. (2) The auditor rarely needs the assistance of a computer program to design an efficient sample. After a thorough review of their working papers, you are convinced that they did an excellent job on their portion of the audit. Patel drafted the following report for 2016. Figure 5-9 United States v. Plan and design an
audit approach based on risk assessment procedures (Phase I) b. Overtime hours must be endorsed by the supervisor or team leader before processing for payment. Auditing standards state that it is acceptable to use negative confirmations as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion
level only when all of the following circumstances are present: 1. If auditors divulged this information to outsiders or to client employees who have been denied access, their relationship with management would be seriously strained. While performing a substantive test of details during an audit, the auditor determined that the sample results
supported the conclusion that the recorded account balance was materially misstated. Do you agree that all controls done by the computer. Materiality Decisions Materiality Decisions—Non-Gaap Condition When a client
has failed to follow GAAP, the audit report will contain an unmodified opinion, a qualified opinion, depending on the materiality of the departure. 370 Part 2 / The Audit Process auditor responses involving changes to the nature, timing, and extent of audit procedures related to this assessed fraud risk for inventory.
Although the provisions of the Foreign Corrupt Practices Act remain in effect, the provisions related to accounting records and internal control are largely superseded by the more stringent requirements of the Sarbanes-Oxley Act of 2002. When there is a scope restriction, the appropriate response is to issue a report with an unmodified opinion, a
report with a qualification of scope and opinion, or a report with a disclaimer of opinion, depending on materiality. All Test Item File questions are available in the TestGen format. Audit evidence can come in different forms with different forms with different forms with different forms with different forms.
without client permission. Effective controls will reduce control risk and, along with it, the amount of evidence required for substantive tests of transactions and tests of details of balances. Reliability of Evidence required for substantive tests of transactions and tests of details of balances. Reliability of Evidence required for substantive tests of transactions and tests of details of balances. Reliability of Evidence required for substantive tests of transactions and tests of details of balances.
liability protection similar to that of general corporations, whereas the protection in other states is minimal. 612) together with confidence coefficients for the coe
part relates. If the substantive tests of transactions results are unacceptable, the auditor must increase tests of details of balances for accounts receivable. (4) The auditor must increase tests of details of balances for accounts receivable. (4) The auditor must increase tests of details of balances for accounts receivable.
because of heightened risks of material misstatements due to fraud. For each test of control in part a., state a substantive test that could be used to determine whether there was a monetary misstatement. What is involved in the audit of the bank? Signs of Stress—Interviewees under stress may In most people, lying will produce stress, which can
manifest itself physically. A misstatement of the same amount is almost certainly immaterial for a company such as IBM, which has over $100 billion in total assets and net income of several billion dollars. parallel Simulation Auditors often use auditor-controlled software to do the same operations that the client's software does, using the same data
files. The chapters are relatively brief and designed to be easily read and comprehended by students. A concern with systematic selection is the potential impact on his career. Hardware controls Memory failure or hard drive failure causes error messages on
the monitor. 294-296) of this case, you performed preliminary analytical procedures and assessed acceptable audit risk and inherent risk for Pinnacle Manufacturing. Key concepts related to risk assessment as emphasized in standards Board
(IAASB), including emphasis on significant risks, are integrated into all of the planning chapters, as well as each chapter dealing with a particular transaction cycle and related accounts will undoubtedly become uncollectible. For
both lockbox systems and EFT transactions, the Chapter 14 / Audit of the SAleS And ColleCtion CyCle 491 bank provides information to the engagement, while
other responses are specific to assertions, such as procedures to evaluate the timing of the recording of a revenue transaction. A number of special-purpose schedules are designed to show detailed tests performed, such as documents examined during tests of controls and substantive tests of transactions. ABC's controller initially told the auditor that
the credits were for returned goods, then said they were a volume discount, and finally stated they were a payment so that ABC would continue to use Apple as a supplier. The salary of the part-time staff, which is based on the number of hours worked in a day, is paid in cash from the cash register. Hong Kong's securities regulator, the Securities and
Futures Commission (SFC) stated that China Metal recycling overstated its financial position in the prospectus for its 2009 initial public offering. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation. In such situations, the auditor uses a higher assessed control risk, unless compensating controls for the same related
audit objectives are identified and found to be effective unless the audit objective unless the audit 
son was Peregrine's president, Wasendorf claims that he was the sole perpetrator of the fraud. All three programmers have extensive experience with the operating, utility, security, and library software as well as all of Jacobsons' application software packages. An attitude, character, or set of ethical values exists that allows management or employees
to commit a dishonest act, or they are in an environment that imposes sufficient pressure that causes them to rationalize committing a dishonest act. Cutoff misstatements exist when current period or vice versa. l. Weiner (1975), three auditors were convicted of securities fraud in connection with
their audit of Equity Funding Corporation of America. The four courses of action discussed for nonstatistical sampling are equally applicable to attributes sampling are equally applicable to attributes sampling are equally applicable to attributes sampling. Explain why the failure of financial statement users to differentiate
among business failure, audit failure, and audit risk has resulted in lawsuits. A sample reror or nonsampling error or nonsampling error, and generators, and generators, and generatized
audit software. 492) shows nine attributes of interest and exception conditions taken from audit procedures 12 through 14 in the audit of Hillsburg's billing function. Samir, CPA, is hired to do the audit of Hillsburg's billing function.
Analytical procedures calculated using monthly amounts will typically be more effective in detecting misstatements than those calculated using annual amounts, and comparisons by line of business will usually be more effective than companywide comparisons. • Audit documentation should be indexed and cross-referenced to aid in organizing and
filing. All people are subject to common pitfalls that affect their ability to make sound judgments. Performance materiality, results of the prior year, and the risk of material misstatement also influence the procedures used. CPa licensure requires the "three E's" of education, examination, and experience. Examples of objective evidence include
confirmation of accounts receivable and bank balances, the physical count of securities and cash, and adding (footing) a list of accounts payable to determine whether it agrees with the balance in the general ledger. For example, observation of the entity's operations, such as the manufacturing and shipping of products to customers, and tours of the
entity's facilities may increase the auditor's understanding of the entity and its environment. General and administrative expenses increased by $908,000 or 5.4% from 2015 to 2016 and by $414,000 or 2.5% from 2014 to 2015. Which of the following best describes the operational audit? Explain the circumstances under which it would be a good
decision to obtain audit assurance from substantive tests at point C1. The audit procedures for billing and recording sales (procedures to 14) are the only ones included for illustration throughout this chapter. Detailed audit procedures 12 to 14) are the only ones included for illustration throughout this chapter.
files, reducing the likelihood that unauthorized changes are made to software applications and data files. Because most internal controls are heavily dependent on information technologies, this chapter integrates coverage of IT general controls are heavily dependent on information technologies, this chapter integrates coverage of IT general controls are heavily dependent on information technologies, this chapter integrates coverage of IT general controls are heavily dependent on information technologies, this chapter integrates coverage of IT general controls are heavily dependent on information technologies, this chapter integrates coverage of IT general controls are heavily dependent on information technologies.
(OBJeCtIVeS 14-3, 14-5) In Part IV of this case study, you obtained an understanding of internal control and made an initial assessment of control risk for each transaction-related audit objective for acquisition and cash disbursement transactions. To address fraud risks related to intangible assets, auditors often involve specialists, such as a business
valuation expert, to assist them in the evaluation of audit evidence related to management's recorded amounts. 12-8 (Objectives 12-2, 12-3) The auditor's risk assessment procedures identified several risks that the auditor deems to be significant risks. Departmental budgets for the use of factory management. If a client has effective internal controls
and low inherent risk for the sales and collection cycle, the auditor should often be able to satisfy the evidence requirements by tests of controls, substantive tests of transactions, and substantive analytical procedures. It is a violation of the rules if someone does something on behalf of a member that is a violation if the member does it. (See later in
this chapter on p. Use audit software to foot and cross-foot the sales journal and trace totals to the general ledger to check if there is any discrepancy. For cash sales, trace entries from cash book to the sales journal and trace totals to the general ledger. In recent years, several high-profile incidents of improper revenue recognition attracted the attention of the business media. In addition
to modifying audit evidence, there are two other ways that auditors can change the audit to respond to risks: The engagement may require more experienced staff. This change has no material effect on the current year's financial statements but is reasonably certain to have a substantial effect in later years. All required disclosures about sales and
receivables have been made. While AICPA auditing standards require the auditor, PCAOB auditing standards require the auditor to inquire of the auditor.
(accuracy). McCoys, Inc. At the conclusion of practice office reviews, apparent accounting and auditing deficiencies are summarized and reported to the firm's director of personnel. 494) for examples of the types of attributes tested]. In the audit of financial statements, the client normally wants the audit completed one to three months after year-end
How will the presence of one significant deficiency affect an auditor's report on internal control under PCAOB standards? A covered member. Most substantive analytical procedures performed during the detailed testing phase are done
after the balance sheet date but before tests of details of balances. On the other hand, if general controls are effective, the auditor may be able to place greater reliance on application controls whose functionality is dependent on IT. Also, examining such things as documents summarizing the client's business operations and processes and
management and governance structure are relatively cheaper than other audit tests. 17-12 (Objective 17-3) Explain what is meant by basic precision. In May 2013, NASDAQ agreed to pay a $10 million penalty to the SEC related to the Facebook IPO, and in April 2015, NASDAQ agreed to pay a $10 million for a class action lawsuit filed by
retail investors who suffered damages in the IPO. The auditor must examine shipping and customer order documents to determine later if changes in controls occurred in the period not tested and decide the implication of any change. What
incentive and attitude/rationalization do you believe drove Ms. Sachdeva to embezzle? CAQ Approach to Audit Quality Indicators, Center for Audit Quality Indica
evaluate whether a cutoff misstatement or a timing difference occurred when a confirmation would result in the closure of the Bagan plant, Robert was thinking of downplaying the impact of the customer rejects on the
profits of the Bagan operation by classifying the rejects and end of life inventory as work-in-progress instead of impairing the goods. John P. For example, in the previous example, sampling 10 blocks of 10 from the third week of March is far less appropriate than selecting 10 blocks of 10 from 10 different months. How anyone might misappropriate than selecting 10 blocks of 10 from the third week of March is far less appropriate than selecting 10 blocks of 10 from the third week of March is far less appropriate than selecting 10 blocks of 10 from the third week of March is far less appropriate than selecting 10 blocks of 10 from the third week of March is far less appropriate than selecting 10 blocks of 10 from 10 different months.
assets of the entity. The auditor performed tests of controls. The auditor first selects a random number between 0 and 19 (the interval size) to determine the starting point for the sample. As part of your procedures, you decide to use stratified sampling. You are the firm's consultant and you are requested to provide advice to the board of directors
before such adoption. Premature revenue recognition 3. • Document the work properly. Do not send your remittance to our auditors. $ 13 2. CPA firms increasingly emphasize data analytics and increasingly use audit software to perform audit testing including tests for fraud. Nonaudit Services The Sarbanes-Oxley Act and SEC rules restrict, but do
not completely eliminate, the types of nonaudit services that can be provided to publicly held audit clients. The purpose of this test was to identify invoices received after year-end that should have been recorded in accounts payable. Cash includes currency, checks, and electronic funds transfers. Robert was attracted to work at Heritage as his father
and his brothers had worked in the company's factory in his hometown of Bagan. Acceptance and continuation of client relationships and specific engagements. 12-17 (Objectives 12-2, 12-4) The following questions
deal with assessing control risk in a financial statement audit. By examining the population in Table 17-1, you can see that there are different ways to stratify the population. (102) 11. The order clerk regularly placed order for personal goods up to value of $3,000. Sufficient appropriate evidence The auditor is responsible for obtaining sufficient
appropriate audit evidence about whether material misstatements exist by designing and implementing appropriate responses to the assessed risks. An exception in a test of control only indicates the likelihood of misstatements affecting the dollar value of the financial statements, whereas an exception in a substantive test of transactions or a test of
details of balances is a financial statement misstatement. Person A finds a briefcase in an airport containing important papers and $1,000. 466 Auditing standards require the auditor to use a written audit program. required Chapter 8 / Audit PlAnning And MAteriAlity 289 8-30 (Objective 8-3) The minutes of the board of directors of the Cala Catalogue
Company for the year ended December 31, 2013, were provided to you. (2) List the key controls from the summary above. These conflicts could arise because of the differing nature of each line of business, and because advisory practices are not allowed to provide many services to public company audit clients. Identify Client's reasons for audit reasons for audit clients.
Obtain an Understanding with the Client Develop Overall audit Strategy 264 Two major factors affecting acceptable audit risk are the likely statement users and their intended uses of the statements. Vouch goods dispatched notes to ensure that items are properly accounted for in the correct period. The testing objective is to determine whether the
controls are operating as designed and whether the person performing the control possesses the necessary authority and qualifications to perform the control effectively. The model is introduced here and discussed in greater detail later in the chapter. This was done because these accounts can be verified within $60,000 by using only substantive
analytical procedures, which are lower cost. Perform preliminary and lytical procedures. Should include reading the financial statements and notes to consider the adequacy of evidence gathered 8. The district court dismissed the action but did not resolve the issue of whether a cause of action could be based merely on allegations of negligence.
Objective 4-3 Explain the importance of ethical conduct for the accounting profession. For example, if a client declares bankruptcy after an audit is complete, the likelihood of a lawsuit against the CPA firm is reasonably high, even if the quality of the audit was high. The order clerk placed purchase orders for accessories items; however, it was
discovered that only purchase orders above $3,000 required authorization. 2nd 566 (1982). Which of the following are elements of a CPA firm's quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control that should be considered in establishing its quality control than the control that should be considered in establishing its quality control than the control than the control than the control than the control that should be considered in establishing its quality control than 
payment cycle, including accounts payable. Attestation standards are studied in Chapter 25. (2) identical to a deviation discovered during the prior year's audit. The firm's forensic auditors discovered that Sol was engaged in a large-scale fraud to overstate sales and earnings. The completion of these activities is sufficient for the audit of internal
detection risk is satisfied for each accounts receivable balance-related audit objective. required Chapter 10 / Assessing And Responding to FRAud Risks 367 10-23 (Objectives 10-1, 10-2, 10-3, 10-8) Assessing the risk of fraud in a financial statement audit is a difficult audit judgment. Explain the five components of the COSO internal control
framework. Shirley Yam, "the Logistics of Committing Fraud on an Industrial Scale", South China Morning Post (March 13, 2015) (); 3. Information communicated by a client to an attorney or by a patient to a physician is privileged. The types of evidence described in Chapter 7 include both observation and inspection. Based on his calculations, he
accounts receivable had been falsified by adding to approximately $650,000 in accounts receivable another item of over $700,000. (b) Use registrations documents held by Olson for comparison to the serial number on each bus to determine ownership. Two notable examples of premature revenue recognition involve Bausch and Lomb and Xerox
Corporation. Credit memos are issued for returns and allowances to aid in maintaining control and to facilitate record keeping. Apparently, the complexity and uncertainty surrounding Enron's business and financial state ments fooled their auditors, too. Deep Clean has been in business for several years but over the last two years has struggled to
stay afloat given the economic conditions. Give an example of when stock ownership would be prohibited for each. However, invoice confirmations have the disadvantage of not directly confirming ending balances. Smith has been asked by the board of directors of the Art Appreciation Society to review the internal control over cash admission fees and
provide suggestions for improvements. For example, in the 15 percent column for tolerable exception rate, at an ARO of 5 percent, the initial sample size for most EPERs is 30. Chapter 12 / Assessing Control risk And reporting on internAl Controls 447 13 Chapter 12 / Assessing Control risk And reporting on internAl Controls 447 13 Chapter 12 / Assessing Control risk And reporting on internAl Control risk A
Year's Audit Approach Work? Users must only prove that the audited financial statements contained a material misrepresentation or omission. Does not establish procedures for the receipt and treatment of complaints (e.g., "whistleblowing") regarding accounting, internal control, or auditing matters 4. The Pinnacle Manufacturing integrated case is
based on a large, multi-division company. In any case in which the CPA or the CPA's assistants are not qualified to perform the work, a professional obligation exists to acquire the engagement. Thomas assigned this role to Francis Ko, a senior
associate who has been in the engagement team for years. Sales transactions have been recorded in the appropriate accounts. the closest concept in the English language to monozukuri is 'craftsmanship'. In contrast, KRIs are leading indicators of emerging risks. Section 404 requires management of all public companies to issue a report about the
operating effectiveness of internal control over f inancial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Which of the following will most likely not because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
indicate the existence of related parties? FraUD ExaMINErS USE BIG Data aND OtHEr tOOLS tO FIGHt FINaNCIaL FraUD according to the association of Certified Fraud Examiners (aCFE), businesses lose an estimated $3.5 billion annually to fraud and financial crime. Unless each attribute is carefully defined in advance, the staff person who
performs the audit procedures will have no guidelines to identify exceptions. Documentation related to the purchase is then resubmitted for payment to the vendor. The combination of these four evidence decisions must result in sufficiently persuasive evidence to satisfy the auditor that inventory is materially correct. Material misstatements were
included in a filed document. Auditors also face potential legal exposure for quarterly information (Form 10-Q) or other reporting information filed with the SEC, such as an unusual event filed in a Form 8-K. If the auditors were more vigilant with their work, millions of dollars could have be saved by the charity and the money could be channelled for
doing good deeds. Sufficient appropriate evidence must be accumulated to meet the auditor's professional responsibility. The principal accounting officer colluded with two other accounting personnel in order to conceal the fraud. • Appropriate segregation of duties or independent checks. A leading case supporting the application of this rule is
Rusch Factors v. 15-14 (Objective 15-5) Distinguish between the TER and the CUER. customers' accounts receivable master file. * "Other" category was not included in the 2010 report. All of the steps involved in nonstatistical sampling are summarized in Figure 15-7 (p. Because auditing standards require auditors to confirm material accounts
receivable in most audits, this chapter highlighted practices appropriate when using either positive or negative confirmations. The other 25 percent are "call-ins," for which no commission is given. However, it is often difficult to distinguish a cutoff misstatement from a normal timing difference due to shipments and payments in transit at year end.
Detail tie-In—Details in the account Balance agree with related Master File amounts, Foot to the total in the account Balance agree with related Master File amounts, Foot to the total in the account Balance agree with related Master File amounts, management prefers to authorize
each transaction. While performing tests of controls over sales transactions, he discovered that one of the sales transactions selected for testing was missing shipping information.
                                                                                                                                                                                                                                                                   of management whether all accounting employees are required to take annual vacations. (1) Independence (3) Due professional care (2) Competence (4) Complex
body of knowledge 1-13 (ObjeCtives 1-6, 1-7) The following questions deal with types of audits and auditors. Miller and Yancy share resources with other firms in the association, including audit methodologies, audit manuals, and common IT systems for billing and time reporting. Assume you tested inventory amounts totaling $1,000,000 and found
$10,000 in overstatements. The table contains one test of control in column 3 for each internal control in column 2, but the auditor can decide to use more than one test of control for a given control. Explain how this knowledge may be useful in performing other assurance or consulting services for the client. Andersen (2002) case described in Figure
5-9, in which the government charged Andersen with obstruction of justice for the destruction and alteration of documents related to its audit of Enron. Cash receipts should be dealt with by two staff with specific responsibility. c. Pian Lang kept two sets of contradictory accounts and documentation. How does MUS not help the auditor detect
material misstatements? Would there have been behavioral red flags that should have alerted auditors to the fraud? Management Letters In addition to these matters, auditors often identify less significant internal control-related issues, as well as opportunities for the client to make operational improvements. After studying this chapter, you should
be able to KOBELCO conducts Corporate Social responsibility (CSr) activities that contribute to the environment and society through monozukuri (or manufacturing). The librarian releases them to operators only when authorized. In terms of the inputs used when determining sample size for tests of controls, the firms tend to use a high level of
confidence of 90-95%, consistent with a high level of assurance. List the causes of information risk, and explain how this risk can be reduced. One possible explanation is the development of a new advertising campaign. We are contesting the propriety of this $12,525 charge. Even under ideal circumstances, information and data on documents are
sometimes complex and require interpretation and analysis. At the reporting principles versus auditing Standards Classification of auditing Standards Standards of performance Chapter 2 / The CPA Profession 61 AUDIT QUALITY AROUnD THE WORLD Global audit quality is of interest to U.S. investors, as many multinational companies are listed or
a U.S. stock exchange. In Chapter 2 we discussed auditing standards and their interpretations, the CPA examination, quality control, peer review requirements, the PCAOB and SEC, AICPA audit practice and quality centers, and continuing education. (4) Evaluate the use of systematic sample selection method. There are exceptions to the rules
whereby companies can apply to the Australian Securities and Investment Commission (ASIC) to exempt auditor rotation. The remainder of this book focuses on audit objectives related to transactions, audit objectives related to account balances, and audit objectives related to transactions, audit objectives related to transactions, audit objectives related to account balances, and audit objectives related to account balances, and audit objectives related to transactions, audit objectives related to account balances, and audit objectives related to account balances, and audit objectives related to transactions, audit objectives related to account balances, and account balances, and account balances, and account balances are account balances.
required acquisitions Substantive tests of transactions Occurrence Write the substantive audit procedure Etc. The misstatement in cash of $2,000 is a known Objective 8-8 Use materiality to evaluate audit findings. There were many complaints from customers in China about the hard discs
manufactured from the Bagan plant. 11-7 (Objective 11-3) What is meant by the control environment? Determine potential misstatements that could result. Evaluate the Results 12. (For example, the audit of each segment is completed, including
interrelationships with other segments, the results are combined. That means that the auditor has decided that even if 9 percent of the duplicate sales invoices are not approved for credit, the credit approval control is still effective in terms of the assessed control risk included in the audit plan. The debenture agreement restricts the payment of future
cash dividends to earnings after December 31, 2020. She is a CPA, and she spends most of her time auditing used automobile, bus, and truck dealerships, and has experience that is consistent with the nature of the engagement. An item may be important in terms of possible consequences arising from contractual obligations (for example, the effect of
failure to comply with a debt restriction may result in a material loan being called). Independent reconciliation of the monthly bank statements a. Information about this transaction is disclosed in footnote 12. However, some balance-related audit objectives are applied to certain income statement accounts. When employees need to buy raw materials
they are requested to create a purchase requisition in the procurement application system by inputting the details as well as the staff ID. For example, the following is an audit procedure for the verification of cash disbursements: Objective 7-2 Identify the four audit evidence decisions that are needed to create an audit program. Design and perform
tests of Controls and Substantive tests of transactions for the Sales and Collection Cycle Tests of controls and substantive tests of transactions for the employee's performance. List out the four
phases in an audit process. Inquiries of management and others within the company provide employees with an opportunity to tell the auditor information that otherwise might not be communicated. This is done for all 40 items. Tables 10-1 (p. No exceptions are expected, and a 6 percent TER is considered acceptable at an ARO of 10 percent. The
clerk changes his sales book at that time, and the items are packaged and given to the customer. Scope Paragraph We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). It is constantly developing technology in different fields using the monozukuri concept. Information on the
requirements for each state can be found on the National Association of State Boards of Accountancy (NASBA) Web site (www.nasba.org). Earnings per share 5 Gross profit margin 5 Return on assets 5 Return on 5 common equity net income 3,934 average common shares outstanding 5,000 5 0.79 net sales 2 cost of goods sold
143,086 2 103,241 net sales 143,086 operating income 5,681 average total assets (61,367 1 60,791)/2 income before taxes 2 preferred dividends 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average total assets (61,367 1 60,791)/2 income before taxes 5,681 average taxes 5,68
profitability of a company. Which of the following services can be offered to public company audit clients under SEC requirements and the Sarbanes-Oxley Act? Reporting requirements. The branch uses a bank account to pay expenses. In the Hochfelder case, the auditors' exposure to liability would significantly reduced if the auditors can establish
                 What suggestions do you have for changing the process to reduce the future potential for fraud? In such a case, a revised, correct audit report must be issued. Review the specific techniques used to overstate revenue. Verification of addresses and Maintaining Control Follow-Up on Nonresponses Chapter 16 / Completing the tests in the
sales and ColleCtion CyCle: aCCounts ReCeivable 581 ElECTRONIC CONFIRMATION SERvICES Given that confirmations are used as audit evidence in most audits, the volume of confirmations processed by entities, including customers, vendors, banks, and debtholders, is staggering. Take a moment to review these definitions. The staff auditor
didn't really have a good understanding of the process and did not have much supervision because the senior was so busy. Independence is more than merely financial. Moore reviewed industry data and reports in several databases and online sources. Identify and apply safeguards. However, internal auditors cannot be entirely independent of the
entity as long as an employer-employee relationship exists. Because confirmations come from third-party sources instead of the client, they are a highly regarded and oftenused type of evidence. A partner is an owner of the firm and therefore has the ultimate responsibility for conducting the audit and serving the client. Describe an auditor's audit
documentation requirements regarding the assessment of the risk of material misstatement due to fraud. Withdrawal may depend on management and the board of directors in investigating the potential fraud and taking appropriate action. A shipment to a customer was not billed because
of the loss of the bill of lading. 10-10 (Objective 10-4) Distinguish management's responsibility from the audit committee's responsibility for designing and implementing antifraud programs and controls of the Division was
therefore not necessary. Assume that the auditor concludes that internal controls are completely ineffective to prevent or detect misstatements. The appropriate level of detection risk for each balance-related audit objective is then decided using the audit risk model. esseNtial terms Accounting—the recording, classifying, and summarizing of
economic events in a logical manner for the purpose of providing financial information for decision makers Attestation service—an independent professional service—an independ
evidence about information to determine and report on the degree of correspondence between the information and established criteria Certified public accountant—a person who has met state regulatory requirements, including passing the Uniform CPA Examination, and has thus been certified; a CPA may have as his or her primary responsibility the
performance of the audit function on historical financial statements of commercial and noncommercial financial entities Compliance audit—(1) a review of an organization is following specific procedures, rules, or regulations set by some higher authority; (2) an audit performed to
determine whether an entity that receives financial assistance from the federal government has complied with specific laws and regulations Evidence—any information used by the auditor to determine whether the information used by the auditor to determine whether the information being audited is stated in accordance with specific laws and regulations Evidence—any information used by the auditor to determine whether the information being audited is stated in accordance with specific laws and regulations Evidence—any information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine whether the information used by the auditor to determine the information used by the auditor to determin
whether the overall financial statements of an entity are stated in accordance with specified criteria (usually U.S. or international accountability Office (GAO); the GAO reports to and is responsible solely to Congress Independent auditors—
certified public accountants or accounting firms that perform audits of commercial and noncommercial entities Information upon which a business decision is made is inaccurate Internal auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors—auditors
financial reporting—an engagement in which the auditor reports on the effectiveness of Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 41 internal control over financial reports are required for accelerated filer public companies under Section 404 of the Sarbanes-Oxley Act Internal revenue agents —
auditors who work for the Internal Revenue Service (IRS) and conduct examinations of taxpayers' returns Operational audit —a review of any part of an organization's operating procedures and methods for the purpose of evaluating efficiency and effectiveness Review of historical financial statements—a form of attestation in which a CPA firm issues
a written report that provides less assurance than an audit as to whether the financial statements are in material conformity with accounting standards Sarbanes-Oxley Act—a federal securities law passed in 2002 that provides for additional regulation of public companies and their auditors; the Act established the Public Company Accounting
Oversight Board and also requires auditors of larger public companies to audit the effectiveness of internal control over financial reporting review Questions 1-1 (ObjeCtive 1-1) Aishah is a tax auditor from the Inland Revenue Board Malaysia, and she is auditing Kimmie Berhad. All processing that takes place. adverse Opinion When one or more
material weaknesses exist, the auditor must express an adverse opinion on the effectiveness of internal control. When auditors modify evidence for engagement risk, it is done by control of acceptable audit risk. Auditors often use audit engagement risk, it is done by control of acceptable audit risk.
documentation for reasonableness. revenue and accounts receivable Fraud risks Fraudulent Financial reporting risk for revenue As a result of the frequency of financial reporting frauds involving revenue recognition, the AICPA and SEC issued guidance dealing with revenue recognition. Management's disclosure of the amount of unfunded pension
obligations and the assumptions underlying these amounts is an example of this assertion. The separate report in Figure 3-4 is an unmodified opinion on the effectiveness of internal control over financial reporting prepared in accordance with PCAOB Auditing Standard 5. Many CPA firms purchase this industry information for use as a basis for
developing expectations about financial ratios in their audits. 10-5 (Objective 10-3) What should the audit team consider in its planning discussion about fraud risks? The AICPA Auditing Standards Board recently moved the auditor to
whether any monetary misstatements for that objective exist in the transaction. (3) Select the sample items and capture your results in an Excel spreadsheet. (2) An auditor may fail to recognize errors in the documents from the sample items and other services is common and often highly competitive. Justify whether extensive
amount (E), medium amount (M), small amount of testing (S) or no testing (S) or no testing (S) or no testing the SER 0 percent (0 ÷ 75) for
misstatements in Chapter 6. Fictitious inventory understates cost of goods sold and overstates the gross margin percentage. When clients want to issue statements soon after the balance sheet date, the more time-consuming tests of details of balances are done at interim dates before year-end with additional work being done to roll-forward the
audited interim-date balances to year-end. When may a firm include a specialty designation on firm letterhead? As the impact from noncompliance is further removed from affecting financial statements. 504) illustrates the evidence
weekly. As a result of analytical procedures, the auditor determines that the gross profit percentage has declined from 30% in the current year. Opinion Paragraph We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets with the standards of the Public Company Accounting Oversight Board (United States).
of Westbrook Company, Inc., as of December 31, 2016 and 2015, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, of Westbrook Company, Inc., and our report dated February 11, 2017, expressed an unqualified opinion thereon. 634 Part 3
APPlicAtion of the Audit Process to the sAles And collection cycle b. They are designated as "based on AICPA questions." three requirements for Becoming a CPa Educational Requirement Normally, an undergraduate or graduate degree with a major in accounting, including a minimum number of accounting credits. This highly subjective process
relies heavily on the auditor's professional judgment. How might each audit procedure in 1 through 5 help the auditor decides to reduce acceptable Part 2 / The Audit Process audit risk, planned detection risk is thereby reduced, and planned evidence must be increased. Tour the client's plant and offices. One step is
to trace a sample of debit entries from the accounts receivable master file back to the supporting duplicate sales invoices. There is a learning curve element to auditor rotation. Gather the Facts and Information and Identify the relevant Literature With the problem defined, the auditor seeks to understand the relevant facts and available information
concerning the issue. The auditor then accumulates evidence to obtain assurance that each audit objective has been satisfied. Sources: ASIC, "12-186MR Former ABC Learning Centres auditor prevented from auditing companies for five years" (August 6, 2012) ( . Examples include the reconciliation of cash balances with bank statements, the
reconciliation of subsidiary accounts Figure 7-5 Common Characteristics of proper audit Documentation Client name Audit area Balance sheet date Customer's Name Graham Metal Works Lopez Hardware Co. Boise Hinge Eastam Mfg. 222 Part 2 / The Audit Process Reliability, and therefore appropriateness, depends on the following six
characteristics of reliable evidence: 1. The auditor's report contains the following: "We did not audit the financial statements of EZ, Inc., a wholly owned subsidiary, which statements reflect total assets and revenues constituting 27 percent, respectively, of the consolidated totals. 518 Part 3 / APPlicAtion of the Audit Process to the
sAles And collection cycle 3. The concept of reasonable, but not absolute, assurance indicates that the auditor is not an insurer or guarantor of the correctness of the financial statements. He received many awards including the AAA Auditing Educator award, the AICPA Outstanding Educator award, the national Beta Alpha Psi
Professor of the Year award, and many teaching and other awards at Michigan State. Several other observations are apparent from studying Table 7-4. Re-compute the unit sales price times the number of units for a sample of duplicate sales invoices and compare the totals with the calculations. Success on engagement and in firm may be affected.
                           otential misstatements with a base, the auditor must carefully consider all accounts affected by a misstatement (pervasiveness). When designing audit procedures for the occurrence and completeness objectives, the starting point for the test is essential. For example, other things being examples are the completeness objectives.
dependent on one product is much more likely to go bankrupt than a diversified food manufacturer. related parties Transactions between management and those between parent and subsidiary companies, and those between management and those between mana
receivable ultimately ended up recorded as an asset in a long-term asset account. Examples of changes that the data control clerk might make include correcting inputting errors (for example, amounts accidentally transposed) and preparing changes to exist in a long-term asset in a l
inventory product numbers in the sales master file and adding new employee names, addresses, and Social Security numbers to the payroll master file). There are two types of likely misstatements. Attributes sampling is based on the binomial distribution, in which each possible sample in the population has one of two possible values, such as yes/no,
black/white, or control deviation/no control deviation/no control deviation. Systems Development Systems Development includes: • Purchasing software or developing in-house software that meets the organiza- tion's needs. Chapter 5 / LegaL LiabiLity 159 5. For a person planning to become a CPA, it is essential to know the requirements in the state where he or she
plans to obtain and maintain the CPA designation. These steps relate to the auditor's assessment of the risks and inherent risks are flective audit evidence gathering technique, as we discussed in Chapter 7,
and specific inquiries about the risk of fraud are required by FigUre 10-8 Fraud Detection Methods 42.2% 43.3% 40.2% Tip Management Review Internal Audit 6.8% 7.0% 8.3% 6.6% 4.8% 6.1% 1.1% 1.1% 0.8% 0.8% 1.5% 1.0% Detection method By Accident Account Reconciliation
Document Examination External Audit Surveillance/Monitoring Notified by Law Enforcement IT Controls Confession Other* 16% 14.6% 15.4% 14.1% 14.4% 13.9% 2014 2012 2010 0.5% 1.1% 0% 10% 20% 30% 40% 50% Percent of cases * "Other" category was not included in the 2010 report. If auditors do not use a standard percentage and consider
audit assurance and the cost of audit evidence in determining performance materiality, most practitioners allocate materiality to balance sheet rather than income statement accounts, because most income statement misstatement accounts, because most income statement accounts, and income statement accounts accounts and income statement accounts account accounts and income statement accounts account account accounts account accou
concerned about the latter, as Part 2 / The AudiT Process tabLe 9-3 Relationships of Risk to Evidence Situation Acceptable Audit Risk Inherent Risk Control Risk Planned Detection Risk Amount of Evidence Required 1 High Low Low High Low 2 Low High Low Detection Risk Planned Detection Risk Planned Detection Risk Inherent Risk Control Risk Planned Detection Risk Planned Detection Risk Inherent Risk Control Risk Planned Detection Risk Planned Risk Pl
High Low Medium Medium Medium Medium Medium under-auditing exposes the CPA firm to legal liability and loss of professional reputation. On a test basis, payroll accounting personnel obtain a listing of pay rates and withholding information for a sample of employees from human resources to recalculate gross and net pay. Which of the following acts will conceal
this embezzlement and be least likely to be detected by the auditor? Why? Second, management must test the operating effectiveness of those controls, through j., circle one letter for each of the three independent variables and planned evidence: I = increase, D = decrease, N = no effect, and C = cannot determine from the information provided. Like
the test of control in the preceding paragraph, this test satisfies the accuracy transaction-related audit objective for sales. Be sure to explain why testing is or is not required in the current year. First, all correspondence with customers was made solely with Nay. For each weakness that increases the likelihood of fraud, identify whether the likely fraud
is misappropriation of assets or fraudulent financial reporting.* 10-29 (Objectives 10-2, 10-5, 10-8) This problem requires you to access PCAOB Auditing Standards (pcaobus.org) to answer each of the following questions. trace selected entries from the cash receipts journal to entries in the accounts receivable master file and test for dates and
amounts. A primary purpose of an operational audit is to provide (1) a means of assurance that internal accounting controls that determine whether a vendor number matches the pre-approved vendors in the vendor master file (2) Controls that restrict system-wide
access to programs and data (3) Controls that oversee the acquisition of application software (4) Controls that oversee the day-to-day operation of IT applications of ten internal controls. There might be a cost impact in the form
of increased audit costs, especially if there is a need for the new auditor to travel or relocate to the client's place to conduct the audit. 8-2 (Objective 8-2) What are the responsibilities of the successor auditors when a company is changing auditors? It is not always sufficient merely to ask questions. The senior auditor was put in
charge of mailing and following up on the confirmations. (3) Having a spouse who is the chief financial officer of a client company. Clean-O-Rama Co. 3. (We previously discussed the steps in the first three boxes of Figure 13-4 on pages 368- 381 of Chapter 12.) The audit procedures include both tests of controls and substantive tests of transactions,
which vary depending on assessed control risk. Zero risk is certainty, and a 100 percent risk is complete uncertainty, and a 100 percent risk is complete uncertainty, and a 100 percent risk is complete uncertainty. As highlighted by the lawsuit against Orange & Rankle in the opening story, difficulties often arise when a business failure, not an audit failure, occurs. The accounting system automatically obtains the unit price based on scans of bar
codes for merchandise sold. The Satyam story illustrates failure by the auditors to achieve the objectives of the company's financial statements. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the American Institute of Certified Public Accountants that is engaged in
public practice. 394) illustrates part of an internal control questionnaire Chapter 12 / Assessing Control risk And reporting on internal controls 409 incorporates the six transaction-related audit objectives A through F as each applies to sales transactions (see
shaded portions). review and Complete the Documentation and rationale for the Conclusion As the auditor articulates in written form the rationale of his or her judgment, the auditor may find that the reasoning appears faulty or incomplete and therefore is not persuasive. How does that responsibility differ for audits of public and nonpublic
companies? Use audit software to search cash disbursement master files for missing check numbers. Based on our assessment, we believe that, as of December 31, 2016, the company's internal control over financial reporting is effective based on those criteria. The product liability suit, "Don Richards v. You are tasked with confirming the accounts
receivable of two subsidiaries owned by Samsung group, specifically Samsung group, specifically Samsung Digital Imaging - an electronics company that manufactures photo and video equipment - and Samsung Everland - a theme park operator. It is common for people to differ in their moral principles and values and the relative importance they attach to these principles. Peer
review benefits individual firms by helping them meet quality control standards, which, in turn, benefits the profession through improved practitioner performance and higher-quality audits. There are no exceptions for either test. 410 Part 2 / The AudiT Process All sales are on account and there is only one sales account. The lower the dollar amount
of the preliminary judgment, the more evidence required. The credit memos indicated that the credits were for damaged merchandise, volume rebates, and advertising allowances. There are important distinctions in how the auditor assesses the four risk factors in the audit risk model. Examine duplicate sales invoices for initials that indicate internal
verification of extensions and footings. types of evidence The eight broad categories of evidence auditors accumulate are included in the last column of Table 13-6. Part 2 / The AudiT Process FigUre 10-2 Most Commonly Cited Fraud Risk Conditions Incentives/Pressures To seek personal financial gain mostly to fund extravagant lifestyle, not to make
"ends meet" To meet pre-specified business targets "Because I can" 57% 11% 10% Opportunities Due to weak internal controls 20% 11% Attitude/Rationalization Felt a sense of superiority Anger and fear 36% 10% Source: Global Profiles of the Fraudster,
KPMG, 2013. This method is called sampling or monetary unit statistical sampling or monetary unit statistica
The second problem involved a long-term contract with a customer in Mauritius. The audit partner has asked you to assist in doing the IT general controls review. Although lower than the industry averages, the liquidity measures indicate additional borrowing capacity.
(Hint: See Table 6-5 on p. This objective is the counterpart to the management assertion of completeness for account balances. the appropriate accounts analytical procedures Objective 7-5 Know the types of analytical procedures on the company's Web
site. Management, through its activities, provides clear signals to employees about the importance of internal control. What are the implications of peer review for the profession? Source: 1. Observe whether cash is prelisted and the existence of any unrecorded cash. OnePlus Technology has excellent internal controls over the sales and collection
cycle, including segregation of duties in the sales and credit department, prenumbered sales invoices and independent checks by senior accountant. What is the key objective in performing such tests? LANs are often used to transfer data and programs from one computer or workstation using network system software that allows all of the devices to
function together. Because the sale was completed in 2016, your audit client would like to record the bill and hold transaction described as a sale in 2016. A shipment of goods was recorded as being paid at the end of the year, but was recorded as being paid at the end of the year, but was recorded as unpaid at the beginning of the next year. Fuller Travel 8. The application of professional skepticism
consists of two primary components: a questioning mind and a critical assessment of the audit objectives and specific sales transaction-related audit objectives. Kurran 47 Chief executive officer (b) Rick Chulick 48 President and Chief operating
officer (a) avis a. The firm resigned from the engagement and reported their findings to the SEC. How will the presence of one material weakness affect an auditor's report on internal control under PCAOB standards? Set preliminary judgment of materiality Moore used the materiality guidelines in Figure 8-6 (p. When using probabilistic sample
selection, the auditor randomly selects items such that each population item has a known probability of being included in the sample. Purchase requisitions 12. (3) the auditor has reason to believe the persons receiving the requests are likely to give them consideration. is a medium-sized manufacturer and wholesaler of stationery items to different
bookstores in Hong Kong. For example, it is inappropriate for an auditor who is also an attorney to represent a client in legal matters. • Testing revenue in companies with multiple locations. Proper documentation of the system is required for all new and modified software.
acquisitions and cash disbursements. Suppose a client claims that a CPA firm was negligent in not uncovering an employee's theft of cash. For example, separation of duties relies on specific tasks, and there is typically no documentation of the separate performance. A customer complained when he received a bill, saying
he has already paid. Discuss whether ethics should be taught, for example, in university courses. Identify whether any specialists are required for the engagement. In many instances, sales returns and allowances are so immaterial the auditor can ignore them. Is the quality of audits endangered by these activities? Ideally, responsibilities for IT
management, systems development, operations, and data control should be separated as follows: • IT management. Auditors also provide assurance on the effectiveness of internal control over financial reporting, as well as many other types of information such as corporate sustainability reports. Auditors should then perform substantive tests of
transactions or tests of details of balances to determine whether material dollar misstatements have actually occurred. The intended uses of the financial statements and the nature of the information in the statements, including footnotes, must be carefully evaluated. Objective 13-1 Use the five types of audit tests to determine whether financial
statements are fairly stated. Liability to clients Liability to third parties under common law Civil liability under the federal securities laws Criminal liability Figure 5-1 (p. Read Required 254 d. The account is kept in the name of "Connor Cosmetics—Special Account." To pay expenses, checks must be signed by Cooper or by the treasurer, John Winters.
You noted that the audit staff ignored the size of the population in determining the sample size. If the accounts are becoming progressively uncollectible over several years, this fact can be overlooked. Even if, for example, auditors calculate the gross margin during planning, they probably do it using interim data. Substantive analytical procedures
that assess the overall reasonableness of transactions and balances. Misappropriation of assets is fraud that involves theft of an entity's assets. Compare the concept of information risk problem faced by potential car buyers. They take one sample from an unknown population and get a specific
number of exceptions in that sample. Significant misappropriations involving purchases can also occur in the form of payments to fictitious vendors, as well as kickbacks and other illegal arrangements with suppliers. The sick man's wife went to everyone she knew to borrow the money to pay for the drug, but she could only get together about
$10,000, which is half of what it cost. (Italics were added and the name used in the case was changed.) The CPA firm was found liable in the case on the grounds that they had not established due diligence required under the 1933 securities act. Merchandise was shipped to a customer, but no bill of lading was prepared. Evaluating the voting process
and certifying the outcome for Rolling Stone Magazine's "Greatest Singer of All Time" poll. The last four organizational structures provide some protection from litigation loss. It is prepared directly from the accounts receivable master file and is usually an aged trial balance that includes the total balance outstanding and the number of days the
receivable has been outstanding, grouped by category of days, 31 to 60 days, 31 to 60 days, and so on). Identify which items are audit planning decisions requiring professional judgment. Unintentional overstatements of sales are typically more easily discovered than fraudulent overstatements. Outsourcing can provide challenges from an
internal control perspective. Factors affecting Inherent risk Accept client and perform initial audit planning Understand the client's business and industry Perform preliminary judgment of materiality Identify significant risks due to fraud or error Assess inherent risk Understand
internal control and assess control risk Finalize overall audit strategy and audit plan The inclusion of inherent risk in the audit risk model indicates that auditors should attempt to predict where misstatements are most and least likely in the financial statement segments. For example, the auditor may compare the price on an invoice to an approved
price list, or may reperform the aging of accounts Inquiries of the Client Recalculation Reperformance Chapter 7 / Audit EvidEnCE 229 receivable. Management has both a legal and professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements of accounting frameworks such as U.S. GAAP and
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IFRS. In most cases they are implied. The theory was that if the balance sheet accounts were correct at year-end and had been audited as of the beginning of the year, then retained earnings and the income statement must be correct. 7-16 (Objective 7-8) Define what is meant by a permanent file, and list several types of information typically included
Foreseeable user Rosenblum, Inc., v. with the results you determined in part a. Ultimately, Sony would realize they underestimated the magnitude of the cyberattack at this early stage, but it became all too clear as events unfolded. Distinguish among difference estimation, ratio estimation, mean-per-unit estimation, and stratified mean-per-unit
estimation. Does sampling risk apply to nonstatistical sampling, MUS, attributes sampling, and variables sampling risk apply to nonstatistical sampling, and variables sampling risk apply to nonstatistical sampling, and variables sampling risk apply to nonstatistical sampling risk apply to nonstatistical sampling, and variables sampling risk apply to nonstatistical sampling risk apply r
refers to the amount of corroborative evidence obtained. In addition to enforcement actions by the AICPA and state boards of accountancy, auditors of public companies are subject to PCAOB sanctions. Estimated total misstatement in a segment 8. These assertions also apply to other events that are reflected in the accounting records, such as
recording depreciation and recognizing pension obligations. BarChris Construction Corporation (1968) — Securities Act of 1933 BarChris filed an S-1 registration statement with the SEC in 1961 for the issuance of convertible subordinated debentures, thereby subjecting the company to the Securities Act of 1933. The following computations are
based on the 2016 financial statements of Hillsburg Hardware Co., which appear in the glossy insert to the textbook. At the end of the week, the workers drop the time cards in a box near the door to the factory. • Cross their arms or legs. 6-14 (Objective 6-9) Identify the specific transaction-related audit objectives and relationships among
management assertions and transaction-related audit objectives. Apply the payment from another customer's account, which is also known as lapping Warning Signs of Misappropriation of revenues and Cash receipts Relatively small thefts of sales and related cash receipts are best prevented and detected by 356 Part 2 / The AudiT
Process internal controls designed to minimize the opportunity for fraud. The common characteristics of proper audit documentation are indicated in Figure 7-5 (p. 68 Part 1 / THE AUDITING PROFESSION 2-17 (Objectives 2-6, 2-7) You have been asked to make a presentation in your International Business class about how globalization is
impacting the auditing profession. To encourage CPAs to conduct themselves professionally, the rules also prohibit advertising or solicitation that is false, misleading, or deceptive. Traditionally, all one-owner firms were organized as proprietorships, but most have changed to organizational forms with more limited liability because of litigation risks,
Days to collect accounts receivable computations were 48.1 and 48.0 in 2016 and 2015 respectively. (Quick Sort) d. If the estimated population exception rate, because a less precise estimate is required. Which of the following would be an advantage of using
variables sampling rather than probability-proportional-to-size (PPS) sampling? Similarly, because sales are often made for cash or are quickly converted to cash, cash is also highly susceptible to theft. Discuss why Busch may desire to have an audit, ignoring the potential reduction in interest costs. Two of those objectives for sales transactions are
recorded sales transactions exist (occurrence objective) and existing sales transactions are recorded (completeness objective). This is because overstatements also represent a greater source of audit risk. Therefore, the auditor concluded that the
internal controls were not effective. The warehouse department, however, did not check against the purchase order as no copy of the purchase order as no copy of the purchase order was ever sent to the warehouse department. Auditors use information obtained from risk assessment procedures related to client acceptance and initial planning, understanding the client's business and
industry, and performing preliminary analytical procedures (first three boxes in Figure 13-9) primarily to assess acceptable audit risk and identify significant risks. The content of the figure was introduced and explained in Chapter 13. plan the Sample and Calculate the Sample Size Using Difference estimation 628 We illustrate the use of difference
estimation in the audit of accounts receivable for Hart Lumber Company. total cost. List the purposes of audit documentation and explain why each purpose is important. The definition of auditing in Chapter 1, in part, states that auditing is a comparison of information (financial statements) to established criteria (assertions established according to
accounting standards). Chapter 2 / The CPA Profession 51 tabLe 2-2 Staff Levels and Responsibilities Staff Level Average Experience Typical Responsibile for reckless behavior in the conduct of the audit. 146 Part 1 / THE AUDITING
PROFESSION Figure 5-5 Rusch Factors v. Figure 2-3 summarizes the relationships among audit quality centers, and peer review in ensuring audit quality centers, and peer review in ensuring audit quality centers, and peer review in ensuring audit quality. 2. When generalizing from the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the sample exception rate is less than the expected rate used in planning the exception rate is less than the exception rate is less than the expected rate used in planning the exception rate is less than the exception rate is less than the expected rate used in planning the exception rate is less than the exception rate is
the auditor will conclude that the control being tested can be used to reduce assessed control risk as planned, assuming a careful analysis of the exceptions does not indicate the possibility for purchasing equipment
and software, maintenance, administration, and physical security resides with key user groups rather than with a centralized IT function. Explain why Ling set performance materiality for cash at the lowest amount. existence of an attached shipping document (test of control). The following guides are recommended in selecting the appropriate
benchmark: a. Data for Determining the Proper Type of Audit Report Audit documentation provides an important source of information to assist the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated to justify the auditor in deciding whether sufficient appropriate evidence was accumulated and a sufficient appropriate evidence was accumu
difficult, if not impossible, for the auditor to detect, especially when there is collusion among management. Computer operators are responsible for the day-to-day operations of the computer, following the schedule established by the CIO. (See Figure 24-6 on p. But the greatest benefit from calculating ratios and making comparisons occurs after the
client has finished preparing its financial statements. The information being assessed comes from a variety of sources, including studies of existing internal auditor reports, exception reporting on controls, internal auditor reports, exception reporting on control activities, reports by regulators such as bank regulatory agencies, feedback from operating personnel, and complaints from
customers about billing charges. A return address must be included on all envelopes to make sure that undelivered mail is received by the CPA firm. The clarified audit relevance such that the auditor expects the items selected to be
representative of the population and, thus, likely to provide a reasonable basis for conclusions about the payroll notifications and checks to Charles Strode, the supervisor of the computer department. 32 An assurance service
is an independent professional service that improves the quality of information for decision makers. When auditors decide on a lower acceptable audit risk, they want to be more certain that the financial statements are not materially misstated. 15-15 (Objective 15-5) Identify the factors an auditor uses to decide the appropriate TER. The scandal
centred on a kickback scheme in Brazil also had a minister, state governors, senators and congressmen associated with it. Trace 10 accounts from the aged trial balance to the accounts receivable master file to test for correctness of aging and the balance (8). Prepare daily cash deposits. • The sum of all performance materiality levels cannot exceed
twice the prelimi- nary judgment about materiality (2 × $442,000 = $884,000). External users such as stockholders and lenders who rely on those financial statements' reliability. Similarly, several of the other risk factors influencing management characteristics
are a part of the control environment, as we'll discuss in Chapter 11. recorded accounts receivable exist existing accounts receivable are Included 572 Confirmation of customers' balances is the most important test of details of balances for determining the existence of recorded accounts receivable. Design and perform tests of Details of accounts
receivable Balance (phase III) designing tests of details of Balances Even though auditors emphasize balance sheet accounts in tests of details of balances, they are not ignoring income statement accounts because the income statement accounts because the income statement accounts are tested as a by-product of the balance sheet tests. administration of the It Function The board of
directors' and senior manage- ment's attitude about IT affect the perceived importance of IT within an organization. The preliminary judgment about materiality for the financial statements could be misstated and still not affect the decisions of
reasonable users. Visit the Global Reporting Initiative Web site (www.globalreporting.org) and answer the following questions. 14-5) Explain what is meant by lapping and discuss how the auditor can uncover it. a. This is permissible if internal controls are
adequate and can provide reasonable assurance that sales, cash receipts, Part 3 / APPlicAtion of the accounting period. This aspect of analytical procedures is often called "attention directing" because it and collection cycle and other credits are properly recorded between the date of the accounting period. This aspect of analytical procedures is often called "attention directing" because it and collection cycle and other credits are properly recorded between the date of the accounting period.
results in more detailed procedures in the specific audit areas where misstatements might be found. An evaluation of the effectiveness of key measures used to assess an entity's success in achieving specific targets linked to an entity's strategic plan and vision. State the Objectives of the audit test must be stated in terms of
the transaction cycle being tested. With the centralization of data in a single system, they must also ensure proper backup of data on a regular basis. Negative Confirmation A negative confirmation is also addressed to the debtor but requests a response only when the debtor disagrees with the stated amount. If the peer review is authorized by the
AICPA, state CPA society, or state Board of Accountancy, client permission to examine the audit documentation is not needed. (3) Monthly bank reconciliations usually include several in-transit items. In all three situations, there has been a misappropriation of assets, but the financial statements are misstated only in situations 1 and 2. Table 6-1
includes four common judgment tendencies and related strategies to avoid them and mitigate bias. For detecting larger frauds, analytical procedures and other comparisons may be useful. Other examples include properly valuing and disclosing
derivative financial instruments. Normally, he would have done an initial review during the planning phase as required by his firm's policies; however, he had been overwhelmed by an emergency with his largest and most important client. Due to the lack of trained staff in her African offices, the financial statements of a few subsidiaries were badly
prepared and not following the International Financial Reporting Standards. How should this be reflected in the auditor's report? (c) Examine the shipping order for an authorized credit approval. No changes to this control or personnel involved have occurred since testing was performed. In this process, the clerk uses a batch control sheet which
shows the number of invoices and the total value to be entered. 4-20 (Objectives 4-5, 4-6) The following instances are situations that an auditor might have to face in real life. IBM maintains an effective internal control structure. The shipping document, which is often a multicopy bill of lading, is essential to the proper billing of shipments to
customers. These assurance services differ from attestation services in that the CPA is not required to issue a written report, and the assurance does not have to be about the reliability of another party's assertion about compliance with specified criteria. • Patel was unable to perform normal accounts receivable confirmation procedures for accounts
that are material, but not pervasive, to the financial statements. Select the sample and perform the tests. The data processing clerk in accounts receivable master file. For an accounts receivable balance of $1,000,000, for example, the
auditor should accumulate more evidence if a misstatement of $50,000 is considered material than if $300,000 were considered material. Failure to include an account receivable from a customer in the accounts receivable trial balance when a receivable exists violates the completeness objective. Recall the evidence obtained through observation
generally involves the auditor looking at a process or procedure being performed by others. (1) A statement explaining management's responsibilities for the financial statements (4) The signature of the engagement partner by
Cash is also used to acquire labor for the same reason (payroll and personnel cycle). Figure 13-2 summarizes how auditors respond to the risks of material misstatements identified through risk assessment procedures by using the four types of further audit procedures to obtain audit assurance in the audit of the sales and collection cycle. Solar-
Electro produces state-of-the-art, solar-powered engines. For example, cash from a cash sale was stolen, and the transaction was not recorded. Figure 2-1 summarizes the relations among international auditing standards, AICPA auditing standards, AICPA auditing standards, and PCAOB auditing standards. The client provided John extensive information along with detailed
schedules that documented management's testing approaches, and it provided her support for key 198 Part 2 / The AudiT Process assumptions made by management. The Code of Professional Conduct is meant to provide a standard of conduct for all members of the AICPA. Match each change in audit circumstance with the most likely test of details
of balances response. Firms required to be registered with and inspected by the PCAOB must be reviewed by the PCAOB. Performance materiality a. Only the last sentence of the auditor's responsibility
paragraph would be modified as shown next.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion. The evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion. The evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion. The evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.
Observe entity activities and Operations When auditors observe client personnel carrying out their preparation of documents and records, it further improves the auditors' understanding and knowledge that controls have been implemented. Audit sampling can be used for the remaining three
procedures. Co&Dan has been a client of the audit firm for 20 years and have implemented sophisticated internal controls for its sales and collection cycle, including automated point of sale system at the cashier 10 years ago. Other Receivables The other receivables and collection cycle, including automated point of sale system at the cashier 10 years ago.
signature, proper endorsement, and cancellation by the bank. A partner or manager who provides more than 10 hours of nonattest services to the client in a fiscal year 4. through m.) related to sales and accounts receivable. Summarize the due process followed by the IAASB in setting standards. (A risky client will be assessed as a low acceptable
audit risk.) Justify your response. Each office of the firm shall be visited at least annually by review persons selected by the director of accounting and auditing. This file is used to prepare the cash receipts journal and update the accounts receipt and update the accounts r
overqualified responses, such as "to the best of my memory." Dishonest people are often tolerant toward someone who may have committed fraud. Therefore, there is considerable incentive for CPA firms to conduct themselves at a high professional level. Audit risk represents the possibility that the auditor concludes after conducting an adequate
audit that the financial statements were fairly stated when, in fact, they were materially misstated. In this chapter and the next, we continue our discussion of planning the audit by focusing on the role of internal controls. and e. ii. The Securities Act of 1933, the Securities Exchange Act of 1934, and the Sarbanes-Oxley Act contain provisions that
serve as a basis for legal action against auditors. What possible defense(s) could the auditors use if they were also accused of violating federal securities laws in this case? Attitudes/Rationalization. May result in pressures to continue practice of not charging for hours worked. Since these programs were implemented in 2007, customer satisfactionalization.
ratings have improved steadily in each subsequent year. The audited financial statements were erroneous and were a subject of ridicule during the annual general meeting by the members. An invoice confirmation is another type of positive confirmation is another type of positive confirmation in which an individual invoice is confirmation in which an individual invoice is confirmation in which an individual invoice confirmation is another type of positive confirmation in which an individual invoice is confirmation in which an individual invoice is confirmation in which are the confirmation in the confi
balance. Enforcement Proceeding (July 2, 2002) (www.sec.gov/news/digest/0702.txt). What is the sample size if you increase the confidence level to 95% and do not change the other sampling parameters? For each of the items 1 through 6 listed above, indicate whether the statement must be proven under a. They've invested in the company. In some
states, the court can also assess punitive damages. There are typically more people affected in situations in which ethical dilemmas occur than might be expected. In some organizations, management uses spreadsheet software to make adjustments to financial information generated by the accounting system. To illustrate the need for auditing,
consider the decision of a bank officer in making a loan to a business. In Chapter 10 / Assessing And Responding to FRAud Risks 345 FigUre 10-5 Horizontal Analysis of Income Statement (in thousands) Year Ended December 31 net sales Cost of sales Gross profit Selling, general
and administrative expenses Operating income 2016 2015 Change $143,086 $131,226 $11,860 % Change $0.0 103,241 94,876 8,365 8.8% 39,845 36,350 3,495 9.6% 32,475 29,656 2,819 9.5% 7,370 6,694 676 10.1% 2,409 2,035 374 18.4% Other income and expense Interest expense Gain on sale of assets Total other income/expense (net) (720)
1,689 - (720) n/A 2,035 (346) -17.0\% Earnings before income taxes 5,681 4,659 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 3,934 $ 3,194 $ 740 23.2% net income taxes 1,747 1,465 282 19.2% $ 3,934 $ 3,194 $ 740 23.2% net income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% Provision for income taxes 1,747 1,465 282 19.2% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% $ 1,022 21.9% 
laws and regulations. All All Y X 3. Explain the five elements that are part of a strategic understanding of the client's business. If the total recorded value of the population is $1,040,000 × .06). The misstatements for Hart Lumber are shown in Table 17-14. A greater emphasis began
to be placed on the importance of the audit staff understanding the client's business and industry. General transactions that should be included in the journals have actually been included. e5 e5 ej n e ^ 5 N e or N n j E where:
$226.48 5 $2.26 100 E^ 5 4,000 ($2.26) 5 $9,040 E^ 5 4,000 e 5 average misstatement in the sample 5 summation e j 5 an individual misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in the sample n 5 sample size E^ 5 point estimate of the total misstatement in 
this conclusion. Chapter 3 / Audit RepoRts 99 required 3-27 (Objectives 3-3, 3-9) The PCAOB has proposed changes to the auditor to communicate "critical audit matters include those matters during the audit that involved difficult, subjective, or complex
auditor judgments or that posed difficulty to the auditor in obtaining sufficient appropriate evidence or in forming the opinion on the financial statements. For the auditor reached the following conclusions: A, D, E, H. The final indexing is for the schedules supporting A-3 and A-4. Part
B applies to professional accountants in public practice while Part C applies to professional accountants in business. elements of Quality Control It should be noted that public accountants in business. elements of Quality Control It should be noted that public accountants in public practice while Part C applies to professional accountants in business.
recognizes that this business is exceptionally risky and could jeopardize the success of its existing refining business, but there are significant potential rewards. Generally, these damage approaches only apply in cases of liability to third parties under common law and under the federal securities laws. physical and Online Security Physical controls
over computers and restrictions to online software and related data files. 251). Include in your recommendations both tests of controls and substantive tests. (3) The financial statements contain unadjusted misstatements that should result in a
qualified opinion. Auditors also assess the risk of material misstatement, represented by the combination of inherent risk and control risk as described in Chapter 9. On the same engagement, accounts receivable may require little testing because of effective internal controls, fast collection of receivables, excellent relationships between the client and
customers, and good audit results in previous years. Observation is normally done concurrently with other audit procedures. Based on her knowledge of Mercury's operations in the area of sales, she decides that the EPER is likely to be 3% and that she is willing to accept a 5% risk that the true population exception rate is not greater than 6%. We
refer to this as the preliminary judgment about materiality. Describe, in general terms, the audit procedures you would follow in making sure that cutoff for sales is accurate at the balance sheet date. Auditors find a variety of errors resulting from such things as mistakes in calculations, omissions, misunderstanding and misapplication of accounting
standards, and incorrect summarizations and descriptions. Peden, California State Polytechnic University Philip H. Inv. Based on preliminary discussions
with management, a tour of the production facility, and background reading about the electronic components industry, Ling determines that MT, Inc., has strong credit policies, and most customers pay their full balance on time. Inquire of the sales manager whether there is segregation of duties regarding the credit-granting
function and the sales function. In some frauds, management generated fictitious revenues to make analytical procedures results, such as gross margin, similar to the prior year's. For each of the scenarios listed above, discuss whether the auditor's behavior would be considered nonnegligence, ordinary negligence, gross negligence, constructive
fraud, fraud, or criminal behavior. Chapter 11 outlines the key components of an effective system of internal controls over financial reporting, consistent with the 2013 revision of COSO's Internal Control address whether management should address whether management has knowledge of any fraud or suspected
fraud within the company. Recommending a tax mitigation scheme to your client. State a substantive test of transactions audit procedure to determine whether approved wage rates are actually used in calculating employees' earnings. Review PCAOB Auditing Standard No. 12, Identifying and Assessing Risks of Material Misstatement, to answer parts
e. Compare prices on vendors' invoices with approved price limits established by management. 492) does not exceed 7 percent (TER), at a 5 percent ARO. Inappropriate or ineffective communication and support of the entity's values. What major factors may be relevant when Saturn Bank assesses its risk in the implementation of the COSO internal
control framework? What documents or other source evidence would you use to test the occurrence transaction-related audit objective for sales for each of the four scenarios? However, the total allowance for sampling risk is less than the sum of the individual sampling risk amounts. Sales invoices are compared with shipping documents and approved
customer orders before invoices are mailed. Instead of GAS, some auditors use spreadsheet software to do simple parallel simulation misstatement based on the number of misstatement size, individual misstatements in the sample, and sample size. Table 16-
1 presents examples of ratios and comparisons for the sales and collection cycle and potential misstatements that analytical procedures may uncover. 12. Examine duplicate sales invoice for proper account classification (13b). Online ability to add employees or change pay rates to the payroll master file is restricted via passwords to authorized human
management has communicated any information about fraud risks to those charged with governance. Beasley, Chris E.HoganFile Length: Total Review: 34Price on Amazon: $285.81Click to Download!Denise Downloaded Auditing and Assurance Services (16th Edition) PDFMy college friend suggested studying the textbook Auditing and Assurance
Services (16th Edition) and aftertireless research for 3 times, finally!, I have the book file here. potential Judgment tendencies, traps, and biases that may impact the decision-making process. Input information to prepare checks for signature, record checks in the cash
disbursements journal, and update the appropriate master files. To calculate the allowance, the client estimates the total amount of accounts receivable that it expects to be uncollectible. Describe two of those six elements. This is triggered by checking the current level of inventory on the inventory system which has been updated to record the
minimum and maximum required levels of raw materials. For example, the auditor may need to gather contracts related to the unusual sales transaction in addition to other documentation evidencing delivery of products or services associated with the sale, and the auditor may want to discuss the transaction with management, including those in sales
the relevance of each assertion for each significant class of transactions, account balance, and presentation and disclosure. inquire about management's process of assessing fraud risks, the nature of fraud risks identified by management is process of assessing fraud risks, the nature of fraud risks and related
controls that management has reported to the audit committee or others charged with governance. Observe whether statements (observation and inquiry). "Terrible, I had to come in during the weekend to perform reconciliations between the old and the new
trade systems. Inherent risk factors are discussed later in the chapter and control risk is covered more fully in Chapter 12. Now, CPA firms and clients typically sign engagement letters, which are required for audits, to formalize their agreements about the services to be provided, fees, and timing. The account consists largely of temporary differences
related to (1) the valuation of inventory, (2) depreciation, and (3) other accruals. How could auditors have used audit software to detect these disbursements? For example, at one company the reversals of improperly recorded sales resulted in negative sales for a month. He issued credit memos to the customers in the amount of the diverted cash
receipts. Cutoff for accounts receivable is correct. It mainly purchased scrap metal from both domestic and overseas markets and generated sales by either selling the scrap into its various metal components with the use of heavy equipment. The following paragraphs discuss substantive
tests of transaction audit procedures that may be performed for each transaction-related balance objective, depending on the effectiveness of controls are effective, evidence obtained is more reliable than when they are
not effective. • A supervisor asks Bryan to initial certain audit procedures as having been per- formed when they were not. What are the similarities and differences among each type of audit? Because substantive analytical procedures are relatively inexpensive, many auditors perform them on all audits. In either case, the auditor must obtain
reasonable assurance about whether the statements are free of material misstatements. Several interpretations of the Independence Rule deal with specific aspects of financial and other relationships between CPA firm personnel and clients. The case has been revised and expanded to now consist of seven parts included at the end of the chapter to
which that part relates. Duplicate Sales Invoices These are useful in verifying the actual issuance of a sales invoice and the actual issuance of a sales invoice and the actual issuance of a private company is provided in Figure 8-2. This helps the auditor revise the tests of details of balance audit program for unexpected results in the
earlier tests and to complete the audit as soon as possible after the balance sheet date. Due Care A member should observe the profession's technical and ethical standards, strive continually to improve competence and quality of services, and discharge professional responsibility to the best of the member's ability. 2-9 (Objective 2-7) In some
instances, the underlying AICPA standards could be considered too general for in-depth guidance, so auditors frequently turn to the SASs issued by the ASB for more specific guidance. Markum is now insolvent and unable to satisfy the claims of its customers. Increase the number of accounts traced from the accounts receivable trial balance to the
accounts receivable subsidiary records. Which of the following best illustrates the concept of sampling risk? What is the purpose of the audit team's brainstorming session? Define what is meant by a management assertion about financial statements. For example, an increase in acceptable audit risk results in an increase in planned detection risk (D)
and a decrease in planned audit evidence (I). Identify risks inherent to this business process in a grocery store that might affect the financial statement accounts identified in part a. If auditors discover that the amounts recorded in the subsequent period
under audit, they must consider an adjustment. Specific Balance-related audit Objective a. Auditing requirements for related-party transactions are discussed in Chapter 8. Normally, the criteria are U.S. or international accounting standards, although auditors may conduct audits of financial statements prepared using the cash basis or some other
basis of accounting appropriate for the organization. Some states require fewer credits before taking the examination but require 150 semester credits before taking the examination but require fewer credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before taking the examination but require 150 semester credits before 150 semester
a CPA firm and its client, the ability of the CPA firm and client to remain objective is questionable, and the threat to the auditor's independence may not be at an acceptable level. Inadequate controls will increase the substantive evidence needed. Control risk measures the auditor's assessment of the risk that a material misstatement could occur in an
assertion and not be prevented or detected on a timely basis by the client's internal controls. Some companies use a lockbox system in which the member is engaged to perform any of the services listed above and the period
covered by any historical financial statements involved in such listed services. (Summarize and Quick Sort) d. 1 7 Low 65 65 1 1.5 5.5 1.5 9 Low 50 0 0 9.0 Description of Attributes 7. Prior audit testing of the allowance in previous years has found that the subsequent write-offs of patient receivables have closely approximated the amount included
in the allowance. Goods shipped to customers do not agree with goods ordered by customers. This report provides assurance to companies that use the service provider takes a sample of 50 sales invoices, how many will be found that
have no shipping documents? (www.google.com), Boeing (www.boeing.com), and Microsoft (www.micro soft.com). 2-12 (Objective 2-8) State what is meant by the term peer review. Less-experienced auditors should 360 Part 2 / The AudiT Process tabLe 10-6 Observing Verbal Cue Examples Implications Extensive use of
modifiers, such as "generally," "usually," "often," "normally," etc. For example, sales returns, cash receivable to increase and decrease. Similarly, payroll transactions and accrued payroll are parts of the payroll and personnel cycle.
Description of Attributes 1 7 Low 65 7. The most notable exception is the Independence only when the AICPA has established independence requirements through its rule-setting bodies, such as the Auditing Standards Board. Give an appropriate example for each of the guideline. What is the main objective of the
audit of an entity's financial statements? Fraud perpetrators often go to great lengths to support fictitious revenue. That topic is covered in Chapter 15. Many large CPA firms have departments involved exclusively in management consulting and risk advisory services with little interaction with the audit or tax staff. Indirect investments, such as
ownership of stock in a client's company by an auditor's grandparent, are also prohibited, but only if the amount is material to the auditor. An example of a client where the auditor will accept very little risk (low acceptable audit risk) is for an initial public offering. (4) decrease planned detection risk. An inexperienced staff assistant is likely to become
the most experienced nonpartner on the engagement within a few years. It is essential for auditors to understand the relationships among the columns in Table 14-2. Match purchase requisition, receiving report, and invoice. 90 Part 1 / THE AUDITING PROFESSION tabLe 3-2 Audit Report for Each Condition Requiring a Departure
from a Standard Unmodified Opinion Report at Different Levels of Materiality Condition Requiring an Unmodified Opinion Report with Nonstandard Wording or Explanatory Paragraph Immaterial Material Accounting principles not consistently applied* Standard unmodified opinion Wording or Explanatory paragraph Immaterial Materiality Condition Report at Different Levels of Materiality Condition Report at Different Levels of Materiality Condition Report with Nonstandard Wording or Explanatory Paragraph Immaterial Materiality Condition Report at Different Levels of Materiality Condition Report
Standard unmodified opinion Unmodified opinion with explanatory paragraph Justified departure from GAAP or other matters Standard unmodified opinion Unmodified opinion with explanatory paragraph Use of another auditor
Standard unmodified opinion Unmodified opinion Unmodified opinion with revised wording in other report paragraphs Substantial doubt about going concern † Level of Material That Overall Fairness Is in Question Standard unmodified opinion Additional paragraph, and qualified opinion
(except for) Disclaimer Standard unmodified opinion Additional paragraph and qualified opinion (except for) Adverse Conditions Financial statements not prepared in accordance with GAAP‡ Auditor is not independent Disclaimer,
regardless of materiality * If the auditor does not concur with the appropriateness of the change, the condition is considered a violation of GAAP. Search under "Investor Relations" for the most recent annual report and locate the independent auditor's report. (Direction of tests is discussed later in this chapter on p. 4-24 (Objective 4-6) The U.S
national stock exchanges require listed companies to have an independent audit committee. The same concepts that apply to balance-related audit objectives. In his new role, Stokely has no responsibilities for f inancial reporting. 1 5 Low 100 100 4 4 1.0 6. Reconcile recorded cash
disbursements with cash disbursements on the bank statement for a test month. Describe the differences in evaluating, reporting, and testing internal control for nonpublic and smaller public companies. A CPA must also have ultimate responsibility for all financial statement attest, compilation, and other services provided by the firm that are
governed by Statements on Auditing Standards or Statements on Standards for Accounting and Review Services. To illustrate the meaning of integrity and objectivity, assume the auditor believes that accounts receivable may not be collectible but accepts management's opinion without an independent evaluation of collectibility. Consider the
implication for the audit of internal control. Some local firms have only one office and serve clients primarily within commuting distances while others may have several offices. • Acceptable audit risk. (2) a large number of small balances are involved. apart from the external auditors, the company engages a team of Internal auditors who operate as
an independent entity in the company. Select a sample of recorded sales from the sales journal and trace the customer name and amounts to duplicate sales invoices and the related shipping document. It is also useful to examine the controls to
prevent or detect misstatements. Auditor reports can be found in all public companies' annual financial reports. (3) They were not in privity of contract with the creditors. Auditors are most likely to believe material dollar misstatements exist in the financial statements when control test deviations are considered to be significant deficiencies or
material weaknesses. The intent is to indicate that the conclusions are based on professional judgment. The addition of rolling out a new system would mean that Allan would not only have to ramp up the number of audit tests, but will be unlikely to rely on summary or computed data generated by the computer system. Generally speaking, the larger a
client's operations, the more widely the statements are used. In application, deciding on actual materiality in a given situation is a difficult judgment. It was discovered that several mistakes were made during the input process and suppliers were paid incorrectly. Define attributes and exception conditions. However, in the Central Bank of Denver
(1994) case, the Supreme Court ruled that liability under Rule 10b-5 did not extend to aiders or abettors who participated in financial statement misstatement misstatement but were not the primary defendants. Most people define unethical behavior as conduct that differs from what they believe is appropriate given the circumstances. The risk of material
misstatement is the risk that the financial statements contain a material misstatement due to fraud or error prior to the audit. Similar issues motivated the European Commission to issue a new statutory audit framework in 2014 effective June 2016. Capital is available to support growth goals in the bank's five-year strategic plan. These notations must
be clearly explained at the bottom of the schedule. Why is ethics important to the conduct of business in a market-based economy? The 1933 act is the only common or statutory law where the burden of proof is on the defendant. To determine whether the internal controls operated effectively to minimize instances of failure to post invoices to
customers' accounts receivable master file, the auditor would select a sample of transactions from the population represented by the *Based on AICPA question paper, American Institute of Certified Public Accountants. risk of Material Misstatements Balance-related audit Objectives Existence Completeness Accuracy Classification Cut-off Detail tie-in
Realizable value Rights and obligations required acceptable audit risk Inherent risk Control risk Medium Medium Medium Low Medium Mediu
audit procedure to determine whether the client is using the correct cutoffs to report transactions. Compute common financial ratios. Busch Corporation's controller approached a CPA firm and was given an estimated cost of $35,000 to perform a review and $60,000 to perform a review and $60,000 to perform an audit. Chapter 16 / Completing the tests in the sales and ColleCtion
CyCle: aCCounts ReCeivable 601 Figure 16- 10 Pinnacle Manufacturing Analysis of Trade Accounts Vendor Balance Timing Books Statement in Related Accounts Vendor Balance per Books Income Misstatement Misstatement Misstatement of Misstatement In Related Accounts Vendor Balance Timing Books Statement Other Bal
Payable No Amount o/s (u/s)* by Vendor o/s (u/s)* by Vendor o/s (u/s)* o/s (u/s)* Confirmed Misstatement Brief Explanation $825,549.89 F.O.B. Origin error: Dr. Inv. Which one of the following statements is correct concerning the concept of materiality? Scope and Nature of Services A member in public practice should observe the principles of the Code of Professional
Conduct in determining the scope and nature of services to be provided. Chapter 2 / The CPA Profession 67 disCussion Questions And Problems required 2-15 (Objective 2-7) Sarah O'Hann enjoyed taking her first auditing course as part of her undergraduate accounting program. Normally, the client's customers are not aware of the existence of such
matters, so the confirmation of receivables will not bring them to light. The parts of this case appear in the following textbook chapters: • Part I—Perform analytical procedures for different phases of the audit, Chapter 8. For example, auditors may rely on inventory specialists to assess the obsolescence of electronic parts inventories and business
valuation experts to assess the reasonableness of market value assumptions made for certain investments. •• Chapters 6 and 7 deal with auditors' and managements' responsibilities, responsibilities, responsibilities, responsibilities, responsibilities, responsibilities, responsib
worth. It is inappropriate to regard confirmations mailed but not returned by customers as significant audit evidence. Read the auditing standard to answer the following questions. Code Classification System 126 The numbering system for the revised AICPA Code is "ET section X.XXX.XXX." The single digit at the beginning of the citation identifies
the part of the Code. multiPle chOice QuestiOns frOm cPa examinatiOns 12-16 (Objectives 12-2, 12-5) The following questions deal with deficiencies in internal control. The tolerable misstatement is $500,000 at a 10% ARIA. As part of his job, he is in charge of the audit, tax return, bookkeeping, and management services work for the Uthman
Decorating Company. required 4-26 (OBJeCtIVeS 4-5, 4-7) The following questions relate to the AICPA Code of Professional Conduct, which can be viewed online or downloaded in pdf format at www.aicpa.org: a. Interpretations provide guidelines about the scope and application of the rules, and members must justify any departure in a disciplinary
hearing. This is likely if the auditor is reporting on internal control, or if the control relates to highly significant account balances such as receivables or inventory. What is your assessment of the programming function at Jacobsons? To identify these amounts, the auditor should review the listing of accounts (aged trial balance) at the balance sheet
date, or use audit software, to determine which accounts should be investigated further. The deliberate understatement of purchases and cost of goods sold and an overstatement of results in an understatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of purchases and cost of goods sold and an overstatement of goods sold and an overstatement of goods and goods and goods and goods are purchased as a cost of goods and goods are purchased as a cost of goods and goods are purchased as a cost of goods and goods are purchased as a cost of goods and goods are purchased as a cost of goods are purchased 
related audit objectives and balancerelated audit objectives. Inventory is included as a separate cycle both because for most manufacturing and retail companies, inventory is usually highly material, there are unique systems and controls for inventory, and inventory is often complex to audit. The plaintiff
security purchaser must allege or prove: 1. Chapter 1 / THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES 37 As businesses increase in complexity, it is no longer sufficient for auditors to focus only on accounting transactions. Which of the following statements describes why a properly designed and executed audit may not detect a
material misstatement in the financial statements resulting from fraud? Overall review d. The principles are designed to guide members in the performance of their professional conduct. Significant risks also relate to matters that require significant judgment because
they include the development of accounting estimates for which significant measurement uncertainty exists. Larger companies often contract with IT data centers that specialize in providing access to off-site computers and data storage and other IT services for use in the event of an IT disaster. A firm includes the individual partners thereof, except
for purposes of applying the rule on independence. (4) the auditor wishes to increase the acceptable level of detection risk. Fair treatment means that similar situations are handled consistently. Figure 11-4 illustrates the relationship between general controls and application controls. Although certain internal controls satisfy more than one objective,
auditors should consider each objective separately to facilitate a better assessment of control risk. There are two differences between balance-related audit objectives. In Chapter 2, we discussed how the ability of the client's internal controls to generate reliable financial information and safeguard assets and records is one of
the most important and widely accepted concepts in the Global Fortune 250 (G250) providing external assurance on their responsibility report. 11. A significant deficiency exists if one or more control deficiencies exist that
are less severe than a material weakness (defined next), but are important enough to merit attention by those responsible for oversight of the auditor in distinguishing between obsolete and current inventory? The scope paragraph notes that auditing is done on a test
basis. on the planned audit procedures and sample size in the audit of inventory compared with the .17 calculated by Sessions. 1-21 (ObjeCtive 1-5) There are many types of information that require assurance. The bank has a 328 Part 2 / The AudiT Process dedicated underwriting staff that continually evaluates the collectability of loans outstanding
We want to keep our clients happy. To help CPAs maintain objectivity in conducting audits or other attestation services, basing fees on the outcome of engagements is prohibited. • Accounts payable master file total is reconciled to the general ledger total monthly. 11-24 (Objective 11-3) The following are misstatements that have occurred in Merry
Accessories Ltd., a trading company selling handbags and accessories: 1. adequate planning and Supervision The auditor is responsible for sufficiently planning an audit to ensure an adequate audit fee to its auditor, Seale and
Seale, CPAs, for the 2014 and 2015 audits. Because billings are prepared from bills of lading, the customer was not billed. Warning Signs of Inventory Fraud Similar to deceptions involving accounts receivable, many potential warning signs of Inventory Fraud Similar to deceptions involving account for a sequence of sales invoices in the sales
journal. Let's discuss the key decisions in designing tests of details of balances audit procedures as shown in Figure 13-6. We will discuss both inherent risk and control risk later in this chapter. It is typically more difficult to evaluate the materiality of potential misstatements resulting from a scope limitation than for failure to follow GAAP. Identify
existing controls. To guarantee integrity and authenticity, each signature is digitally signed by the private key maintained by the certification authority. For each class of transactions, the accounting system must satisfy all of the transactions, the accounting system must satisfy all of the transactions authority.
transaction to minimize the taxes of the combined entities. Client-imposed restrictions on the audit can affect the procedures performed and possibly even the type of audit opinion issued. Commissions are permissible for other clients, but they must be disclosed. Calmie, Thomas Nelson Community College Eric Carlsen, Kean College of New Jersey
David Chan, St. John's University Freddie Choo, San Francisco State University Freddie Choo, San Francisco Stat
State Court of Appeals upheld the basic concept of privity established by Ultramares and stated that to be liable, (1) an auditor must know and intend that the work product would be used by the auditor's conduct. A sample size of 40 is selected. The methods are the control of the knowledge and intend that the work product would be used by the third party for a specific purpose, and (2) the knowledge and intend that the work product would be used by the auditor's conduct. A sample size of 40 is selected. The methods are the control of the knowledge and intend that the work product would be used by the auditor's conduct. As a sample size of 40 is selected. The methods are the control of the knowledge and intend that the work product would be used by the auditor's conduct. As a sample size of 40 is selected. The methods are the control of the control o
differ because auditors need to evaluate results statistically. See Tables 16-2 and 16-3 (both on page 530). Calvin is also responsible for bookkeeping and depositing cash in the bank nearby. During the sales to the accounting system.
Understanding Internal Controls in Outsourced Systems When clients use a service center for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions, such as a payroll service provider or a broker for processing investment transactions.
auditor should compare the authorizations of loans with notes payable to make certain that these liabilities are recorded and key terms disclosed. Reckless behavior was not sufficient for damages. Finish Metals, Inc. A formatted sampling data sheet is available online. 177) Balance Sheet Income Statement Sales and collection Sales journal Cash
receipts journal General journal Cash in bank trade accounts receivable Other accounts receivable allowance for uncollectible accounts Sales returns and allowances Bad debt expenses Land Buildings Computer
and other equipment Furniture and fixtures accumulated depreciation trade accounts payable Other accrued payables accrued income tax Deferred tax advertising travel and entertainmenta Stationery and supplies Postagea
                                                             nance and suppliesa Depreciationa renta Legal fees and retainersa auditing and related servicesa Insurancea Office repairs and maintenance expensea Miscellaneous office expensea Miscellaneous office expensea Miscellaneous office repairs and maintenance expensea Miscellaneous office expensea Insurancea Office repairs and maintenance expensea Miscellaneous office ex
bank accrued payroll accrued payroll taxes Salaries and commissions Sales payroll taxes Executive and office salaries administrative payroll taxes Inventory and warehousing acquisitions journal Cash disbursements journal General
journal Cash in bank Notes payable Long-term notes payable accrued interest Capital stock Capital in excess of par value retained earnings Dividends Dividen
individual responsible for investigating and reporting fraud or illegal acts. 6-6 Identify the benefits of a cycle approach to segmenting Officer of the Company since November 2006. 1-19 (Objectives 1-6, 1-7) In the normal course of
performing their responsibilities, auditors often conduct audits or reviews of the following: 1. Significant risks often relate to nonroutine transactions, which represent transactions that are unusual, either due to size or nature, and that are infrequent in occurrence. Review sales invoices for evidence of clerical accuracy and prices in relation to pricing
polices. Guidelines for responses to review guestions and discussion guestions are offered. Part 2 / The Audit Objectives follow and are closely related audit objectives foll
book for buses. Part 1 / THE AUDITING PROFESSION In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. Khalid uses these files to create bills that are mailed to the customers.
Skilled auditors recognize that rephrasing often indicates that the interviewee is uncertain about his or her response or is attempting to stall for time. Restrictions on commissions are similar to the interviewee is uncertain about his or her response or is attempting to stall for time. Restrictions on commissions are similar to the interviewee is uncertain about his or her response or is attempting to stall for time.
such as an initial versus repeat engagement, will affect many or perhaps all cycles, whereas others, such as nonroutine transactions, will affect only Making the Inherent risk Decision Chapter 9 / Assessing The Risk of MATeRial MissTATeMenT 317 specific accounts or audit objectives. Update audit process, as described in this
text, has four specific phases, as shown in Figure 6-8. 42 Part 1 / THE AUDITING PROFESSION (2) It is management's responsibility to seek available independent aid in the appraisal of the financial information shown in its fin
staff members. Because auditors are responsible for determining whether financial statement, bring it to the client's attention so that a correction can be made. (2) Deficiencies a. Similarly, if an audit area such as inventory has a high inherent risk, it is important to
assign that area to someone with experience in auditing inventory. Some risk that the financial statements are not fairly stated exists, even when the opinion is unmodified. The chapter-opening vignette deals with the importance of the decisions involving the overall audit strategy and audit plan and program, considering both audit effectiveness and
efficiency. Both missing documents and immaterial misstatements result in exceptions unless the auditor specifically states otherwise in the exception conditions. Documents and records and as an aid in locating them when they are needed at a later
date. Objective evidence is more reliable than evidence is more reliable than evidence that requires considerable judgment to determine whether it is correct. Ignoring sampling risk, what is your estimate of the total misstatement in inventory? Unmodified Opinion with Emphasis-of-matter Explanatory Paragraph or Nonstandard Wording A complete audit took place with
satisfactory results and financial statements are fairly presented, but the auditor believes that it is important or is required to provide additional information. Solitron Devices, Inc., 673 F. American Baby/USTC 3. When auditors assess risks, they use a considerable amount of the information acquired and documented during the first four parts of auditors.
planning. Tests of details of balances emphasize the ending balances in the general ledger. In response, there have been numerous attempts to reduce their occurrence. He was disappointed with the performance of the stock at the stock market. As all of the audit team members were all accountants, they did not realize a material misstatement
pertaining the drug contraindications of their cancer drug sold in Indonesia. tabLe 4-1 Organization of AICPA Code of Professional Conduct part 1 Members in public practice Conceptual Framework Rules and Interpretations part 2 Members in business
Conceptual Framework Rules and Interpretations Professional ethiCs 109 • Member. You found that there were a lot of late recordings of raw material received and finished goods shipped out. This would avoid confusion with the AICPA AU-C section numbering, but also facilitate
comparison of the two sets of auditing standards. • indicate a culture or environment that enables management to rationalize fraudulent acts. AICPA membership is voluntary, so not all CPAs join. Use of an adequate chart of accounts receivable turnover is substantially lower for the current year than for
the prior year. As the ASB redrafted existing guidance, each modified SAS now: • standard and its context • Establishes objective of the auditor in conducting the audit; Includes a
definition section, where relevant, in each standard; Separates requirements from applications or other explanatory material; Uses formatting techniques, such as bulleted lists, to enhance readability; and Includes special considerations in the audits of smaller, less complex entities and governmental audits. In fulfilling this responsibility, the audit
committee considers the potential for management override of internal controls and oversees management override of internal controls. exceptions to Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality As stated in the second paragraph of the Confidentiality A
requirements. If you see anything that seems unusual, let's discuss it. Discreditable acts Because of the special need for CPAs to conduct themselves in a professional manner, the Code has a specific rule prohibiting acts discreditable to the professional manner, the Code has a specific rule prohibiting acts discreditable to the professional manner, the Code has a specific rule prohibiting acts discreditable to the professional manner, the Code has a specific rule prohibiting acts discreditable to the professional manner, the Code has a specific rule prohibiting acts discreditable acts as a specific rule prohibiting acts discreditable acts and a specific rule prohibiting acts discreditable acts as a specific rule prohibiting acts as a specific rule pr
auditor (4) Prenumbered sales invoices c. 209 report of InDepenDent regIstereD aCCountIng flrm Board of Directors and Stockholders Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company We have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have audited the accompanying balance sheets of Hillsburg Hardware Company we have a sheet sheet accompanying balance sheet she
comprehensive income, and cash flows for each of the years in the threeyear period ended December 31, 2016. Control amounts posted to the accounts receivable ledger are compared with the conduct of a CPA firm's professional
practice. The auditor should identify and include only those controls that are expected to have the greatest effect on meeting the transaction-related audit objectives, as shown with C's and D's in appropriate columns in Figure 12-3. Pinkas agreed to a
settlement with the Commission in September 2010, pursuant to which he was enjoined from violating various provisions of the federal securities laws, ordered to pay a $325,000 civil penalty and $632,729 in disgorgement and prejudgment interest, barred from serving as an officer or director of a publicly-traded company for five years, and barred
from associating with any investment adviser with a right to reapply after one year. 13-19 (Objectives: reporting, operations,
and compliance. An overstatement of revenues often increases net income by an Chapter 10 / Assessing And Responding to FRAud Risks 353 ASSET MISAPPROPRIATIOn Fraud is more difficult to uncover and often goes undetected for a longer period of time when there is collusion among the perpetrators.
After all corrections are made, the data control clerk distributes all computer output to the various user departments. 7-7 (Objective 7-4) What are the characteristics of a confirmation? Abdullah, president of Nefret, advised Hussein, audit partner, not to have anyone call Zaki to verify the amount because of pending litigation between Nefret and Zaki,
Inc. Obtaining sufficient appropriate evidence is essential if the CPA firm is to minimize legal liability and maintain a good reputation in the business community. Assume that TER is 5% for each column. We conducted our audit in accordance with generally accepted accounting standards. Define the population Stratified Sampling For many
populations, auditors separate the population into two or more subpopulations before applying audit sampling. It is normal practice to trace from prenumbered remittance advices or prelists of cash receipts journal and subsidiary accounts receipts to the cash receipts to the cash receipts and into two or more subpopulations before applying audit sampling. It is normal practice to trace from prenumbered remittance advices or prelists of cash receipts to the cash receipts and into two or more subpopulations.
conclusions reached about each attribute are also documented at the bottom of Figure 15-4. They receive the same wage rate as existing employees. eSSential teRmS Analytical procedures—evaluations of financial information through analysis of plausible relationships among financial and nonfinancial data Balance-related audit objectives—eight
audit objectives that must be met before the auditor can conclude that any given account balance is fairly stated; the general balancerelated audit objectives are existence, com- 192 Part 2 / The AudiT Process pleteness, accuracy, classification, cutoff, detail tie-in, realizable value, and rights and obligations Cycle approach—a method of dividing an
audit by keeping closely related types of transactions and account balances in the same segment Error—an unintentional misstatement of the financial statements Fraudulent financial statements fraudulent financial statement of the financi
deceive users; often called management fraud Management assertions, related account balances, and presentation of assets—a fraud involving the theft of an entity's assets; often called defalcation
Noncompliance with laws and regulations—failure to comply with applicable laws and regulations; often referred to as illegal acts Phases of the audit process—the four aspects of a complete audit: (1) plan and design an audit approach, (2) perform tests of controls and substantive tests of transactions, (3) perform substantive analytical procedures
and tests of details of balances, and (4) complete the audit objectives are fairly stated; the four presentation and disclosure-related audit objectives are occurrence and rights and
obligations, completeness, accuracy and valuation, and classification and understandability Professional skepticism—an attitude of the auditor that includes a questioning mind that is alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence Relevant assertions—assertions that have a
meaningful bearing on whether an account is fairly stated and used to assess the risk of material misstatement and the design and performance of audit procedures performance perf
risks of material misstatement Substantive analytical procedure—an analytical procedure—an analytical procedure in which the auditor develops an expectation of recorded amounts or ratios to provide evidence supporting an account balance Substantive tests of transactions—audit procedure in which the auditor develops an expectation of recorded amounts or ratios to provide evidence supporting an account balance Substantive tests of transactions—audit procedure in which the auditor develops an expectation of recorded amounts or ratios to provide evidence supporting an account balance Substantive tests of transactions—audit procedure—an analytical procedure—an analytical procedure—an analytical procedure in which the auditor develops are supported as a support of the substantive tests of transactions—audit procedure—an analytical procedure
related audit objectives have been satisfied for each class of transactions Tests of controls—audit procedures to test the effectiveness of controls in support of a reduced assessed control risk Tests of details of balances—audit procedures testing for monetary misstatements to determine whether the eight balancerelated audit objectives have been
satisfied for each significant account balance Transaction-related audit objectives—six audit
summarization Review QueStiOnS 6-1 (ObjeCtive 6-1) State the objective of the audit of financial statements. The documentation should be prepared in sufficient detail to provide an experienced auditor with no connection to the audit a clear understanding of the work performed, the evidence obtained and its source, and the conclusions reached. The
requisition form is then authorized by the production manager. 12-31 (Objective 12-3) Universe Production Company specializes in manufacturing of paper products such as cards, writing pads and paper bags. Determine that proper cutoff procedures were applied at the balance sheet date to ensure that sales, cash receipts, and credit memos have
been recorded in the correct period. A computer is then used to generate two copies of a sales invoice. Because blank forms require the recipient to determine the information. Of course, reporting on the financial statements of public companies, as well
as private companies, government units, and nonprofit entities, remains a primary role of auditors. All of the responsibilities marked with a dagger (†) are assumed to take about the same amount of time and must be divided equally between Smith and Cooper. The revenue recognition issues at Xerox were more complex. This method defines the
sampling unit as individual dollars in the recorded account balance, and as a result, larger accounts are more likely to be included in the sample. Table 15-3 (p. 15-20 (Objective 15-7) Assume that the auditor has selected 100 sales invoices from a population of 100,000 to test for an indication of internal verification of pricing and extensions. Compute
individual manufacturing expenses divided by total manufacturing expenses, compare the results with those in previous years and note for any unusual fluctuation. Research indicates that the most effective way to prevent and deter fraud is to implement antifraud programs and controls that are based on core values embraced by the company. This
year, it expanded its business to sell leather goods to Asian countries including Japan, Hong Kong and Taiwan which accounts for less than 5% of its total sales. On the one hand, the examination of evidence of subsequent cash receipts is a highly useful alternative procedure because it is reasonable to assume that a customer would not have made a
payment unless it was an existing receivable. To minimize the possibility of the client altering the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items, the auditor should not inform the client too far in advance of the sample items.
information about the overall competitive environment and strategy of the business that may provide important insights about overall client business risks. • Management informs Bryan, who is now a partner, that either the company gets an unmodified opinion for a $40,000 audit fee or the company will change auditors. Although auditors should
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consider the reliability of documentation, they rarely verify the authenticity of documentation. Even if the engagement is profitable, the long-term risk may exceed the short-term benefits of documentation. Even if the engagement is profitable, the long-term risk may exceed the short-term benefits of documentation, they rarely verify the authenticity of documentation. Even if the engagement is profitable, the long-term risk may exceed the short-term benefits of documentation.
auditors to identify revenue recognition as a fraud risk in most audits. 510 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle 14-2 (OBJeCtIVe 14-2) Explain the importance of proper credit approval for sales. Certain principles dictate the proper design and use of documents and records. R. The next year, Images, Inc.'s earnings
declined sharply, partially because of large write-offs of accounts receivable. The audit procedures must be different from the ones in requirements d. (1) Control activities (3) Risk assessment (2) Information and communication (4) Monitoring 11-21 (Objectives 11-4, 11-5) The following questions concern the characteristics of IT systems and their
impact on internal controls. The owner's salary is average enough, but the fact that no one gets bonuses is surprising. In addition to common law liability, auditors may be held liable to third parties under statutory law. Cullen has been employed by Jacobsons for 12 years, working her way up through various positions in the department. Subsequent
events represent events that occasionally occur after the balance sheet date, but before the issuance of the financial statements and auditor's report, that have an effect on the financial statements. • All general ledger accounts and journals for Hillsburg Hardware Co. are included at least once. 454). Table 13-2 summarizes the relationship between
further audit procedures and types of evidence. A far more difficult ethical dilemma to resolve is the following example. The first two controls are meant to prevent the loss of companies, if the auditor determines that controls are not designed or
implemented properly, or not operating effectively, the auditor assesses control risk at maximum and designs and performs detailed substantive procedures. (4) Review the aged accounts receivable trial balance. The negative form of accounts receivable is
considered to be effective. Audit engagement team members enter their electronic signatures in the firm's engagement management software to indicate the completion of specific audit program steps. The SEC has also expressed concerns about the number of instances of improper revenue recognition identified by SEC staff. 12-2 (Objective 12-1)
Kelly Lee, a junior audit staff, is assisting you being her audit manager in planning for the audit manager 
Auditing standards require that the auditor obtain a sufficient understanding of internal control to assess the risk of material misstatement at the overall financial statement level and at the relevant assertion level. Identify the most important factors affecting the preliminary judgment. The purpose is to provide a convenient way to organize assessing
control risk for each audit objective. discussion Questions and proBlems 1-14 (Objective 1-5) The list below indicates various audit, attestation, and other engagements involving auditors. The oval represents the general controls that provide assurance that all application controls are effective. Occurrence deals with potential overstatement;
completeness deals with unrecorded transactions (understatement) and invoice (from suppliers) to ensure the agreed prices and discounts have been honoured. This framework was referred
to as the 10 generally accepted auditing standards (GAAS), classified into three categories: general standards, standards of field work, and reporting standards. Prepare voucher after comparing data on purchase order, invoice, receiving report. Obtain Information to assess Inherent risk Auditors begin their assessments of inherent risk during the
planning phase and update the assessments throughout the audit. Figure 4-1 Objective 4-1 Distinguish ethical from unethical behavior in personal and professional contexts. The Accounting Principles only in unusual circumstances. For each of the
preceding 1-10 items, indicate whether the item represents an: A. In reality, the sample could contain no exceptions or even more than ten. Required acl Problem 7-38 (Objective 7-4) This problem requires the use of ACL software, which can be accessed through the textbook Web site. Also, we could ask for a meeting with the accountants of the other
company, as well as a copy of the company's invoices. Marble management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2016. Let's walk through the illustration point by point: • The first row in the table shows the differences among cycles in the frequency and size of expected
misstatements (A). During the year, changes in the market resulted in a significant decrease in the demand for their products, which are now being sold significantly below cost. 15-5 (Objective 15-3) Explain the difference between replacement sampling and nonreplacement sampling. And, individuals engaged in conducting a fraud often intentionally
misrepresent information to the auditor, and they may try to conceal the transaction through collusion with others. Four categories of fees must be reported: (1) audit fees, (2) auditrelated fees, (3) tax fees, and (4) all other fees. Use of the tables use of tables to compute CUER involves four steps: i. Recorded cash disbursement transactions are for
the amount of goods or services received and are correctly recorded. Audit Risk Objective 9-1 Define risk in auditing. Explain why the sampling unit for testing for the possibility of omitted sales. The auditor should also consider the specialist's relationship to the client,
including circumstances that might impair the specialist's objectivity. 10-28 (Objectives 10-2, 10-4, 10-6) The Kowal Manufacturing Company employs about 50 production workers and has the following payroll procedures. 306) for the audit of accounts receivable for Hillsburg Hardware Co. The eight balance-related audit objectives introduced in
Chapter 6 are included in the columns at the top of the worksheet to help ensure the auditor considers risks related to all the relevant balance-related assertions. The corporate accounting scandal was McKesson-Robbins, and it arguably had a greater impact on the way audits are performed than any subsequent scandal, including Enron and
WorldCom. Planned detection risk is the risk that audit evidence for an audit objective will fail to detect misstatements exceeding performance materiality. Doing so often takes considered independently. The following four
responses to this finding are likely: 1. Therefore, misstatements must be compared with some measurement base before a decision can be made about the materiality of the failure to follow GAAP. Payroll computations should be verified with a comparison of batch totals to summary reports by senior payroll staff. What is the appropriate sampling
unit? Most states now require 150 semester credit hours (225 quarter credits) for licensure as a CPA. Once auditors suspect fraud, they gather additional evidence, often through inquiry, and are responsible for making certain communications about suspected or detected fraud to senior management and the audit committee. Foot the sales journal for
a one-month period and compare all totals with the general ledger. Generalized audit software tools, such as ACL or IDEA, can be used to efficiently identify duplicates and gaps in the numerical sequence of electronic records. The auditor uses this information to assess client business risk and the risk of material misstatement. through d. The foreman
verbally advises the payroll department of rate adjustments. An auditor strives to achieve independence in appearance to (1) comply with auditing standards related to audit performance. Auto Delivery Company has a fleet of several delivery trucks. If the auditor also issues a separate report on internal control over financial reporting, a fourth
paragraph would follow the opinion paragraph and reference the audit report on internal control. The third copy is retained by the salesclerk in the sales book. The person in charge of operations maintains access to the operation maintains acces
objectives from Chapter 6 are also included. eNforcemeNt Failure to follow the rules of conduct can result in expulsion from the AICPA. It is different, however, if the firm operates as a limited liability partnership (LLP), a limited liability partnership (LLP), a limited liability company (LLC), a general corporation, or a professional corporation with limited liability. Monthly reconciliation of
the accounts payable master file with the general ledger 520 Part 3 / APPlicAtion of the Audit Process to the sAles And collection cycle 9. They can include the evaluation of organizational structure, computer operations, production methods, marketing, and any other area in which the auditor is qualified. Auditors need to strive to maintain a healthy
level of skepticism, one that keeps them alert to potential misstatements, so that they can recognize misstatements when they exist. For example, if the courts determine that an auditor's negligence in conducting an audit was the cause of 30% of a loss to a defendant, only 30% of the aggregate damage will be assessed to the CPA firm. It is essential
that users regard CPA firms as competent and unbiased. Corporate responsibility reporting in emerging economies, and is now standard practice for many companies around the world. Part 6, Other Assurance and Nonassurance Services (Chapters 25 and 26) The last two chapters
deal with various types of engagements and reports, other than the audit of financial statements using generally accepted accounting principles. The company uses benchmark data to assess losses from theft. This might include obtaining facts and information about key inputs and assumptions to a transaction, event, or situation through discussions
with client personnel who are knowledgeable of the situation. This is necessary because the auditor should design tests of details of balances during the planning phase, but the appropriate design depends on the outcome of the other tests. The bank account is reconciled by the controller on a monthly basis. (Detail tie-in) 2. Satyam provided certain
employees with an administrative "super user" login identification and password that allowed them to access the invoice management system to record the false invoices. Are key master files properly restricted from unauthorized access? Cash Disbursements 9. The following directors were in attendance: Yehaya Ali Wasim Aziz Rabi Fayed Miriam
Kalyani Essam Saad Ferran Amanullah Bahir El Malky Najjar Hassan Emad Mandany Kateb Utu The minutes of the meeting of October 11, 2012, were read and approved. 2-16 (Objective 2-8) For each of the following procedures taken from the quality control manual of a CPA firm, identify the applicable element of quality control from Table 2-3 on
page 63. One set of accounts and documentation was presented to the auditors Gong Chartered Accountants and subsequently the Inland Revenue Board for their desk audit. • Recalculation is used to verify the mathematical accuracy of transactions when performing tests
of details of balances. Some CPA firms do not permit any ownership by staff of a client's stock regardless of which office serves the client. The cashier examines each check for proper endorsement. She gives all correspondence to Diab and all payments to the supervisor. If auditors divulge this information to outsiders or to client employees who have
been denied access to the information, their relationship with management can be seriously strained and, in extreme cases, the client can be harmed. The need for independence from clients. 13-16 (Objective 13-4) List the eight balance-related audit objectives in the verification of the ending balance in inventory and provide one useful audit
procedure for each of the objectives. Examine documents, records, and reports. In this case, the computer is performing the approval function using preauthorized information contained in the master files. Litigation, pending stock issuances, and merger information may need to be included in footnotes. Chapter 9 / Assessing The Risk of MATeRiAl
MissTATeMenT 315 Assessing inheRent Risk Objective 9-7 Consider the impact of several factors on the assessment of inherent risk. Occurrence—recorded transactions have actually occurred. This audit isn't very profitable anyway, and we don't want to hurt our firm by going over budget
Names of one or more past owners may be included in the firm name of a successor organization. The CEO personally looked into the financial results and through intense questioning found that the Controller and the CFO had conspired to artificially inflate the results of the company by creating fictitious accounts receivable from fictitious companies
which were written off after year-end by credit memos. Additional audit partners with significant involvement on the audit must rotate after seven years and are subject to a two-year time-out period. Source: Mark Beasley, Bruce Branson, and Bonnie Hancock, "Developing Key Risk Indicators to Strengthen Enterprise Risk Management," COSO,
December 2010 (www.coso.org), ecoNomic demand for auditing in reducing information risk, 110 Part 1 / THE AUDITING PROFESSION table 4-3 Threat Adverse interest The threat that
a member will not act with objectivity because the member's interests are opposed to the client's interests are opposed to the client's interests are opposed to the sales and ColleCtion CyCle: aCCounts ReCeivable 593 b. In the short term, he will likely get good evaluations for cooperation and perhaps a salary increase. Nevertheless,
adequate record-keeping procedures must exist before most of the transaction-related assertions can be met. During an audit engagement, pertinent data are compiled and included in the audit files. Confirmation Most companies require employees to periodically confirm their responsibilities for complying with the code of conduct. Assume an ARO of
10% and a TER of 7% for tests of controls and 6% for substantive tests of transactions. Securities and Exchange Commission Press Release 2003-70 (June 5, 2003) (www.sec.gov). (The concurring partner is not involved with the actual performance of the audit and reviews the work at the completion of the audit.) Although not addressed in the
Sarbanes-Oxley Act, the SEC requires a five-year "time-out" for the lead and concurring partners after rotation before they can return to that audit client. The auditor must first assess whether any conditions exist requiring a departure from a standard unmodified opinion audit report. Similarly, screen controls can validate the information entered,
such as when an invalid general ledger account number is automatically rejected because the account number does not match the chart of accounts master file. For example, if the auditor will likely assess inherent risk as high in the current year's audit, and extensive
testing will have to be done as a means of determining whether the deficiency in the client's system has been corrected. Interpretations of the Acts Discreditable Rule identify several acts that are considered to be discreditable. For example, if a higher-than-normal ratio of long-term debt to net worth is combined with a lower-than-average ratio of
profits to total assets, a relatively high risk of financial failure may be indicated. Even his family would not be spared. Tests of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at the C1 level will be extensive to support the low assessment of controls at t
common for auditors to use ARO of high, medium, or low instead of a percentage. The authorized requisition form is submitted to the purchase orders, in multiple copies, based on the approved supplier list. Table 8-2 shows that total estimated likely misstatement of
$62,300 exceeds the preliminary judgment about materiality of $50,000. Evaluate and discuss whether sufficient audit work has been done with regard to Tom's Mauritius contract. The extent of tests of controls in audits of non-accelerated filers and nonpublic companies depends on the effectiveness of the controls and the extent to which the auditor
waits until the end of the year for the store manager to go on holiday break. Understand how control risk impacts detection risk and the design of substantive tests. Net Sales: From 2015 to 2016 net sales increased by $11,860,000 or 9%. Is the accounts receivable master file reconciled with the general ledger on a monthly basis? Our audit of
financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, and evaluating the overall financial statement presentation. "The audit should be straightforward. In designing your audit
regarding the confirmation of receivables, you note the following decisions that must be made: • • • required 596 Type of confirmation of receivables. Trace selected sales journal entries to supporting documents including sales invoice.
bill of lading, sales order and customer order. In some cases, management can correct deficiencies and material weaknesses before the auditor does significant testing, which may permit a reduction in control risk. He rewards us by giving us good engagement evaluations, especially under the cooperative attitude category. Audit report date. The
owner, Al Trent, hired Halvorson to conduct the upcoming audit and assist with an initial public offering registration with the SEC. Do extensive tests of the sales cutoff by comparing recorded sales with the shipping documents. The source of each control risk for sales and cash receipts is the control risk matrix assuming that the tests of controls
results supported the original assessment. 544) include the balance-related audit objectives. This part of the Code includes the explicit rules of Conduct 1 The AICPA Code of Professional Conduct is applicable to every CPA who is a
member of the AICPA. In some instances, deficiencies can be corrected sufficiently early such that both management and the auditor can conclude that controls are operating effectively as of the balance sheet date. For example, in comparing the ratio of the auditor can conclude that controls are operating effectively as of the balance sheet date.
previous year, suppose that the ratio has decreased while, at the same time, accounts receivable turnover also decreased. During the audit planning phase, Allen overhead a conversation between two employees in Robot's office cafeteria. Approve credit for customers included in the customer credit master file. This evaluation, which is integrated
with the audit of the financial statements, increases user confidence about future financial reporting, because effective internal controls reduce the likelihood of future misstatements in the financial statements. 12/31/16 x $ 13,180 5% $ 24,000 Schedule N-1 Date Prepared by JD 1-21-17 Approved by PP 2-15-17 MARTINPETERSON P. (2) Intensify the
study of internal control concerning the revenue cycle. In addition to making inquiries of those individuals, auditing standards emphasize the benefits and importance of obtaining information or different levels of authority. Chapter 3 / Audit RepoRts 91
INTERNATIONAL DEVELOPMENTS RELATED TO THE AUDITOR'S REPORT A number of initiatives related to the auditor's report have been underway around the globe. By comparing the sales volume based on recorded revenue with actual production capabilities
In connection with the public offering of $10 million of MacLain securities, Major expressed an 158 Part 1 / THE AUDITING PROFESSION unmodified opinion as to the financial statements. Online sales are not recorded in the sales journal until warehouse personnel enter the bill of lading number and date of shipment into the Pending Sales data file.
Société Générale played up their use of computer systems to ward off risk. (1) It requires the constant review by internal auditors of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operations of the administrative controls as they relate to the operation of the administrative controls as they relate to the operation of the administrative controls as they relate to the operation of the administrative controls as they relate to the operation of the administrative controls as the administrative controls as the administrative controls as the administrative controls are administrative controls.
two years ago, after considering a reduction in time spent on the audit, for a better client relationship and at the same time, staying competitive in the following results: AAR PDR = IR × CR × APR where: PDR = Planned detection risk AAR =
acceptable audit risk IR = inherent risk CR = control risk APR = analytical procedures risk Therefore, using Sessions's assessments and judgments as described previously, .05 PDR = 1.0 \times .5 \times .6 PDR = 1.7 required a. C accounts receivable master file is reconciled to the general ledger on a monthly basis (C9). Transactions are illegal or fraudulent.
For each misstatement, identify one or more types of controls that were absent. A typical audit procedures, each using a different type of evidence that is applied to different audit objectives. Used by permission. Use the most reliable substantive tests of
transactions evidence that you can think of. During her audits she found a set of documents that were incriminating to her husband. The extent to which auditors may be willing to rely on substantive analytical procedures in support of an account balance depends on several factors, including the precision of the expectation developed by the auditor,
materiality, and the risk of material misstatement. auditor Defenses against third-party Suits Three of the four defenses available to auditors in suits by clients are also available in third-party lawsuits: lack of duty to perform the service, nonnegligent performance, and absence of causal connection. Detail tie-in is also a part of the valuation and
allocation assertion for account balances. These principles were developed by the Josephson Institute of Ethics, a nonprofit membership organization for the audit risk model, auditors must obtain an understanding of internal control and
gather evidence to support that assessment. Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their attention in carrying out those activities. person's ethical
Standards Differ from General Society's Extreme examples of people whose behavior violates almost everyone's ethical standards are drug dealers, bank robbers, and larcenists. Criticize the positions taken by Pherson and Collier, and express your own opinion about the similarities and differences that should exist in understanding internal control
and assessing control risk for different-sized companies. In a manufacturing company, cash is used to acquire raw materials, fixed assets, and related goods and services to produce inventory (acquisition and payment cycle). All notes receivable are due from outsiders and held by Star. The following overview explains the methodology. Substantive
tests of transactions cost more than tests of controls that do not include reperformance because the former often require recalculations and tracings. 14-10 (OBJeCtIVe 14-5) Explain why auditors usually emphasize the detection of fraud in the audit of cash receipts. For nonprohibited commissions or referral fees, a member must disclose the existence
of such fees to the client. Limited Liability Company A limited liability company (LLC) combines the most favorable attributes of a general corporation and a general partnership. Customer checks are misappropriated before being forwarded to the cashier for deposit. We discussed earlier that tests of details of balances must be designed to satisfy
balance-related audit objectives for each account and the extent of these tests can be reduced when transactions. Khalid compares this output with the summary and reconciles all differences. Negative confirmations are often used for audits of hospitals
retail stores, banks, and other industries in which the receivables are due from the general public. Singh, who is president of the company, is not willing to perform only a maximum of two of the other functions.* required 11-26 (Objectives 11-3, 11-4) The following are misstatements that can
occur in the sales and collection cycle: 1. Shipments made to nonexistent customers and recorded as sales The first two types of misstatements can be due to an error or fraud. The tenants recovered approximately $235,000. With more organizations taking advantage of cloud computing options and third party IT service providers, there is a greater
need for information about the design and operating effectiveness of internal controls provided by these external service providers. However, auditors also require evidence about the operating effectiveness of controls to assess control risk, especially when auditing internal controls provided by these external service providers. However, auditors also require evidence about the operating effectiveness of controls to assess control risk, especially when auditing internal controls provided by these external service providers.
manufacturing client with extensive inventory of computers and computer parts where risk of material misstatement for inventory has been assessed as high. • First, the effectiveness of a client's internal controls has significant influence on the reliability of most types of evidence. (2) The cashier began lapping accounts receivable in 2016. Janes is
invited to and attends the company's annual holiday party. If controls are inadequate, which is likely necessary. The guidelines are stated in Figure 8-6 (p. Examine evidence of reconciliation for test month, and test accuracy of
reconciliation (inspection and reperformance). • Attributes 6-9 have higher TERs because they are of less importance in the audit. Figure 13-1 (p. The channel-stuffing and side agreements had a ripple effect on wholesalers by inflating their gross margins as a result of the "purchasing incentives." When Bristol-Myers was investigated by the SEC and
forced to stop their channel-stuffing practices, both Bristol Myers and D&K restated previously reported results and were named as defendants in class action lawsuits. Source: Maintaining the Relevance of the Uniform CPA Examination (September 2, 2014) (www.aicpa.org). Unusual fluctuations occur when significant differences are not expected
but do exist, or when significant differences are expected but do not exist. Criminal liability Federal government prosecutes auditor for knowingly issuing an incorrect audit report. Show calculations to support your conclusions. Fran assessed acceptable audit risk as medium because the company is publicly traded, but is in good financial condition,
and has high management integrity. The accounting department then sends a copy of the order to warehouse personnel, who process the shipment. Well-developed KRIs reduce surprises by placing management and boards in a proactive, rather than a reactive stance. To further encourage customer loyalty, each customer is given access to our
internal database system—ONHAND (Online Niche-Hardware Availability Notification Database). The response rate has been extremely low, and those who did respond did not know the purpose of the confirmations or their correct outstanding balance. These statements should be controlled by persons who have no responsibility for handling cash or
recording sales or accounts receivable to avoid the intentional failure to send the statements. Objective 10-2 Describe the fraud triangle and identify conditions for fraud. If the auditor concludes that active involvement at the service center is the only way to conduct the audit, it may be necessary to obtain an understanding of internal controls at the
service center and test controls using test data and other tests of controls. As with sample size, the effect of population size on CUER is typically very small, so it is ignored. The sophistication, extent, and timing of the analytical procedures vary among clients, and analytical procedures done in the planning phase typically use data aggregated at a
high level, such as using overall financial statement balances. In those situations, independence can be preserved if the individual promptly reports the offer to appropriate firm personnel and is removed from the engagement until the offer to appropriate firm personnel and is removed from the engagement until the offer to appropriate firm personnel and is removed from the engagement until the offer is accepted or rejected. Initial Versus repeat engagement Auditors gain experience and knowledge about the
likelihood of misstatements after auditing a client for several years. She goes on to say, "Why should I spend a lot of time obtaining an understanding of internal control and assessing control risk when I know it has all kinds of weaknesses before I start? Substantive tests of transactions, which we will examine in the next section, also affect audit
assurance for sales and cash receipts transactions. Who Is affected and how Is each affected? 3-28 (Objectives 3-1, 3-3, 3-7, 3-9) The International Auditing and Assurance Standards Board (IAASB) recently revised its standards related to audit reporting.
Because of her outstanding work, the head of internal audit at Carolina BioHealth extended her an offer of employment to join the internal audit department as an audit manager. Which rule or rules have their own
conceptual framework? Locate the TER at the top of the table. The fall began in October 2001, when Enron officials reported a shocking $618 million quarterly loss related to allegedly mysterious and hidden related party partnerships with company insiders. Explain to Sharizat the reason she is doing the following tasks: a. In the illustration, if the
auditor had audited cash and accounts receivable before inventories, performance materiality for inventories could have been increased. Some called for leniency because of Wasendorf's support for charities, but the judge imposed the maximum 50-year sentence. Distinguish between the terms performance materiality and preliminary judgment about
materiality. Auditors also perform substantive tests to obtain sufficient appropriate evidence that information disclosed in the footnotes reflects actual transactions and balances that have occurred and that represent obligations of the client to support the occurrence and rights and obligation objectives. This paragraph also notes that the audit is
designed to obtain reasonable assurance about whether the financial statements are free of material misstatement. These cases, as well as similar cases filed against PwC and EY, have implications for other professional service firms who do not provide overtime compensation, as a ruling in favor of the assistants could encourage additional lawsuits.
In the Bausch and Lomb case, items were shipped that were not ordered by customers, with unrestricted right of return and promises that the goods did not have to be paid for until sold. Financial statements and other information included in the annual report are used in examples throughout the text to illustrate chapter concepts. For example,
valuation is likely to be a relevant assertion for accounts receivable, but not for cash. But even when auditors are armed with knowledge of common fraud symptoms, fraud remains extremely difficult to detect. At least one specific transaction-related audit objective unless the
auditor believes that the general transaction-related audit objective is not relevant or is unimportant in the circumstances. If reporting on a nonpublic entity under AICPA auditing standards, the explanatory paragraphs hould be preceded by the header "Emphasis of a Matter" for the first three types of explanatory paragraphs. probability proportional
to Size and Stratified Sample Selection In many auditing situations, it is advantageous to select samples that emphasize population items with larger recorded amounts. KOBELCO has adopted specific CSr guidelines in the form of their Corporate Code of Ethics. Figure 7-4 illustrates an adjustment of the general cash account for $90 (thousand).
Procedures must be selected and designed for each account and each balance-related audit risk for all segments in the audit. They are acquaintances, but not close friends. For example, a client may engage in a new type of hedging
transaction that management has not done in the past, thereby increasing the potential that the client's lack of experience and expertise in the underlying accounting treatment are described increase the risks of material misstatement. Management or other employees have incentives or pressures to commit fraud. Safeguards
implemented by the client. This approach is also used in an integrated audit to allow management an opportunity to correct control deficiencies in time to allow auditor testing of the newly implemented controls before year-end. Two examples of errors are: a mistake in extending price times quantity on a sales invoice and overlooking older raw
materials in determining the lower of cost or market for inventory. Statements on Standards for Attestation Engagements are standards for specific attestation services. The fraud was uncovered at the time of Nay's suicide. Source: SEC News
Digest. Hillsburg Hardware Company's independent auditors have issued an audit report on our financial statements and internal control over financial reporting.
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