

***Auditing and Assurance Services 17th edition Arens
Solutions Manual***

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Chapter 1

The Demand for Audit and Other Assurance Services

■ Concept Checks

P. 8

1. To do an audit, there must be information in a *verifiable form* and some standards (*criteria*) by which the auditor can evaluate the information. Determining the degree of correspondence between information and established criteria is determining whether a given set of information is in accordance with the established criteria. For an audit of a company's financial statements the criteria are U.S. generally accepted accounting principles or International Financial Reporting Standards.
2. The four primary causes of information risk are remoteness of information, biases and motives of the provider, voluminous data, and the existence of complex exchange transactions.
The three main ways to reduce information risk are:
 1. User verifies the information.
 2. User shares the information risk with management.
 3. Audited financial statements are provided.

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1. The three main types of audits are operational audits, compliance audits, and financial statement audits. The table below summarizes the purposes and nature of each type of audit.

	OPERATIONAL AUDITS	COMPLIANCE AUDITS	AUDITS OF FINANCIAL STATEMENTS
PURPOSE	To evaluate whether operating procedures are efficient and effective	To determine whether the client is following specific procedures set by a higher authority	To determine whether the overall financial statements are presented in accordance with specified criteria (usually GAAP)

Concept Checks (continued)

	OPERATIONAL AUDITS	COMPLIANCE AUDITS	AUDITS OF FINANCIAL STATEMENTS
USERS OF AUDIT REPORT	Management of organization	Authority that established rules, regulations, and procedures, either internal or external to auditee	Different groups for different purposes — many outside entities
NATURE	Highly nonstandard; often subjective	Not standardized, but specific and usually objective	Highly standardized
<i>PERFORMED BY:</i> CPAs	Frequently	Occasionally	Almost universally
GAO AUDITORS	Frequently	Frequently	Occasionally
IRS AUDITORS	Never	Universally	Never
INTERNAL AUDITORS	Frequently	Frequently	Frequently*

* Internal auditors may assist CPAs in the audit of financial statements. Internal auditors may also audit internal financial statements for use by management.

2. The major differences in the scope of audit responsibilities for CPAs, GAO auditors, IRS agents, and internal auditors are:

- CPAs perform audits of financial statements prepared using U.S. GAAP or IFRS in accordance with auditing standards.
- GAO auditors perform compliance or operational audits in order to assure the Congress of the expenditure of public funds in accordance with its directives and the law.
- IRS agents perform compliance audits to enforce the federal tax laws as defined by Congress, interpreted by the courts, and regulated by the IRS.
- Internal auditors perform compliance or operational audits in order to assure management or the board of directors that controls and policies are properly and consistently developed, applied, and evaluated.

■ Review Questions

1-1 To do an audit, there must be information in a *verifiable form* and some standards (*criteria*) by which the auditor can evaluate the information. The information for Jones Company's tax return is the federal tax returns filed by the company. The established criteria are found in the Internal Revenue Code and all interpretations. For the audit of Jones Company's financial statements the information is the financial statements being audited and the established criteria are U.S. GAAP or IFRS.

1-2 This apparent paradox arises from the distinction between the function of auditing and the function of accounting. The accounting function is the recording, classifying, and summarizing of economic events to provide relevant information to decision makers. The rules of accounting are the criteria used by the auditor for evaluating the presentation of economic events for financial statements and he or she must therefore have an understanding of accounting standards, as well as auditing standards. The accountant need not, and frequently does not, understand what auditors do, unless he or she is involved in doing audits, or has been trained as an auditor.

1-3 An independent audit is a means of satisfying the need for reliable information on the part of decision makers. Recent changes in accounting and business operations include:

1. Increased global activities of many businesses
 - a. Multiple product lines and transaction locations
 - b. Foreign exchange affects transactions
2. Complex accounting and exchange transactions
 - a. Increasing use of derivatives and hedging activities
 - b. Increasingly complex accounting standards in areas such as revenue recognition
3. More complex information systems
 - a. Possibly millions of transactions processed daily through on-line and traditional sales channels
 - b. Voluminous data requires interpretation

- 1-4**
1. *Risk-free interest rate* 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.
 2. *Business risk for the customer* 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.
 3. *Information risk* This risk reflects the possibility that the information upon which the business risk decision was made was inaccurate. A likely cause of the information risk is the possibility of inaccurate financial statements.

1-4 (continued)

Auditing has no effect on either the risk-free interest rate or business risk. However, auditing can significantly reduce information risk.

1-5 The three main ways to reduce information risk are:

1. User verifies the information.
2. User shares the information risk with management.
3. Audited financial statements are provided.

The advantages and disadvantages of each are as follows:

	ADVANTAGES	DISADVANTAGES
USER VERIFIES INFORMATION	1. User obtains information desired. 2. User can be more confident of the qualifications and activities of the person getting the information.	1. High cost of obtaining information. 2. Inconvenience to the person providing the information because large number of users would be on premises.
USER SHARES INFORMATION RISK WITH MANAGEMENT	1. No audit costs incurred.	1. User may not be able to collect on losses.
AUDITED FINANCIAL STATEMENTS ARE PROVIDED	1. Multiple users obtain the information. 2. Information risk can usually be reduced sufficiently to satisfy users at reasonable cost. 3. Minimal inconvenience to management by having only one auditor.	1. May not meet needs of certain users. 2. Cost may be higher than the benefits in some situations, such as for a small company.

1-6 Information risk is the risk that information upon which a business decision is made is inaccurate. Fair value accounting is often based on estimates and requires judgment. Fair value can be estimated using multiple methods with some estimates being more subjective than others. Fair value estimates are made at a point in time, but can also change rapidly, depending on market conditions. All of these factors increase information risk.

1-7 An assurance service is an independent professional service to improve the quality of information for decision makers. An attestation service is a form of assurance service in which the CPA firm issues a report about the reliability of an assertion that is the responsibility of another party.

1-7 (continued)

The most common form of audit service is an audit of historical financial statements, in which the auditor expresses a conclusion as to whether the financial statements are presented in accordance with an applicable financial reporting framework such as U.S. GAAP or IFRS. An example of an attestation service is a report on the effectiveness of an entity's internal control over financial reporting. There are many possible forms of assurance services, including services related to business performance measurement, health care performance, and information system reliability.

1-8 Some organizations issue sustainability reports to highlight the work they are doing related to the environment, social issues, and governance (often referred to as ESG). These reports include different types of data that reflect the organization's overall performance related to their sustainability efforts. For example, some organizations provide data related to carbon emissions, resource usage, and waste generation to highlight their impact on the environment. Others report demographic data about the types of individuals they hire as employees or serve as customers. Investors and other users of these sustainability reports may desire assurance from CPAs about the accuracy and reliability of these data items.

1-9 The primary evidence the internal revenue agent will use in the audit of the Jones Company's tax return include all available documentation and other information available in Jones' office or from other sources. For example, when the internal revenue agent audits taxable income, a major source of information will be bank statements, the cash receipts journal and deposit slips. The internal revenue agent is likely to emphasize unrecorded receipts and revenues. For expenses, major sources of evidence are likely to be cancelled checks and electronic funds transfers, vendors' invoices, and other supporting documentation.

1-10 Five examples of specific operational audits that could be conducted by an internal auditor in a manufacturing company are:

1. Examine employee time records and personnel records to determine if sufficient information is available to maximize the effective use of personnel.
2. Review the processing of sales invoices to determine if it could be done more efficiently.
3. Review the acquisitions of goods, including costs, to determine if they are being purchased at the lowest possible cost considering the quality needed.
4. Review and evaluate the efficiency of the manufacturing process.
5. Review the processing of cash receipts to determine if they are deposited as quickly as possible.

1-11 When auditing historical financial statements, an auditor must have a thorough understanding of the client and its environment, including knowledge about the client's regulatory and operating environment, business strategies and processes, and measurement indicators. This strategic understanding is also useful in other assurance or consulting engagements. For example, an auditor performing an assurance service on information technology would need to understand the client's business strategies and processes related to information technology, including such things as purchases and sales via the Internet. Similarly, a practitioner performing a consulting engagement to evaluate the efficiency and effectiveness of a client's manufacturing process would likely start with an analysis of various measurement indicators, including ratio analysis and benchmarking against key competitors.

1-12 The four parts of the Uniform CPA Examination are: Auditing and Attestation, Financial Accounting and Reporting, Regulation, and Business Environment and Concepts.

■ **Multiple Choice Questions From CPA Examinations**

1-13 a. (1) b. (4) c. (1)

1-14 a. (3) b. (4) c. (1)

■ **Multiple Choice Questions From Becker CPA Exam Review**

1-15 a. (4) b. (3) c. (3)

■ **Discussion Questions And Problems**

1-16 a. Audit services are a form of attestation service, and attestation services are a form of assurance service. In a diagram, audit services are located within the attestation service area, and attestation services are located within the assurance service area.

- b.
- | | | |
|----|-----|---|
| 1. | (2) | An attestation service other than an audit service |
| 2. | (2) | An attestation service other than an audit service |
| 3. | (1) | An audit of historical financial statements |
| 4. | (3) | An assurance or nonassurance service that is not an attestation service |
| 5. | (2) | An attestation service other than an audit service |
| 6. | (2) | An attestation service other than an audit service |
| 7. | (2) | An attestation service other than an audit service
(Review services are a form of attestation, but are performed according to Statements on Standards for Accounting and Review Services.) |
| 8. | (2) | An attestation service other than an audit service |
| 9. | (2) | An attestation service other than an audit service |

11-16 (continued)

- 10. (2) An attestation service other than an audit service
- 11. (3) An assurance or nonassurance service that is not an attestation service

- 1-17** a. The interest rate for the loan that requires a review report is lower than the loan that did not require a review because of lower information risk. A review report provides moderate assurance to financial statement users, which lowers information risk. An audit report provides further assurance and lower information risk. As a result of reduced information risk, the interest rate is lowest for the loan with the audit report.
- b. Given these circumstances, Monterrey should select the loan from First City Bank that requires an annual audit. In this situation, the additional cost of the audit is less than the reduction in interest due to lower information risk. The following is the calculation of total costs for each loan:

LENDER	CPA SERVICE	COST OF CPA SERVICES	ANNUAL INTEREST	ANNUAL LOAN COST
Existing loan	None	0	\$ 455,000	\$ 455,000
Southwest National Bank	Review	\$ 45,000	\$ 385,000	\$ 430,000
First City Bank	Audit	\$ 80,000	\$ 315,000	\$ 395,000

- c. Monterrey should select the loan from Southwest National Bank due to the higher cost of the audit and the reduced interest rate for the loan from Southwest National Bank. The following is the calculation of total costs for each loan:

LENDER	CPA SERVICE	COST OF CPA SERVICES	ANNUAL INTEREST	ANNUAL LOAN COST
Existing loan	None	0	\$ 455,000	\$ 455,000
Southwest National Bank	Review	\$ 45,000	\$ 385,000	\$ 430,000
First City Bank	Audit	\$125,000	\$ 315,000	\$ 440,000

- d. Monterrey may desire to have an audit because of the many other benefits that an audit provides. The audit will provide Monterrey's management with assurance about annual financial information used for decision-making purposes. The audit may detect errors or fraud, and provide management with information about the

1-17 (continued)

effectiveness of controls. In addition, the audit may result in recommendations to management that will improve efficiency or effectiveness.

- e. The auditor must have a thorough understanding of the client and its environment, including the client's e-commerce technologies, industry, regulatory and operating environment, suppliers, customers, creditors, and business strategies and processes. This thorough analysis helps the auditor identify risks associated with the client's strategies that may affect whether the financial statements are fairly stated. This strategic knowledge of the client's business often helps the auditor identify ways to help the client improve business operations, thereby providing added value to the audit function.

1-18 a. The services provided by Consumers Union are very similar to assurance services provided by CPA firms. The services provided by Consumers Union and assurance services provided by CPA firms are designed to improve the quality of information for decision makers. CPAs are valued for their independence, and the reports provided by Consumers Union are valued because Consumers Union is independent of the products tested.

- b. The concepts of information risk for the buyer of an automobile and for the user of financial statements are essentially the same. They are both concerned with the problem of unreliable information being provided. In the case of the auditor, the user is concerned about unreliable information being provided in the financial statements. The buyer of an automobile is likely to be concerned about the manufacturer or dealer providing unreliable information.

- c. The four causes of information risk are essentially the same for a buyer of an automobile and a user of financial statements:

- (1) *Remoteness of information* It is difficult for a user to obtain much information about either an automobile manufacturer or the automobile itself without incurring considerable cost. The automobile buyer does have the advantage of possibly knowing other users who are satisfied or dissatisfied with a similar automobile, and the ability to perform online research of new vehicles.
- (2) *Biases and motives of provider* There is a conflict between the automobile buyer and the manufacturer. The buyer wants to buy a high quality product at minimum cost whereas the seller wants to maximize the selling price and quantity sold.
- (3) *Voluminous data* There is a large amount of available information about automobiles that users might like to have in

1-18 (continued)

order to evaluate an automobile. Either that information is not available or too costly to obtain.

- (4) *Complex exchange transactions* The acquisition of an automobile is expensive and certainly a complex decision because of all the components that go into making a good automobile and choosing between a large number of alternatives.

d. The three ways users of financial statements and buyers of automobiles reduce information risk are also similar:

- (1) *User verifies information him or herself* That can be obtained by driving different automobiles, examining the specifications of the automobiles, talking to other users and doing research in various magazines.
- (2) *User shares information risk with management* The manufacturer of a product has a responsibility to meet its warranties and to provide a reasonable product. The buyer of an automobile can return the automobile for correction of defects. In some cases a refund may be obtained.
- (3) *Examine the information prepared by Consumer Reports* This is similar to an audit in the sense that independent information is provided by an independent party. The information provided by *Consumer Reports* is comparable to that provided by a CPA firm in an audit of financial statements.

1-19 a. The following parts of the definition of auditing are related to the narrative:

- (1) Altman is being asked to issue a report about qualitative and quantitative information for trucks. The trucks are therefore the *information* with which the auditor is concerned.
- (2) There are four *established criteria* which must be evaluated and reported by Altman: existence of the trucks on the night of June 30, 2019, ownership of each truck by Regional Delivery Service, physical condition of each truck and fair market value of each truck.
- (3) Samantha Altman will *accumulate* and *evaluate* four types of *evidence*:
 - (a) Count the trucks to determine their existence.
 - (b) Use registration documents held by Burrow for comparison to the serial number on each truck to determine ownership.
 - (c) Examine the trucks to determine each truck's physical condition.
 - (d) Examine the blue book to determine the fair market value of each truck.

1-19 (continued)

- (4) Samantha Altman, CPA, appears qualified, as a *competent, independent person*. She is a CPA, and she spends most of her time auditing used automobile and truck dealerships and has extensive specialized knowledge about used trucks that is consistent with the nature of the engagement.
 - (5) The *report results* are to include:
 - (a) which of the 25 trucks are parked in Regional's parking lot the night of June 30.
 - (b) whether all of the trucks are owned by Regional Delivery Service.
 - (c) the condition of each truck, using established guidelines.
 - (d) fair market value of each truck using the current blue book for trucks.
- b. The only parts of the audit that will be difficult for Altman are:
- (1) Evaluating the condition, using the guidelines of poor, good, and excellent. It is highly subjective to do so. If she uses a different criterion than the "blue book," the fair market value will not be meaningful. Her experience will be essential in using this guideline.
 - (2) Determining the fair market value, unless it is clearly defined in the blue book for each condition.

- 1-20** a. The major advantages and disadvantages of a career as an IRS agent, CPA, GAO auditor, or an internal auditor are:

EMPLOYMENT	ADVANTAGES	DISADVANTAGES
INTERNAL REVENUE AGENT	1. Extensive training in individual, corporate, gift, trust and other taxes is available with concentration in area chosen. 2. Hands-on experience with sophisticated selection techniques.	1. Experience limited to taxes. 2. No experience with operational or financial statement auditing. 3. Training is not extensive with any business enterprise.

1-20 (continued)

EMPLOYMENT	ADVANTAGES	DISADVANTAGES
CPA	1. Extensive training in audit of financial statements, compliance auditing and operational auditing. 2. Opportunity for experience in auditing, tax consulting, and management consulting practices. 3. Experience in a diversity of enterprises and industries with the opportunity to specialize in a specific industry.	1. Exposure to taxes and to the business enterprise may not be as in-depth as the internal revenue agent or the internal auditor. 2. Likely to be less exposed to operational auditing than is likely for internal auditors.
INTERNAL AUDITOR	1. Extensive exposure to all segments of the enterprise with which employed. 2. Constant exposure to one industry presenting opportunity for expertise in that industry. 3. Likely to have exposure to compliance, financial, and operational auditing.	1. Little exposure to taxation and the audit of taxes. 2. Experience is limited to one enterprise, usually within one or a limited number of industries.
GAO AUDITOR	1. Increasing opportunity for experience in operational auditing. 2. Exposure to highly sophisticated statistical sampling and computer auditing techniques.	1. Little exposure to diversity of enterprises and industries. 2. Bureaucracy of federal government.

- b. The two best choices for the senior interested in becoming a certified fraud examiner would be starting out as either a CPA or an internal auditor. A CPA gains experience with internal controls and has an understanding of incentives and opportunities to commit fraud. An internal auditor gains experience with internal controls and has an in-depth understanding of operations and the many facets of a business. IRS agents and GAO auditors would be in demand for fraud examinations relating specifically to tax fraud or governmental entities.
- c. Other auditing careers that are available are:
- Auditors within many of the branches of the federal government (e.g., Department of Homeland Security)
 - Auditors for many state and local government units (e.g., state insurance or bank auditors)

1-21 The most likely type of auditor and the type of audit for each of the examples are:

EXAMPLE	a. TYPE OF AUDITOR	b. TYPE OF AUDIT
1.	Internal auditor or CPA	Financial statements or operational
2.	CPA	Financial statements
3.	Internal auditor or CPA	Compliance
4.	Internal auditor or CPA	Compliance
5.	Internal auditor or CPA	Operational
6.	CPA or internal auditor	Financial statements
7.	GAO	Operational
8.	CPA	Financial statements
9.	GAO	Financial statements
10.	GAO	Compliance
11.	IRS	Compliance
12.	IRS	Compliance

1-22 a. Financial statement audits reduce information risk, which lowers borrowing costs. An audit also provides assurances to management about information used for decision-making purposes, and may also provide recommendations to improve efficiency or effectiveness of operations.

b. Czarnecki and Hogan likely provide tax services, accounting services, and management advisory services. They may also provide additional assurance and attestation services other than audits of financial statements.

c. Student answers will vary. They may identify new types of information that require assurance, such as environmental or corporate responsibility reporting. Students may also identify opportunities for consulting or management advisory services, such as assistance with the adoption of International Financial Reporting Standards.

1-23 a. Assurance related to financial statements are the most likely forms of assurance that are likely to be provided only by public accounting firms. Examples include audits of historical financial statements, reviews of historical financial statements, audits of internal control over financial reporting, and compliance auditing such as that required by the Single Audit Act and OMB Circular A-133 (although these audits may also be provided by government auditors).

1-23 (continued)

- b. There are many types of information that are assured by providers other than public accounting firms. Some of these assurances are provided by government entities, such as food inspections, elevator inspections, and pumps at gasoline stations. Other assurances are provided by nonprofit and for-profit assurance providers, such as ISO 9000 certifications.
 - c. Table 1-1 on p. 11 includes some examples of assurance that may be provided by public accounting firms or other assurance providers. For example, assurance on corporate responsibility and sustainability may be provided by public accounting firms or other assurance providers. Other examples included assurance on website controls, and information such as website traffic or newspaper circulation.
- 1-24**
- a. The vision of the Global Reporting Initiative (GRI) is a sustainable global economy where organizations manage their economic, environmental, social and governance performance and impacts responsibly, and report transparently. Its mission is to make sustainability reporting standard practice by providing guidance and support to organizations.
 - b. According to the GRI “A sustainability report is a report published by a company or organization about the economic, environmental, and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.”
In an integrated report, sustainability information is included along with financial information. These reports emphasize the links between financial and non-financial performance. An integrated report also presents the risks and opportunities the company faces, integrated with disclosure of environmental, social, and governance issues.
 - c. GRI offers two “in accordance” reporting options, Core and Comprehensive. For each option, there is a corresponding claim, or statement of use, that the organization is required to include in the report. The Core report provides the essential elements of a sustainability report. The Comprehensive report includes additional disclosures of the organization’s strategy and analysis, governance, and ethics and integrity. The GRI recommends external assurance, but it is not required for either type of “in accordance” report.

- 1-25** a. Answers will vary by state. Most states require 150 hours of education, with specific requirements for number of accounting hours and credit hours in other subject areas.
- b. Answers will vary by state. Many states require one or two years of work experience gained in public practice, or possibly government, academia or industry, depending on the state. In many states, experience in industry or internal audit is sufficient, depending on the type of work performed.
- c. Most states have frequently addressed questions. Many of these address education requirements, as well as information on how to prepare for the exam, as well as information on applying for licensure.
- d. The Elijah Watt Sells award program was established in 1923 by the American Institute of Certified Public Accountants (AICPA) to recognize outstanding performance on the Uniform CPA Examination. The award is presented to candidates who obtained a cumulative average score above 95.50 across all four sections of the Uniform CPA Examination, completed testing during the previous calendar year, and passed all four sections of the Examination on their first attempt.
- e. Passing information is available on the CPA Examination portion of the AICPA web site. Recent passing rates have ranged from approximately 42% to 60% across the four sections.

Chapter 1

The Demand for Audit and Other Assurance Services

Usually students will not have read Chapter 1 before the material is covered. As a policy, we always give students the entire scheduled time on the first day of class. In addition to setting up a seating chart (which we always use), and reviewing the course policies and procedures, we attempt to cover the following major topics in the chapter:

- Chapter Opening Vignette
- Nature of Auditing
- Distinction between auditing and accounting
- Economic demand for auditing
- Overview of assurance services
- Types of audits and auditors
- Requirements for becoming a certified public accountant

Chapter Opening Vignette — “Brown Goes Green”

We use this vignette about the United Parcel Service (UPS) sustainability reporting to highlight the role of auditors in providing assurance on sustainability reports, as well as many other types of information. Students have a great interest in sustainability, but most are not familiar with sustainability reporting and assurance. This is a great way to gain students' interest by emphasizing the valuable role of auditors in providing assurance on all types of information. Consider assigning Problem 1-24, if you would like to expose students further to sustainability reporting.

Nature of Auditing (page 4)

Start by asking students to tell you what auditing is and display one of the student's own definitions. Other students are asked to discuss it until there is a reasonably usable definition. The three things that should be stressed are:

1. Evidence (define the term)
2. Information
3. Determining degree of correspondence

Students tend to think of auditing as auditing financial statements by CPA firms in accordance with GAAS or other auditing standards. We therefore use **Figure 1-1** on page 5, to discuss the definition.

(See Figure 1-1; shown on Slide 1-7)

We also like to display the matrix on **OH-1-1** and go through it with the students. As a part of this, students are briefly introduced to IRS auditors, CPAs, and internal auditors. None of this is usually lecture.

(See OH-1-1)

After you have gone over this information, refer students to the definition of auditing as included on **Slide 1-5**.

(See Slide 1-5)

Briefly talk about the importance of:

- Competence and independence of auditor (Chapter 4)
- Need to report on findings (Chapters 3, 24, and 25)

Distinction between Auditing and Accounting (page 6)

We spend little time on the distinction between accounting and auditing, but it is at least desirable to point out the differences and relationship between the two. Then ask why auditors need to have knowledge of accounting to be effective auditors. See Review Question 1-2.

Economic Demand for Auditing (page 6)

We like to spend a few minutes discussing the economic role of auditors in society in Chapter 1. Refer back to this material again in Chapter 5 (legal liability) and Chapter 8 (audit planning and materiality).

First, go over the three factors determining interest rates, with emphasis on information risk. Use **OH-1-2** to summarize the material in the text. It is useful to discuss the effect on earnings of reducing an organization's interest rate by 1 or 2%. Problem 1-17 is useful for demonstrating the level of assurance associated with audits and reviews, and the effect of these services on information risk and borrowing costs.

(See OH-1-2)

Assurance Services (page 8)

We start by asking students to describe assurance services. The term will be unfamiliar to most students, but some may recognize the concept. We discuss the following services:

- Assurance services
- Attestation services
- Audits of historical financial statements
- Audits of internal control over financial reporting
- Reviews of historical financial statements
- Management consulting and other nonassurance services

We then cover Problem 1-16 in class to help students distinguish assurance, attestation, and audit services.

Ask students to suggest other types of information on which users may desire assurance and the most likely provider of the assurance. **OH-1-3** can be used to list their responses. To start the discussion, we often name one or two types of assurance that aren't provided by CPAs, such as gas pump inspections and Arbitron radio ratings. Ask students to suggest reasons why the demand for assurance is increasing. **Table 1-1** (page 11) is helpful for identifying other types of assurance services that may be provided by CPAs.

(See OH-1-3)

(See Table 1-1; shown on Slide 1-23)

Problem 1-18 can be covered in class to give students a perspective on the similarity between assurance services offered by CPAs and the role played by organizations such as Consumers Union.

Types of Audits and Auditors (page 12, page 14)

Most students at our universities know little about the types of auditors and the nature of CPA firms. In a brief discussion, we highlight the following for the students:

- The nature of financial, operational, and compliance audits
- The primary differences between independent CPAs, government auditors, internal revenue agents, and internal auditors

OH-1-1 and **Table 1-2** (page 12) can be used as part of this discussion. Problem 1-20 is a good one to use in class as part of a discussion about careers in accounting. Problem 1-21 can also be used to help distinguish the types of audits, and the auditor most likely to perform the audit.

(See OH-1-1)

(See Table 1-2; shown on Slide 1-26)

Certified Public Accountant (page 16)

We talk briefly about why some people want to be a CPA. We use **Figure 1-3** (page 16) to review the requirements for becoming a CPA, and also discuss the exam requirements and the format of the computerized exam.

(See Figure 1-3; shown on Slide 1-33)

We then review the CPA Exam eligibility requirements in our state. We encourage students to visit the CPA Examination portion of the AICPA website (www.aicpa.org) to learn more about the exam and to review the link to Frequently Asked Questions (FAQs) about the CPA Exam. We find students appreciate this information and it saves us a lot of time in the office telling them the same thing individually. Problem 1-25 requires students to research different requirements of the CPA Exam.

CHAPTER 1

CROSS-REFERENCE OF LEARNING OBJECTIVES AND PROBLEM MATERIAL

LEARNING OBJECTIVES	CONCEPT CHECKS	REVIEW QUESTIONS	MULTIPLE CHOICE QUESTIONS	DISCUSSION QUESTIONS AND PROBLEMS	CASES
1-1 Describe auditing.	P. 8, 1	1-1, 1-9	1-13	1-19	
1-2 Distinguish between auditing and accounting.		1-2			
1-3 Explain the importance of auditing in reducing information risk.		1-3, 1-4	1-13	1-17, 1-18, 1-22	
1-4 List the causes of information risk, and explain how this risk may be reduced.	P. 8, 2	1-5, 1-6		1-18	
1-5 Describe assurance services and distinguish audit services from other assurance and nonassurance services provided by CPAs.		1-7, 1-8, 1-11	1-13, 1-15	1-16, 1-18, 1-22, 1-23, 1-24	
1-6 Differentiate the three main types of audits.	P. 16, 1	1-10, 1-11	1-14, 1-15	1-21	
1-7 Identify the primary types of auditors.	P. 16, 2	1-9, 1-10	1-14	1-20, 1-21	
1-8 Describe the requirements for becoming a CPA.		1-12		1-25	

INFORMATION BEING AUDITED, TYPE OF AUDITOR, CRITERIA, AND NATURE OF EVIDENCE

INFORMA- TION BEING AUDITED	WHO PERFORMS THE AUDIT	CRITERIA TO DETERMINE CORRE- SPONDENCE	NATURE OF EVIDENCE USED
Tax Return of an Individual			
Financial Statements of a Corporation			
Efficiency and Effective- ness of a Computer Installation			

ECONOMIC DEMAND FOR AUDITING



INFORMATION RISK

CAUSES

- **Remoteness of Information**
- **Biases and Motives of Provider**
- **Voluminous Data**
- **Complex Exchange Transactions**

WAYS TO REDUCE

- **User Verifies Information**
- **User Shares Information Risk with Management**
- **Information is Audited**

INFORMATION AND SOURCE OF ASSURANCE

INFORMATION	ASSURER
Example: Number of radio listeners	Arbitron