



Preface

In this new edition of *Auditing and Assurance Services* we have continued to work very hard to present the fundamentals of auditing in a crisp, clear and understandable way, helping students navigate the inherent complexity while gaining a deep, intuitive grasp of fundamental auditing concepts. The discussion continues to bring an international perspective throughout the book and integrates the auditing concepts and processes with the latest international professional standards.

The events of the past decade have brought a great deal of turmoil and change to the business world, and the accountancy profession has also been affected. As globalization increases and with it the international operations of audit firms, the students and professionals need to understand the international environment and regulatory framework shaping of the profession and audit practice. The international professional standards have undergone change at an unprecedented pace. The International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) have gained general acceptance worldwide and are adopted by all of the major audit firms in their professional practices. By studying this book the students will learn the auditing concepts that underlie an audit performed today and under the existing international professional Standards.

What's new in the third international edition?

Although the auditing environment has become even more complex and demanding, at the same time it is increasingly important that students gain a deep understanding and working knowledge of fundamental auditing concepts and how they are applied. From the beginning we have worked hard to make this book the most up-to-date, student-friendly international auditing book on the market and this new edition continues that effort. Here are some of the ways this book encourages students to think more clearly and deeply about what they are studying:

- (1) Expanded use of 'stop and think' phrases at key places throughout the chapters to encourage students to more fully internalize key concepts and facilitate deep learning.
- (2) Clarified explanations and new easy-to-understand examples throughout the book.
- (3) Concise chapters with an enhanced focus on key concepts. For example, Chapters 2–5 have been completely reorganized and rewritten to improve clarity and flow.
- (4) Improved end-of-chapter and supplementary materials throughout the book and on the Online Learning Centre.
- (5) A new Professional Judgement module to accelerate the development of professional judgement abilities in students. This module is based on the 2013 AAA Wildman Award winning KPMG Professional Judgment monograph, authored by Steve Glover and Doug Prawitt, in collaboration with KPMG leaders and partners Rob Chevalier, George Herrmann and Sam Ranzilla.

This new edition contains several important updates to reflect changes in auditing practice and professional standards. For example, the book reflects new developments in how auditors assess materiality, based on cutting edge research into major firms' materiality policies by Aasmund Eilifsen and Bill Messier, and includes coverage of the newly revised COSO *Internal Control - Integrated Framework*, released in May of 2013. Because of their increasing complexity and importance to the audit process, this edition also includes discussions of auditing tax provisions and auditing fair value measurements. New Hands-On EarthWear Cases and ACL Professional Audit software assignments throughout the book and on the Online Learning Center provide opportunity for performing realistic



audit procedures. Finally, the authors took a hands-on role in improving this edition's instructor and student resources on the Online Learning Centre, including new Multiple Choice Questions.

How does the book prepare students?

The continuing rapid pace of change in professional standards and practices, together with the recent implosion of financial markets, has had a significant effect on the auditing profession. In this ever changing environment, it is crucial that students learn from the most up-to-date, student-friendly resources. As always, the author team is dedicated to providing the most current professional content and real-world application, as well as helping students develop professional judgement and prepare students for the auditor qualification requirements.

In this third international edition, authors Eilifsen, Messier, Glover and Prawitt continue to reinforce the fundamental values central to their past two editions:

International Approach. The book takes a truly international perspective on auditing and reflects the major international audit firms' current auditing practice and the most recent international professional pronouncements. Auditing network firms operate globally and cross borders, and professional practice and regulation are driven by international events and initiatives. Students and professionals need to understand how the international environment and regulatory framework affect audit practice worldwide. The independent standard-setting boards under the auspices of the International Federation of Accountants (IFAC) are today the global standard setters for the profession. The International Standards on Auditing (ISAs) and other professional standards of the IAASB are now used by all major audit firms and in more than 100 countries. All professional accountants of IFAC member organizations and firms must adhere to the international Code of Ethics. In the book the ISAs and other international pronouncements are integrated into the discussion of auditing concepts and processes with numerous illustrations of their application. The discussion generally refers to the International Financial Reporting Standards (IFRSs) as the financial reporting framework.

Student Engagement. The authors believe students are best served by acquiring a strong understanding of the basic concepts that underlie the audit process and how to apply those concepts to various audit and assurance services. The primary purpose for an auditing text is not to serve as a reference manual but to facilitate student learning, and this text is written accordingly. The text is accessible to students through straightforward writing and the use of engaging, relevant real-world examples, illustrations and analogies. The text explicitly encourages students to think through fundamental concepts and to avoid trying to learn auditing through rote memorization. Students are prompted by the text to 'stop and think,' at important points in the text, in order to help them apply the principles covered. Consistent with this aim, the text's early chapters avoid immersing students in unnecessary detail, focusing instead on students' understanding of fundamental audit concepts. A case involving Earth-Wear Clothiers, a mail-order retailer, is integrated throughout the book and the Online Learning Centre and includes free student access to several useful hands-on mini-cases, with full solutions available to the instructor. Finally, 'practice insights' throughout the book engage students and help them see the application of concepts in a practical setting.

A Systematic Approach. The text continues to take a systematic approach to the audit process by first introducing the three underlying concepts: audit risk, materiality and evidence. This is followed by a discussion of audit planning, the assessment of control risk, and a discussion of the nature, timing and extent of evidence necessary to reach the appropriate level of detection risk. These concepts are then applied to each major business process and related account balances using a risk-based approach.

Decision Making. In covering these important concepts and their applications, the book focuses on critical judgements and decision-making processes followed by auditors. Much of auditing practice involves the application of auditor judgement. If a student understands the basic concepts and how to apply them to an audit engagement, he or she will be more effective in today's dynamic audit



environment. Two of the authors of this book recently worked with KPMG to develop a monograph designed to accelerate the development of professional judgement in students. We are very excited to include in this new edition a 'professional judgement' module as part of the printed material in the text. This module is based on the KPMG Professional Judgment monograph, which was awarded the 2013 AAA Deloitte/Wildman award for the work published within the past five years that has had the most significant impact on the practice of professional accountancy. Access to additional directly related resources, including videos, mini-cases and problems, are available on KPMG's University Connection website for integration into the auditing course as instructors see fit.

Thank you for support of this text and the many compliments we have received regarding the past two international editions. We are gratified by the enthusiastic response the text has received as we have done our best to create a clear, easy-reading, student-friendly auditing textbook. We welcome your suggestions and hope you will be impressed with the updates we have made in this third international edition.

Aasmund Eilifsen, William F. Messier Jr., Steven M. Glover, Douglas F. Prawitt

The new edition includes the following important features and enhancements:

- A 'professional judgement' module, designed to accelerate the development of students' professional judgement and based on the AAA Deloitte/Wildman Award-winning KPMG Professional Judgment monograph, is now included in the print copy of the book. Additional resources relating to this module are available through KPMG's *University Connection* website.
- Increased use of 'Stop and Think' questions throughout the book to encourage students to more fully internalize key concepts.
- User-focused, user-friendly improvements.
- Chapters 2–5 have been rearranged to provide a clearer presentation of the auditing environment, audit planning and the three major underlying auditing concepts.
- Chapter 2 has been updated for recent changes in the audit environment, Chapter 3 presents the latest information available on major firms' audit guidance relating to materiality, and Chapter 6 reflects COSO's new internal control framework.
- New Advanced Modules on auditing income tax expense and related accounts, auditing share-based compensation, and auditing fair value measurements.
- Discussion of recent development in assurance engagements standards.
- Increased use of Practice Insights that provide a link from the textbook material to the real world.
- New Hands-On EarthWear Cases that provide students with opportunities to apply audit professional judgement and practice audit procedures.
- ACL Professional Audit software is included free with the book. Chapter-specific ACL assignments allow for practice with real audit software.
- Updated international real world examples link auditing content to the real world.
- Clarifying meaning of technical business and accounting jargon.
- Improved linkage between chapter content and end-of-chapter material.