INDEX

1136 Tenant's Corporation v. Max Rothenberg & Co., 140–141

A

AADBA. 631 AADBA statements, 638-641 AASOC, 115 acceptance testing records, 238 account balance, 371 account balance audit program, 318 account balance auditing sample. See substantive audit procedures accountability, 190 Accountability Boards Quality Control, 51 accountability relationships, 4, 44 accounting, 5, 326 accounting controls, 216, 318 accounting deficiency reservation, 64 accounting estimates, 266, 560, 561 accounting intangibles, 557-558 accounting manuals, 222 accounting process, 184 accounting profession, 15, 16 Accounting Standards Oversight Council, 115 accounting system, 218, 222 accounts, confirmations, 457-452 accounts payable. See acquisition and expenditure cycle accounts payable trial balance, 473 accounts receivable. See revenue and collection cycle accounts receivable aged trial balance, 431 accounts receivable lapping, 452, 453 accounts receivable subsidiary ledger, 431 accuracy, 326 acquisition and expenditure cycle, 185-186, 470-495 authorization, 470 completeness assertion, 490, 491 computer controls, 508 control risk assessment, 475-480 custody, 471 detail test of controls audit procedures, 476, 477-480 general control considerations, 475, 476 internal control questionnaires, 507-509 inventory existence, 494

management reports, 472-474 overview (flowchart), 472 periodic reconciliation, 471 physical inventory observation, 491-494 recording, 471 search for unrecorded liabilities, 490, 491 act-utilitarianism, 91 Adams Committee, 50, 628 adequate disclosure, 36 adjusting entries, 612-614 administrative working papers, 300 ADP auditing/processing. See computer auditing/processing adverse opinion, 37, 65-66 advertising, 108-110 aged A/R trial balances, 431 aged trial balance, 427 agreed-upon procedures, 644, 645 AICPA, 15,664 alpha risk, 376, 394 American Accounting Association, 6 American experience. See United States American Institute of Certified Public Accountants (AICPA), 15, 664 amortization schedule, 516 analysis, 290-293 analytical procedures, 255, 256, 291, 292, 592 analytical procedures risk (APR), 393 anchoring, 277 another appropriate disclosed basis of accounting (AADBA), 631, 638-641 application control procedures, 235 application description, 237 appropriateness of evidence, 283-285 APR, 393 Arthur Andersen, 10, 91, 130–132 articles of incorporation, 553 articulated statement, 417 assertions, 187, 191, 212 See also management assertions ASSOC, 115 associated with financial statements, 60 association, 672-674 See also other public accounting services Association of Certified Fraud Examiners, 685, 692, 731 Assurance and Related Services Guidelines (AUGs), 28 assurance engagements, 6, 44-49,

assurance/auditing standards, compared, 46-48 categories of, 667 fraud audits, 729, 730 MD&A, 665 overview, 667-672 sample of assurance service possibilities, 49 Assurance Handbook Recommendation, 7 assurance services, 18 assurance standards, 28 attention directing, 255-256 attention-directing procedures, 295 attestation engagements, 45-48, 77, 668 attribute sampling, 381 audit, planning, 40 audit cases amortize "the drum" slowly, 488-489 bill often, bill early, 440-442 canny cashier, 438 consolidation by any other name, 573-574 false sales/accounts receivable, 716 go for the gold, 486-487 laundry money skim, 714-715 missing petty cash, 714 off-balance sheet inventory financing, 572-573 overstate inventory/understate cost of goods sold. 716-717 printing (copying) money, 482-483 real cash paid to phony doctors, 483-484 receiving the missing oil, 484-485 retread tires, 487-488 tax loss carryforwards, 571-572 taxman always rings twice, 439-440 thank goodness it's Friday, 442-443 time card forgeries, 537-538 unbundled before its time, 523-524 unregistered sale of securities, 570-571 well-padded payroll, 538-539, 715 when in doubt, defer!, 524-525 audit committee, communications to, 322, 611-614, 658-660, 690 audit completion work. See completing the audit audit contract, 166 audit correspondence, 604 audit deficiency reservation, 64

667-672

audit efficiency, 376 audit engagement, overview, 162 audit evidence, 33, 283-285, 472-474 papers, 300-301 reliability, 283-284 audit objectives, 7, 187-191 audit of internal control over financial reporting, 78 audit planning, 163-193 audit evidence, 283-285 audit risk, 273-283 comparative statements, 165 confidentiality, 165 effectiveness of audit procedures, 294-295 management assertions/audit objectives, 187-191 materiality, 265-270 pre-engagement arrangements, 163-170 predecessor auditor, 165 preliminary analytical procedures, 255, 256 unaudited financial statements, 258 - 261understanding client's business, 170-172 working papers, 298-303 audit procedures, 191, 371 audit process, 7 audit programs, 32 audit report reservations, 64-69 audit reports, 38-43, 59-79 application of accounting principles, 79 GAAP departure reports, 64-66 internal control statements, 76 reservations, 64-69 scope limitation reports, 67-69 section 5400.19 report, 71-72 standard unqualified reports, 62-64 unqualified opinion with explanation, 71-76 audit responsibility, 131 audit risk (AR), 41, 279, 280 model, 280-283 audit sampling, 371-407 account balance audit program. See substantive audit exclusions, 374 extent of auditing and, 371-373 inclusions, 374 nonsampling risk, 375-376 nonstatistical sampling, 375-376 sampling risk, 376 statistical sampling. See statistical sampling, 374 test of controls audit program. See test of controls audit walk-through, 374

why used, 374 audit societies, 2 audit techniques computation. 286 confirmation, 287 enquiry, 288 inspection, 288, 289-290 observation, 287 audit trail, 222, 248 audit uncertainties, 72-73 audit, objective, 7 auditee, 6 auditing, 2 definitions, 7-8 function, 3 governmental, 13-14, 737-750 internal, 12, 738, 743 international, 22 not-for-profit, 642 operational, 12, 743 public sector, 642 risk-reduction activity, as, 9 U.S., 22 Auditing and Assurance Oversight Council, 115 auditing around the computer, 349 auditing guides, 181 "auditing in crisis", 151 auditing procedures. See substantive auditing procedures auditing standards, 18, 29 See also generally accepted auditing standards (GAAS) Auditing Standards Board, 646 auditing through the computer, 349 auditing with the computer, 349 auditing without the computer, 349 auditor, 6 Auditor General of Canada, 738 auditor's report, 7 authoritative documents, 289 authorization. 326 cash disbursements, 470 cash receipts, 427 debt/shareholder equity capital, 555 investment/intangibles, 557 payroll cycle, 526 production cycle, 512 sales/accounts receivables, 425 average difference method, 403

B

backup, 238 balance sheet approach to auditing, 417 balance sheet ratios, 312 balanced-audit program. *See* substantive audit procedures bank confirmation, 446, 447 bank reconciliation, 452, 453 bank statement, 718, 719 batch financial totals, 241 batch hash totals, 241 batch processing, 234 Benford's law, 713 beta risk, 376, 393 Big Four accounting firms, 16 Big GAAP-little GAAP controversy, 638 Big GAAS-Little GAAS question, 628 bill of materials, 513 bill-and-hold transaction, confirmation, 450 blank confirmation, 448 blank forms, 231 block sampling, 387 board of directors' meetings, 256 bribery, 705 bridge working paper, 337 Brooks, Len, 96-98, 118 business magazines/newspapers, 182 business process analysis, 175 business risk, 9, 173 e-commerce, 177-178 information technology, 177-178 material misstatements, 178-181 business risk approach, 173 business risk failure, 208-209 business-to-business (B2B), 213 business-to-consumer (B2C), 213 business-to-employee (B2E), 213 business-to-government (B2G), 213

С

CA, 12 CAATs, 238, 316, 349, 357 calculated liabilities and credits, 556 Canada Business Corporations Act, 99, 131, 145, 146 Canada Pension Plan (CPP), 530 Canada Revenue Agency, 7 Canada Revenue Agency disciplinary options, 117 Canadian Coalition Against Insurance Fraud, 700 Canadian Coalition for Good Governance, 10 - 11Canadian Institute of Chartered Accountants (CICA), 7 Canadian Investor Protection Fund, 21 Canadian Public Accountability Board (CPAB), 10-11, 21, 115 Canadian Ventures Exchange, 21 cancelled cheques, 718, 719, 723 Caparo Industries Plc. v. Pickman, 137 capital transactions. See finance and investment cycle CAs, 15-16, 16 cash, 424 cash basis accounting, 639-640 cash disbursement report, 474 cash flow analysis, 260, 261

cash flow forecast, 555 cash receipts journal, 431 cash receipts/cash balance, 427-429 authorization, 427, 428 overview (flow chart), 428 cassettes. See audit cases categorical imperative, 91 certified financial planner, 633 Certified Fraud Examiners (CFEs), 16, 692,693 Certified General Accountants (CGAs), 12.15.16 Certified Internal Auditors (CIAs), 16, 687.738 program, 738 Certified Management Accountants (CMAs), 15-16 Certified Public Accountant (CPA), 15 CFEs, 16, 692, 693 CGAs, 12, 15-16 chain of custody, 728 chartered accountants (CAs), 12, 15-16 check digit, 240 cheque, 471, 718, 719, 723 kiting, 453, 454–455 CIAs, 16, 738 CICA, 7 code of ethics, 94-98 criteria of control committee, 651-654 ethics, 94-98 handbook, 7, 8, 22 standards-setting process, 28, 44 CICA Handbook, engagement letter, 166 CIT Financial Corp. v. Glover, 138–139 class action lawsuits. 130 class of transaction, 371 classical attribute sampling, 381 classification, 326 clean audit, 318 clean opinion, 61 clearing accounts, 531 client, 6 calculations, 286 representation letter, 598-602 selection/retention, 163, 164 CMAs, 15-16 code of ethics, 96 COBIT, 276 COCO, 274, 651-654 code of ethics, 94 See professional conduct CICA. 94-98 ICAO, 94-98 commissions, 110-111 Committee of Sponsoring Organizations of the Treadway Commission, 216, 274 Committee on Basic Auditing Concepts, 6 Commodity Futures Act, 20 common law, 131

communications audit committee, 322, 611-614, 658-660, 690 board of directors, with, 660 competence, 29, 105 compilation engagements, 631, 632, 633 See also unaudited financial statements completeness, 189, 326, 494 completing the audit, 589-616 adjusting entries, 612-614 client's representation letter, 598-602 communication with audit committee, 611-614 expense accounts, 592-595 interim period work, 595 lawyer's letter, 596-598 management letter, 615-616 omitted procedures, 611-609 overall evaluation of audit tests, 614 - 616related party transactions, 602-604 responsibilities after audit issued, 608-611 revenues, 590-595 subsequent discovery of facts, 608-611 subsequent events, 605-607 working paper review, 615 compliance, 190 auditing, 13, 741-742, 746 contractual agreements with, 644 professional standards, with, 105-106 compliance audit, 191 compliance testing, 277 comprehensive auditing, 13 computation, 286 computer auditing/processing application control procedures, 238-240 control risk assessment, 240, 348 documentation, 236 file security/retention control, 238 general control procedures, 235 generalized audit software, 353-357 hardware control, 238 PC as audit tool, 357-358 physical access, 235, 236 small business, 359-360 computer controls acquisition and expenditures cycle, 508 revenue and collection cycle, 466 computer-assisted audit techniques (CAATs), 349, 357 computerized payroll processing, 535-536 confidence level, 385 confidentiality, 106-107, 165 confirmations, 287, 445-452 conflict of interest, 5, 103 See also independence

consequentialism, 91 consistency, 36 references, 71-72 Consolidated Services v. Alexander Grant, 149 constant-dollar, price-level-adjusted financial statement, 641 consulting services, 19 consumer-to-business (C2B), 213 consumer-to-consumer (C2C), 213 Continental Vending, 142, 145 contingencies, 72-73, 596-598 contingency fees, 107 continuing professional education, 114 continuity schedule, 456 continuous auditing, 224 contrived sham transactions, 575 control environment, 216, 218-219 control objectives, 226-228 assertions, 227–228, 325–328 Control Objectives for Information and Related Technology, 276 control procedures, 216, 221, 229-241 fraud auditing, 699 control risk (CR), 41, 229, 274, 280, 378 control risk assessment, 33, 314-360 accounting system, 218, 222 acquisition and expenditure cycle, 475-480 assessing risk, 337 audit program, 320-321 computer auditing, 240, 348 control environment, 216, 218-219 control objectives, 226-228 control procedures, 229-241 cost-benefit, 347 documentation, 331 errors/irregularity, 275 finance and investment cycle, 559-564 flowcharting, 332-336 fraud detection, 708–712 misstatements, 345 nature and timing of work, 330 payroll cycle, 532-536 PC-based system, 246-249 phases of control evaluation, 328-345 production cycle, 517-521 questionnaires, 242, 331 reasons for, 317-320 reportable conditions, 219 reporting. See internal control report revenue and collection cycle, 431-436 role of systems, 314-317 simple LAN information system, 245-246 test of controls audit program. See test of controls audit program control test(ing), 277, 478 control totals, 241 controlled reprocessing, 352

controls documentation, 238 controls section, 238 convergence, 22, 28 corporate governance, 20 corruption, 705 Corruption of Foreign Public Officials Act, 707 COSO, 216, 274, 653, 726 internal control, 323 cost accounting, 514 cost distribution, 531 cost leadership, 206 cost of goods sold, 511 cost of goods sold ratio, 312 CPA, 15 CPE, 114 CRA disciplinary options, 117 credit check files, 430 criteria of control (COCO), 651-654 Criteria of Control Committee (COCO), 274 critical thinking, 44 critical thinking framework, 91-93 current file, 299 current ratio, 312 current value of financial statements, 641-643 custody accounts receivable, 425-426 acquisition and expenditure cycle, 471 cash/cheques, 428 debt/shareholder equity capital, 555-556 investments/intangibles, 558 payroll cycle, 526, 527 production cycle, 514 cutoff, 189, 190 cutoff bank statement, 453 cutoff error, 478 cycle, 185 cycle inventory counting, 493

D

dangling credit, 272 dangling debit, 272, 437, 704 data, 211 availability, 316 conversion, 241 entry, 222 preparation, 222 days' sales in inventory, 312 days' sales in receivables, 312 DBA, 721 debt financing. See finance and investment cycle debt instruments, 556 debt ratio, 312 defalcation, 683 deferred credits, 566 denial of opinion, 37, 69

deontological theories, 90 deposit log time, 724 derivative report, 647 derivative securities. 562-563 detail test of controls audit procedures acquisition and expenditures cycle, 476, 477-480 payroll cycle, 533, 534 production cycle, 519 revenue and collection cycle, 433, 434 detail test of controls for inventory records, 477 detailed audit plan, 416 detection rates, 451 detection risk (DR), 279, 378, 393 deviation, 380 differential reporting, 553 differentiation, 206 direct-effect illegal acts, 684 direct reporting, 7 direct reporting engagements, 45-48, 668 direction of the test, 338 dirty audit, 318 disciplinary action, 113-118 disclaimer of opinion, 67 discreditable acts, 108 discriminant Z score, 312 diversion, 576 division of duties, 220 doing business as, 721 dollar-unit sampling (DUS), 391, 396 dollar-value estimation objective, 395 double-dating, 606 doubtful account ratio, 312 dual-purpose tests/procedure, 345, 434, 437 due professional care, 30, 105 Dupuis v. Pan American Mines, 136 DUS. See dollar-unit sampling (DUS) dynamic fields, 234

E

e-commerce, business risk, 177-178 earnings per share (EPS), 271 echo check. 238 economic conditions, 280 economy, 747 economy, efficiency and effectiveness audits, 747-749 edit routines, 241 effectiveness, 229, 747 audit procedures, 294-295 Effectiveness Reporting and Auditing in the Public Sector, 748 efficiency, 229, 747 Eigen, Dr. Peter, 705 electronic transfer codes, 526 electronic working papers, 303 embezzlement, 683

Emerging Issues Committee, 36 emphasis of a matter paragraph, 72 employee files, 529 employee fraud. 683 employee monitoring, fraud auditing, 699 employee T4 reports, 531 employee withholdings, 531 employment insurance (EI), 530 endorsements on cancelled cheques, 718, 719, 723 engagement letter, 166, 169 enquiry, 171, 181, 288 Enron, 10-11, 91, 98, 117, 130-132, 424, 432, 433 enterprise resource planning (ERP) systems, 176, 212 entity's risk assessment process, 173 Ernst & Young, 164 error analysis, 391 error-checking routines, 233-242 errors, 380, 684, 726 acceptable number of, 385 estimates, 266, 560, 561, 689 ethics, 88, 118 See also professional ethics CICA, 94-98 code of, 94 ICAO, 94-98 evidence, 7, 33, 283-285 appropriate, 283-285 management reports, 472-474 sufficient, 283-285 examination of documents, 289-290 examination standards, 32-34 except-for-qualified report, 64, 65 exception, 380 existence or occurrence, 187-189 expected dollar misstatement, 397 expected population deviation rate, 384 expenditure analysis, 725 expense accounts, 592-595 expenses, 590 extended procedures, 723-725 extending the audit conclusion, 406 extent, 371-373 external auditors, 6, 12, 45, 687, 740-742 external evidence, 283-284 external-internal evidence, 283-284, 289 external labels, 239

F

FASB, 36 *Federal Bank Act*, 19 fee quotation, 108 fidelity bond, 432 fiduciary duty, 149 file and operator controls, 241 file maintenance, 234

Index

finance and investment cycle, 185-186, 553-578 accounting estimates, 560, 561 amortization. 568 assertions/substantive procedures, 487, 564-569 clever accounting/fraud, 574-577 confirmation, 567 control risk assessment, 559-564 debt/shareholder equity capital, 555-556 deferred credits, 566 external documentation, 568 general control considerations, 560, 561 income, 567 inspection, 567 intangibles, 567 investments, 567 investments/intangibles, 557-558 long-term liabilities, 566 notes payable, 487, 561 off-balance sheet financing, 566 substantive audit programs, 487 trouble spots, 567 vouchers, 568 financial data, 605 financial distress ratios, 312 financial forecast, 660-664 financial institutions. See internal control reports financial misstatements. 345, 346 financial projection, 660-664 financial ratios, 312 financial reporting, 5 financial statement, 184 judgment criteria, 265-266 materiality, 265-266 financial statement assertions. See management assertions financial statement auditing, 2 financial statement misstatements, 292-295 firm name, 111 first-time audits, 183 five forces model, 205, 206 fixed assets reports, 474 Flanders v. Mitha, 137 flowcharting, 332-336 FOB destination, 434 FOB shipping point, 434 focus, 206 FOFI, 660-664 forecasts/projections, 660-664 Foreign-GAAP financial statements, 666, 667 forensic accounting, 14-15, 728 See also fraud awareness auditing form of organization, 111, 112, 143 Foss v. Harbottle, 135

fraud, 14–15, 345, 575 fraud accounting, 14-15 fraud audit questioning (FAQ), 723 fraud awareness auditing, 682-731 after discovering the fraud, 725-727 assurance engagement, as, 729-731 Benford's law, 713 chain of custody, 728 characteristics of fraudsters, 685-687 conditions which lead to fraud. 695-697 contents of common documents, 718 - 720creative accounting, 704 definitions, 683-685 detecting fraud, 702-705 extended procedures, 723-725 external auditors' responsibilities, 687-691 forensic accounting, 728 fraud examiner's responsibilities, 692, 693 internal auditors' responsibilities, 692 internal control, and, 708-712 materiality, 726 preventing fraud, 698-702 public sector auditing standards, 692 red flags, 692, 702, 703, 705 sources of information, 720, 721 SSA audits, 712 whistle-blowing, 727 fraud examiners. 687 fraud on the market, 132, 146 fraud risks, 40 fraudulent financial reporting, 684, 703 fraudulent misrepresentation, 138 full-service audit team, 168 Fund of Funds v. Arthur Andersen, 149 future-oriented financial information (FOFI), 660-664

G

GAAP. See generally accepted accounting principles (GAAP) GAAS. See generally accepted auditing standards (GAAS) garbage in, garbage out, 242 GAS packages, 353–357 general control procedures, 229-233 general standard, 29-32 generalization argument, 92 generalization principles, 89 generalized audit software (GAS), 351, 353-357 generally accepted accounting principles (GAAP), 3, 5, 35 generally accepted auditing standards (GAAS), 7, 28-34, 746-747 assurance standards, 28 examination standards, 32-34

general standards, 29-32 reporting standards, 34-37 GIGO, 242 "Global Explosion of Corruption-the Misuse of Public Power for Private Profit or Political Gain, The", 705 going-concern problems, 73-76 Gomery Commission, 2 good corporate governance, 554–555 governance, 190 government auditors, 687 governmental and tax reports, 531 governmental auditing, 13-14, 737-750 compliance auditing, 741-742, 743 economy, efficiency and effectiveness audits, 747-749 external auditors, 740-742 IIA standards, 746, 747 independence, 743, 744 internal auditing, 738 operational auditing, 743 public sector auditing, 738-740 scope of service, 744, 746 VFM auditing, 747-750 governmental auditor, 7 grandparent-parent-child, 239 gross margin ratio, 312 Guide for Developing Quality Controls in Public Accounting, 28

Η

Haig v. Bamford, 135-136, 138 haphazard selection, 387 hard evidence procedures, 291-293 harmonization, 28 header labels, 239 Heaven v. Pender, 135 Hedley Byrne v. Heller and Partners, 135 - 136Hercules Management Ltd. et al v. Ernst & Young et al. 117, 147 Hewlett-Packard Co., 174 high assurance, 61 hocus-pocus accounting, 727 Hollinger, 424 horizontal analysis, 258, 725 "How to Spot Fraud" (Hall), 710 hypothesis testing, 395 hypothetical assumption, 661

Ι

IAPSs, 28 ICAO code of ethics, 94–98 ethics, 94–98 identity theft, 709 IFAC, 15, 22, 50, 51 ethics, 96 handbook, 28 IIA, 738 IIA standards, 746, 747 illegal acts, 150, 190, 684, 689, 705, 726 imperative principles, 89-93 income tax, 530 income tax evasion, 575 incorrect acceptance, 393, 397 incorrect rejection, 393 independence, 30, 99-105, 632 accounting services, 102 analysis, 104-105 conflicts of interest, 103 governmental auditing, 743, 744 honourary positions in nonprofit organizations, 101 investigations, 31 investor/investee relationships, 102 lack of, 70 litigation, 102 permitted loans, 101 programming, 31 reporting, 31 retired partners, 102 independence in appearance, 30 independence in fact, 30 independence principle, 100 independent auditor, 12 indexing, working papers, 302 individually significant items, 395 information risk, 3,9 information system, 211 elements of, 215 information technology (IT), 5, 211 inherent risk (IR), 41, 273, 378 Initial Public Offerings (IPOs), 21 input authorized and approved, 240 input controls, 233-242 inspection, 288, 289-290, 345 Institute of Internal Accountants, 16 Institute of Internal Auditors (IIA), 12, 728, 738 intangibles, 557-558 integrity, 98, 696, 699-702 interim audit work, 169 interim date, 33, 381 interim date audit work, 595 interim financial information, 635-638 internal audit program, 388 internal auditing, 12, 738 See also governmental auditing internal auditors, 7, 183, 687 internal control, 11, 216, 318 components, 216 COSO, 323 management vs. auditor responsibility, 323 internal control assessment, 33 internal control evaluation. See control risk assessment internal control objectives, 226-228 internal control questionnaires, 242,

420-422

accounts and notes receivable, 466 cash disbursement processing, 508 cash receipts processing, 465 fixed asset and related transactions processing, 509 inventory transaction processing, 509 notes payable, 561 payroll processing, 551 production and cost accounting transaction processing, 550 purchasing and accounts receivable, 507 sales. 465 sales transaction processing, 331 internal control reports, 646-660 audit report reservation, 654-656 COCO, 651-654 communications with audit committee, 322.658-660 communications with board of directors, 660 derivative report, 647 management letter, 322, 658-660 nonderivative report, 647, 648-649 public reports, 650, 651 reportable matters, 322, 658–660 reservations, 654-656 restricted use reports, 650, 651 service organizations, 656, 657-658 internal control statements, audit reports, 76 internal evidence, 283-285, 289 internal labels, 239 international audit practice statements (IAPSs), 28 international auditing, 22 International Auditing and Assurance Standards Board (IAASB), 22, 28 International Federation of Accountants (IFAC). 15.22 international harmonization, 22 International Organization of Securities Commissions, 118 International Standards on Assurance Engagements, 660 International Standards on Auditing (ISAs), 18, 22, 28 internet as source of information, 182 intranets, 213 introductory paragraph, 62-63 inventory count, 491–494 inventory existence. See acquisition and expenditure cycle inventory reports, 474 inventory turnover, 312 investigative independence, 31 Investment Dealers Association of Canada, 21 investments. See finance and investment

cycle **IOSCO**, 118 irregularities, 684, 726 ISAs. 22.28 IT availability of data, 316 business risk, 177-178 complex use, 339 complexity, 316 controls, 231 e-commerce, 339 extent of use, 315 organizational structure, 316 process alignment, 341 security, 339 specialized skills, 317 transaction integrity, 340

J

Jenkins Report, 664 JIT inventory management, 512 JIT manufacturing, 518–519 joint and several liability, 143 judgmental sampling, 375–376 just-in-time (JIT) manufacturing, 518–519

K

Kant, Immanuel, 90, 91 Kantian ethics, 88 key controls, 380 Kingston Cotton Mill Company, 141 kiting, 453, 454–455 Kmart, 432 known misstatement, 401 known uncorrected errors, 614 *Kripps v. Touche Ross*, 105, 142

L

labour cost analysis, 530 LAC Minerals v. Corona Resources, 149 lack of independence, 70 lapping, 452, 453 lawsuit contingencies, 596-598 lawyer's letter, 596–598 LCM, 515 legal liability, 130–153 American experience. See United States auditor practice, 150 burden of proof, 133 common law, 131 compilation/review services, 140, 141 defences, 139, 140 due care, 141 fiduciary duty, 149 illegal acts, 150 joint and several liability, 143 lawsuit causes/frequency, 130 liability crisis, 151–152 LLPs, 144

Index

misleading financial statements, 149 money laundering, 146 negligence, elements of, 134, 143 potential plaintiffs (to whom duty owed), 135-139 statutory law, 145–146 whistle-blowing responsibility, 149 legal responsibilities, 88 lending credibility, 6 levels of assurance, 61, 62 Levitt, Arthur, 727 liability crisis, 151–152 likely misstatement, 401 limit tests, 241–242 limited liability partnerships (LLPs), 16, 144 liquidation basis accounting, 641 litigation support, 728 little GAAP, 638 LLPs, 144 local area network, 234 lockbox, 429 London and General Bank, 141 long-term liabilities, 565 lower-of-cost-or-market, 515

M

Macdonald Commission, 50, 651 malpractice. See legal liability management assertions, 45-48 completeness, 189 compliance, 190 control objectives, and, 227-228, 325-328 existence or occurrence, 187-189 rights and obligations, 190 valuation or allocation, 190 management auditing, 12, 743 management controls, 216, 318 management fees, 526 management fraud, 684, 703 management letter, 322, 615-616, 658-660 management representation letter, 598-602 management's discussion and analysis (MD&A), 665 market money, 724 market value accounting, 641 master file changes, 241 material misstatement, 170, 346, 376, 397 See also misstatements business risk, 178-181 materiality, 9, 40, 41, 79, 178, 265-270, 615 financial statement, 265-266 judgment criteria, 265-266 misstatement, 397 mathematical-statistical details. See

statistical sampling McKesson & Robbins, Inc., 142 McLennan, G., 149 minutes of board meetings, 256 missing data tests, 241 misstatements, 190, 292-295, 345, 346 categories of, 324 mitigating factors, 74 moderate assurance, 61 modulus 11 prime number method, 240n money laundering, 146, 424 monistic theories, 90 Montreal Stock Exchange, 21 moral imagination, 92 moral responsibilities, 88 motive, 695 Motorola Inc., 174 MSE, 21

Ν

narrative description, 331 nature, 371, 388 negative assurance, 61 negative confirmation, 448, 449 negligence, 132, 133 See also legal liability net worth analysis, 725 Nigrini, Mark J., 713 no assurance engagement, 61 Nokia Corp., 174 non-GAAP accounting method, 638-641 nonderivative report, 647, 648-649 nonsampling risk, 377 nonstatistical sampling, 375-376 examples, 377 when to use, 377 Nortel, 424 North American Free Trade Agreement, 171 not-for-profit, auditing, 642 notes payable, 487, 561 notes receivable, confirmations, 447-452 notice to Reader, 631 Novatel, 739-740

0

OAG, 13, 738, 740, 744 objectivity, 30, 99–105 *See also* independence observation, 181, 287 occurrence, 380 OECD, 706 off the balance sheet transaction, 555 off-balance sheet information, 566 Office of the Auditor General of Canada (OAG), 13, 738, 740, 744 omitted procedures, 609–611 on-line input validation, 466 online, 234 online input validation, 467

Ontario Securities Act, 148 Ontario Securities Commission (OSC), 19, 21, 116 open purchase orders, 472 operational auditing, 12, 743 operations ratio, 312 opinion paragraph, 63, 64 opinion shopping, 79 opportunity, 695 ordering effect, 295 Organization for Economic Cooperation and Development, 706 OSC, 19, 21, 116, 148 other public accounting services, 627-676 AADBA statements, 638-641 association, 672-674 assurance engagements. See assurance engagements current value financial statements, 641-643 forecasts/projections, 660-664 foreign-GAAP financial statements, 666, 667 interim financial information, 635-638 internal control reports. See internal control reports special reports. See special reports unaudited financial statements. See unaudited financial statements output controls, 241-243 output distribution, 241 overall evaluation of audit tests, 614-616 overaudit. 272 overreliance, 389 overstatements, 294

P

PA, 12 PAAOB. 216 Palm Inc., 174 parallel simulation, 351, 352 parity check, 238 Paskell-Mede, M., 149, 151 passed adjustment, 614 payroll accounting, 528 payroll cycle, 526–540 authorization, 526 computer-based, 533 computerized payroll processing, 535-536 control risk assessment, 532-536 custody, 526, 527 direction of test of controls procedures, 534.535 internal control questionnaires, 533, 551 management reports, 529-532 overview (flowchart), 527

periodic reconciliation, 528 recordkeeping, 528 salaried employees, 528 substantive audit procedures, 537-540 test of controls audit procedures, 533, 534 payroll process, 511 payroll register, 530 PCAOB, 646, 654 peer review, 53-54, 609 pending order master file, 430 performance auditing, 12, 743 periodic comparison, 231 periodic reconciliation acquisition and expenditure cycle, 471 bank reconciliations, 429 debt/shareholder equity capital, 556 investments/intangibles, 558-559 payroll cycle, 528 production cycle, 515 sales/accounts receivable, 427 permanent file, 299 personal computer, 234 personal digital assistants (PDAs), 234 personal financial planning, 633 personnel file, 529 PEST analysis, 205 philosophy, 89-93 physical access to assets, 231 physical inventory observation, 491-494 physical representation of the population, 381 PICA, 115 planned audit risk, 41 planning and supervision, 32 planning materiality, 265 planning the audit. See Audit planning planning, sample size, 383 pluralistic theories, 90 population, 371 population unit, 371 Porter's five forces model, 205, 206 positive assurance, 61 positive confirmation, 448 possible misstatement, 405 practice inspection, 53-54, 609 practice standard, 28 pre-audit risk management activities, 163 pre-engagement arrangements, 163–170 predecessor/successor auditors, 165 preliminary analytical procedures, 255, 256 preventive maintenance, 238 price list master file, 430 Private Securities Litigation Reform Act, 146 privity, 132 pro forma financial data, 605

processing controls, 241-243 product life cycle analysis, 205 production and conversion cycle, 185-186 production cycle, 512-525 authorization, 512 control risk assessment, 517-521 custody, 514 detail test of controls audit procedures, 518 direction of test of controls procedures, 511, 519-520 general control considerations, 517-518 internal control questionnaires, 518, 550 management reports, 515-517 overview (flowchart), 513 periodic reconciliation, 515 recordkeeping (cost accounting), 514 substantive audit procedures, 522-525 production management, 518 production plan, 516 production process, 511 production report, 516 professional competence, 105 professional conduct, 94 See also professional ethics advertising (solicitation), 108-110 codes/rules, 94-96, 118 commissions, 110-111 compliance with professional standards, 105-106 confidentiality, 106-107 contingency fees, 107 deficiencies in codes of conduct, 118 disciplinary action, 113-118 discreditable acts, 108 fee quotation, 108 firm name, 111 form of organization, 111, 112 fundamental statements of accepted conduct, 94 independence/objectivity. See independence integrity, 98 malpractice. See legal liability professional competence, 105 referral fees, 110-111 self-regulation, 113, 115 serving the public interest, 98 professional designations, 16 professional ethics, 88 See also professional conduct generalization argument, 92 imperative principle, 89-93 philosophical principles, 89-93 utilitarianism, 91,92 Professional Ethics for Accountants (Brooks), 118

professional judgement, 371 professional malpractice. See legal liability professional responsibilities, 88 professional skepticism, 43 Professional Standards and Practices for Certified Fraud Examiners, 28 program description, 238 programming independence, 31 projected misstatement, 402 projections/forecasts, 660-664 proper period, 229, 327 prospective financial statements, 660-664 prospectuses, 20, 664 provincial auditors, 740 provincial institute's disciplinary process, 114, 115 Provincial Institutes of Chartered Accountants, 115 prudent auditor, 30 public accountant, 12 public accounting, 15-21 Public Accounting Act, 19 public accounting firms, 6, 16-18 Public Company Accounting Oversight Board (PCAOB), 10-12 public information sources, 181, 182 public reports, 650, 651 public sector auditing, 642, 738-740 See also governmental auditing purchase orders, 474 purchases cutoff, 476 purchases journal, 474

Q

qualified opinion, 37, 68 qualified reports, 64–69 quality control standards, 50–54 quality reviews, 53–54 Quebec Pension Plan, 530 questionnaires. *See* internal control questionnaires

R

R-value table, 414 random sample, 374, 387 ratio analysis, 312 reasonable assurance, 61 reasonableness tests, 241–242 receivables turnover, 312 record counts, 241 recordkeepers, 220 recordkeeping cash receipts, 428 debt/shareholder equity capital, 556, 558–559 investments/intangibles, 558–559 payroll cycle, 528

production cycle, 514 purchase orders, 471 sales/accounts receivable, 425-426 red flags, 692, 702, 703, 705 referral fees, 110-111 registrar, 555 regulated financial institutions. See internal control reports regulation of public accounting, 19-21 regulatory auditors, 14 related parties, 284-285 related party transactions, 602-604 reliability and audit evidence, 283-284 reliance letter, 139 reperformance, 345 replication, 387 report production and distribution, 222 reportable conditions, 219 reportable matters, 322, 658-660 reporting application of accounting principles, 79 reporting independence, 31 reporting standards, 34-37, 629, 639 reports. See audit reports representative sample, 387 required degree of compliance, 338 reservations, 64 response rate, 451 restricted use reports, 650, 651 return on beginning equity, 312 revenue and collection cycle, 185-186, 424-457 bank reconciliation, 452, 453 cash receipts/cash balances authorization, 427, 428 computer controls, 466 confirmations, 445-452 control risk assessment, 431-436 detail test of controls audit procedures, 433, 434 existence assertion. 443–444 general control considerations, 431-433 internal control questionnaires, 465, 466 kiting, 453, 454-455 lapping, 452, 453 management reports, 315, 431 overview (flowchart), 426 sales/accounts receivable authorization, 425-427 substantive audit procedures, 436-443, 468 revenue recognition problems, 432 revenues, 590-595 review engagements, 628-630 See also unaudited financial statements review standards, 629 review to-do lists, 615 rights and obligations, 190

risk of assessing the control risk too high, 389 risk of assessing the control risk too low, 389 risk of incorrect acceptance (RIA), 376, 393.397 risk of incorrect rejection, 393 risk-reduction activity, 9 Rosenblum, Inc. v. Adler, 139 rotation of partners, 102 Royal Ahold, 432 Rubin, Sandra, 118 Rule 2(e) proceedings, 116, 117 rule-utilitarianism, 91 rules of professional conduct. See professional conduct run-to-run totals, 241

Rusch Factors, Inc. v. Levin, 139

S

SACs, 20 sales analysis reports, 431 sales cut-off, 433 sales detail (sales journal) file, 431 sales forecast, 515-517 sales/accounts receivable authorization, 425-427 sample, 371 See also audit sampling sample audit working papers, 625 sample of one, 433 sample size, planning, 383 sampling error, 405 sampling precision, 372 sampling risk, 376 sampling unit, 371 Sarbanes-Oxley Act, 10-12, 19, 91, 98, 102, 104, 132, 216, 386, 612, 646, 654 scanning, 290 scope paragraph, 63 search for unrecorded liabilities, 490, 491 SEC. See Securities and Exchange Commission (SEC) second-partner review, 615 section 5400.19 report, 71-72 Securities Act, 20 Securities and Exchange Commission (SEC), 19, 21, 130-132, 646 rule 2(e) proceedings, 116, 117 securities count and reconciliation, 558-559 segregation of responsibilities, 230 segregation of technical responsibilities, 225, 240 self-checking number, 240 self-regulation, 11, 113, 115 Semi-Tech Corp., 164 sequence tests, 241 sequential processing, 234

serial processing, 234 service organizations, 656, 657-658 serving the public interest, 98 share certificate book, 556 shopping, 79 SIN, 720, 724 skewness, 398 small business computer auditing, 359-360 unaudited financial statements, 628-635 Smith v. London Assurance Corp., 132 social insurance number (SIN), 720, 724 soft procedures, 291, 292 solicitation, 108-110 source deductions, 531 sources of information, 171–172 special reports, 644-646 agreed-upon procedures, 644, 645 compliance with contractual agreements, 644 regulatory requirements, 644 service organizations, 656, 657-658 specified elements, 644 specialists, 183 SSA audits, 191-193, 288 analysis, 295 fraud audits, 712 Staff Accounting Communiques (SACs), 20 staff assignment, 168 standard deviation, 398 standard report, 34-36, 62-64 standard-setting process, 28 standards assurance, 44-49 GAAS, 28-34 IIA, 746, 747 practice, 28 quality control, 50-54 stare decisis, 131 State Street Trust Co. v. Ernst, 138 Statements on Auditing Standards (SAS), 18 static fields, 234 statistical sampling, 376-383 advantages, 375 alpha risk, 376 audit effectiveness, 376 audit efficiency, 376 beta risk, 376 defined, 374 DUS. See dollar-unit sampling (DUS) risk of incorrect acceptance, 376 sample size, 383 sample size planning, 383 when to use, 375 statutory law, 131 strategic analysis, 174, 205, 206 strategic systems approach, 191

strategic systems approach to auditing. See SSA audits stratification, 395 calculation example, 402, 403 stratified sampling, 397 strengths, 337 subsequent discovery of facts, 608-611 subsequent events, 605-607 substantive audit procedures, 392-406 acquisition and expenditure cycle, 481-489 decision matrix, 393 evidence-collection phase, 396 evidence-evaluation phase, 401-405 finance and investment cycle, 487, 564-569 materiality/tolerable misstatement, 394 payroll cycle, 537-540 problem-recognition phase, 395 production cycle, 522–525 revenue and collection cycle, 436–443, 468 sampling risk, 393 steps in process, 394 timing, 406 substantive tests of details auditing, 392 substantive-purpose audit program, 400 successor/predecessor auditors, 165 sufficiency of evidence, 284-285 super-materiality, 65 supervision, 231 supply chain management, 518 systematic accounting, 724 systematic random selection, 387 systems development and documentation standards manual, 236

Т

T4 reports, 531-533 table of random digits, 414 tax basis accounting, 639-640 tax withholding, 530, 531 taxation services, 18 TD1, 526 test data, 349 test of controls audit program, 379-392 evidence-collection phase, 383-388 evidence-evaluation phase, 389-392 problem-recognition phase, 380-382 procedure, 388 steps in process, 380 timing, 392 test of controls procedure, 338, 344 testing, 371 See also audit sampling theft, 576

three-party accountability, 4 time budget, 169, 170 timekeeping records, 429, 530 timing of auditor's appointment, 33 timing of auditor's appointment, 33 to-do lists, 615 tolerable deviation rate, 383, 384 tolerable misstatement, 271-273 tone at the top, 218-219, 229, 697, 699 Toromont v. Thorne, 136, 138, 142, 143 Toronto Futures Exchange, 21 Toronto Securities Commission, 20 Toronto Stock Exchange, 20, 21, 164 tort, 132-133 See also legal liability tort reform, 130 tracing, 289 trade magazines, 181 trailer labels, 239 transaction processing, 222 transaction trails, 224 Transamerica Financial Corporation, Canada v. Dunwoody & Company, 150 transfer agent, 556 Transparency International, 705 Treadway Commission, 216, 274, 726 trouble spots, 191-193 TSE. See Toronto Stock Exchange Type I error risk, 376 type I subsequent events, 605 Type II error risk, 376 type II subsequent events, 605, 606

U

UEL. 390 UEL decision rule, 390 Ultramares Corporation v. Touche, 134 unadjusted (uncorrected) known errors, 614 unaudited financial statements, 258-261, 628-635 compilation services, 631, 633 GAAP departures, 633, 634 personal financial plans, 633 prescribed forms, 633 review services, 628-630 unauthorized use of securities, 576 uncertainty situations, 72-73 underreliance, 389 understanding client's business, 170-172 understatements, 294 Uniform Commercial Code (UCC), 721 United States. See also Securities and Exchange Commission (SEC) evolution of auditing, 22 Private Securities Litigation Reform

Act, 146 unmatched receiving reports, 472 unmatched suppliers invoices, 473 unqualified opinion, 61 unqualified opinion with explanation, 71–76 unqualified reports, 34–36, 62–64 unrestricted random selection, 387 unusual revenue transactions, 594, 595 update, 234 upper error limit (UEL), 390 upper error limit (UEL) decision rule, 390 utilitarianism, 91, 92

V

valid character tests, 241 valid sign tests, 241 validation routines, 241 validity, 326 valuation or allocation, 190 value chains, 175 value-for-money (VFM) audits, 13, 747–750 variability within the population, 398 vertical analysis, 258, 725 VFM audits, 13, 747–750 Vorhies, James, 271*n* voucher, 474 vouching, 289, 565

W

walk-through, 374, 433 weaknesses, 337 whistle-blowing responsibility, 149 white-collar crime, 683 white-collar criminals, 685–687 *See also* fraud awareness auditing work-in-progress, 514 working paper review, 615 working paper software, 303 working papers, 298–303 indexing, 302 World Trade Organization, 171 WorldCom, 10 write-up work, 631

X

Xerox Corp., 132

Y

year-end audit work, 169 year-to-date (YTD) earnings records, 531 YTD earnings records, 531