New to the Sixth Edition of

Part I: The Contemporary Auditing Environment

CHAPTER 1: Auditing and Assurance Services

- Added a discussion about how more companies than ever are seeking to quantify their sustainability and social responsibility efforts with measurable outputs. This movement is increasing the demand for CPAs to complete attestation engagements on these measurable outputs. We also added a new exhibit that provides an example of the 2011 Sustainability Report for United Parcel Service (UPS).
- Improved and clarified the section on management's financial statement assertions, with an added emphasis on the importance of understanding the relationship between a company's internal control activities and the relevant financial statement assertions.
- Added more discussion about the importance of professional skepticism and an auditor's professional judgment in today's auditing environment. In addition, we included a new Auditing Insight to highlight how one firm, KPMG, is helping its professionals overcome judgment biases with a new monograph that focuses on an auditor's professional judgment process.

CHAPTER 2: Professional Standards

- Added an introductory vignette that details the recent deficiencies noted in audits conducted by Deloitte.
- Provided a summary of the recent Staff Audit Practice Alert issued by the PCAOB on professional skepticism.
- Included McDonald's 2013 audit report to demonstrate the contents of an actual audit report and how this report reflects the guidance in the reporting principle.
- Provided a summary of findings from PCAOB inspections of audits conducted by Big Four firms from 2009 through 2011.
- Provided a summary of academic research investigating the relationship between PCAOB inspection reports and auditor dismissals, client reporting, and firm reporting decisions.
- Added an Auditing Insight discussing controversies over the inspection of audits conducted by Chinese firms.
- Added an appendix on how to use and reference professional literature issued by the PCAOB and Auditing Standards Board (Clarified Standards).

Part II: The Financial Statement Audit

CHAPTER 3: Engagement Planning

- Added a discussion to emphasize the importance of processes designed to ensure that professionals in CPA firms are independent of any relationships that might impact their professionals when making professional judgments on an audit engagement.
- Added an Auditing Insight to describe how KPMG handled the situation involving its rogue partner, Scott London, who provided confidential client information to a friend about two of his audit clients. KPMG resigned from both audits.
- Updated and clarified the section on the effect of a client's computer processing on audit planning with an overall emphasis on the importance of gaining audit comfort on the data produced by an entity's information system that is used in the internal control system.

CHAPTER 4: Management Fraud and Audit Risk

- Improved and clarified the section on enterprise risk management with a particular emphasis on how understanding an entity's risk management process

can help when an auditor assesses risk on an audit engagement.
- Added an Auditing Insight to illustrate how Enron's change in strategic direction impacted its accounting choices and ultimately its financial statements. The example is used to emphasize the importance of gaining an understanding of a client's strategy during the risk assessment process.
- Added an Auditing Insight to highlight the dispute between Hewlett-Packard (HP) and Autonomy regarding the price HP paid to acquire Autonomy in 2011. The dispute illustrates the importance of gaining an understanding of the client, its industry, and any companies being acquired during the risk assessment process.
- Added recent fraud statistics from *The Network* and *BDO Consulting*.

CHAPTER 5: Risk Assessment: Internal Control Evaluation

- Improved and clarified the section on the components of an internal control system under COSO. In

addition, added a discussion of how auditors evaluate the separation of duties in an information technology environment.

- Added a discussion to highlight the importance of auditors' verification of the completeness and accuracy of information produced by the entity when completing tests of controls. The discussion is illustrated with a new Auditing Insight that discusses how the PCAOB is emphasizing this area in its inspections.
- Added an Auditing Insight to describe the particulars of the COSO 2013 update to its internal control framework. The update provides more implementation guidance that will help organizations adapt their internal control systems to meet the needs of the current business environment. Specifically, the COSO 2013 framework adds 17 explicit principles that are associated with the five components of internal control (i.e., control environment, risk assessment, control activities, information and communication, and monitoring).

CHAPTER 6: Employee Fraud and the Audit of Cash
- Updated the Auditing Insight with a new example of a recent embezzlement by a trusted employee and updated the discussion of evidential matter in a fraud investigation to include computer forensic investigations.
- Improved and clarified the section on electronic cash confirmations. An end-of-chapter problem has also been added that asks students to complete a tutorial of a leading electronic confirmation platform, Confirmation.com.
- Added an Auditing Insight describing the fraud perpetrated by Peregrine Financial Group (PFG). The fraud was detected because the regulators switched to an electronic platform to confirm PFG's cash balances. The fraud went undetected for many years because the CEO had rented a post office box to intercept bank confirmation requests and forged the documents to conceal the missing money.

CHAPTER 7: Revenue and Collection Cycle
- Updated the confirmation discussion for e-mail, fax, and verbal responses.
- Updated PCAOB inspections.

CHAPTER 8: Acquisition and Expenditure Cycle
- Conformed the risk assessment discussion to new standards.

- Added discussion of the bidding process for purchasing.
- Updated PCAOB inspections.

CHAPTER 9: Production Cycle
- Added analysis of presentation and disclosure of inventory in Boeing Corporation's 2010 annual report.
- Updated for new auditing standards.
- Updated PCAOB inspections.

CHAPTER 10: Finance and Investment Cycle
- Updated for new auditing standards.
- Updated PCAOB inspections.

CHAPTER 11: Completing the Audit
- Included revised discussions of roll-forward work and attorneys' letters.
- Added discussion of *AS 16*'s increased responsibilities to communicate with those charged with governance.

CHAPTER 12: Reports on Audited Financial Statements
- Moved the chapter's focus from the audit report for public entities under *Auditing Standard 5* to the report for nonpublic entities.
- Updated reporting examples throughout the chapter to provide more current examples of report modifications.
- Updated academic research on the impact of auditors' reports on user decisions and perceptions.
- Provided an extensive summary of factors that influence the decision to issue going-concern reports and the impact of these reports on users' decisions. to provide assurance on information outside the financial statements, and the clarification of various language and concepts used in the auditors' report.
- Added an Appendix to discuss the new wording and format adopted by the AICPA for reports used for the audits of nonpublic entities in AU 700.
- Added additional end-of-chapter material that requires students to identify the type of opinions issued in various reporting scenarios and how the auditors' report would be modified.
- Added additional end-of-chapter material that addresses reporting options for departures from GAAP and scope limitations assuming various scenarios regarding the pervasiveness and materiality of these issues.

Part III: Stand-Alone Modules

MODULE A: Other Public Accounting Services
- Updated the coverage of assurance services to include reports on sustainability. A recent example of a sustainability report for Starbucks is included.
- Included a new table describing the differences between prospective and pro forma engagements.
- Included examples of revised reports (review reports, reports on elements, reports on special purpose frameworks).

MODULE B: Professional Ethics
- Opened the module with the story of disgraced former KPMG partner Scott London who sacrificed his career to share confidential client information with a friend.
- Added a discussion of Aristotelian virtue ethics to already existing discussions of Kantian categorical imperatives and utilitarianism.
- Added a discussion of the role of the PCAOB's Division of Enforcement and Investigations.

MODULE C: Legal Liability
- Updated the introductory vignette on litigation involving BDO Seidman for its audits of E.S. Bankest to include the ultimate resolution of this litigation.
- Updated the summary of major settlements involving Big Four accounting firms to include settlements occurring since 2008.
- Expanded the discussion of academic research examining auditor litigation to include recent studies that investigated the factors affecting the litigation risk faced by audit firms.

MODULE D: Internal Audits, Governmental Audits, and Fraud Examinations
- Updated the coverage of the reliance of Congress on the GAO.
- Added internal audits for sustainability.

MODULE E: Overview of Sampling
- Greatly simplified content to focus on key sampling terminology and basics of sampling for instructors wishing to provide a broad overview to students.

MODULE F: Attributes Sampling
- Discussed PCAOB inspection findings related to attributes sampling.
- Moved sampling tables to the appendix and revised the chapter to illustrate the use of these tables on a step-by-step basis.
- Used graphics throughout the chapter to illustrate progress in the sampling process from the planning stages to the evaluation stage.

MODULE G: Variables Sampling
- Discussed PCAOB inspection findings related to variables sampling.

MODULE H: Auditing and Information Technology
- Significantly revised (and simplified) the chapter throughout to reinforce how the client's use of automated transaction processing systems affects the major stages of the audit team's study and evaluation of internal control.
- Provided an example of how students encounter IT general and app controls when using a smartphone.
- Added additional end-of-chapter material that requires students to identify tests of controls that would be used to evaluate the operating effectiveness of general and automated application controls.