Auditing And Assurance Services 2026 (Canadian) 1st edition Messier Solutions Manual

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CHAPTER 1
AN INTRODUCTION TO ASSURANCE AND FINANCIAL STATEMENT AUDITING

Answers to Review Questions

1-1 The study of auditing is more conceptual in nature as compared to financial accounting. Rather than focusing on learning the rules, techniques, and computations required to prepare financial statements, auditing emphasizes learning a framework of analytical and logical skills. This framework enables auditors to evaluate the relevance and reliability of the systems and processes responsible for financial information as well as the information itself. To be successful, students must learn the framework and then learn to use logic and common sense in applying auditing concepts to various circumstances and situations. Understanding auditing can improve the decision-making ability of accountants, business managers, consultants, and other business decision makers by providing a framework for evaluating the usefulness and reliability of information and for understanding how users use financial statements—important tasks in many different business contexts.

1-2 There is a demand for auditing in a free-market economy because the agency relationship between an absentee owner (principle) and a manager (agent) produces a natural conflict of interest due to the information asymmetry that exists between these two parties. As a result, the agent agrees to be monitored as part of his/her employment contract. Auditing appears to be a cost-effective and reliable form of monitoring. The empirical evidence suggests that auditing was demanded prior to government regulation. In 1926, before it was required by law, independent auditors audited 82 percent of the companies on the New York Stock Exchange. Additionally, many private companies and municipalities are not subject to government regulations, such as the Securities Act of 1933 and Securities Exchange Act of 1934, also purchase various forms of auditing and assurance services to provide assurance to the users of their financial statements. Furthermore, many private companies seek out financial statement audits to secure financing for their operations as demanded by lenders. Companies preparing to go public also benefit from having an audit to ensure they are ready for subsequent auditing requirements.

1-3 The agency relationship between an owner and manager produces a natural *conflict of interest* because of differences in the two parties' goals and because of the *information asymmetry* that exists between them. That is, the manager likely has different goals than the owner. For instance, the owner is interested in maximizing the company's value, whereas the manager may seek to maximize their remuneration. Generally, the manager has more information about the "true" financial position and results of operations of the entity than the absentee owner does. If both parties seek to maximize their own self-interest, the manager may not act in the best interest of the owner and may manipulate the information provided to the owner accordingly.

1-4 Independence is a bedrock principle (a principle that forms the basis for others) for auditors, it is also a regulatory requirement. If an auditor is not independent of the client, users may

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lose confidence in the auditor's ability to report objectively and truthfully on the client's financial statements, and the auditor's work loses its value and reliability for decision making. From an agency perspective, if the principal (owner) knows that the auditor is not independent, the owner will not trust the auditor's work. Thus, the agent will not hire the auditor because the auditor's report will not be effective in reducing information risk from the perspective of the owner. Alternatively, the owner may hire an auditor whose interests are aligned with their own, thus, reducing the value provided by the audit and potentially cheating management.

1-5 **Auditing** (broadly defined) is a systematic process of (1) objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and (2) communicating the results to interested users.
Attest services occur when a practitioner issues a report on a subject matter, or an assertion about a subject matter, that is the responsibility of another party.
Assurance services are independent professional services that improve the reliability of information, or its context, for decision makers.

1-6 The phrase *systematic process* implies that there should be a well-planned, logical approach for conducting an audit that involves *objectively obtaining and evaluating evidence*. It requires organizing a plan for gathering evidence and documenting steps taken during the audit to evaluate the relevance and reliability and sufficiency of the evidence.

1-7 **Audit risk** is defined as the risk that the auditor fails to appropriately modify their opinion on financial statements that are materially misstated (AS 1101). Discussions about **materiality** note that "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements." (Canadian Auditing Standard 320).

The auditor's standard report states that the audit provides only *reasonable assurance* that the financial statements do not contain material misstatements. The term "reasonable assurance" implies that there is some risk that a material misstatement could be present in the financial statements and the auditor will fail to detect and/or report it.The concept of materiality is reflected in the wording of the auditor's standard audit report through the phrase "the financial statements present fairly *in all material respects*." This is the way the auditor communicates the notion of materiality to the users of the auditor's report.

1-8 The major phases of the audit are:
1. Client acceptance/continuance
2. Preliminary engagement activities
3. Plan the audit
4. Consider and audit internal control
5. Audit business processes and related accounts
6. Complete the audit
7. Evaluate results and issue audit report

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1-9 Plan the audit: During this phase of the audit, the auditor uses knowledge about the client and any controls in place to perform preliminary analytical procedures and plan the audit. The outcome of the planning process is a written audit plan that sets forth the nature, extent, and timing of the audit procedures to be performed in the remaining phases of the audit. The purpose of this phase is to plan an effective and efficient audit that adequately responds to the risks for the particular client.

1-10 The auditor's standard unmodified report for a public company client includes the following sections: (1) opinion on the financial statements, (2) basis for opinion, (3) going concern (4) key audit matters, (5) Other information where applicable (6) Responsibilities of management and those charged with governance for the financial statements, and (7) Auditor's responsibilities for the audit of the financial statements, as illustrated in this chapter.

1-11 The emergence of advanced audit technologies will help remove many of the tedious tasks that are usually performed by junior auditors. Thus, auditors of all positions and experience will be able to spend more time reasoning through fundamental business, accounting, and auditing concepts, and exercising professional judgment. An auditor's knowledge in these advanced audit technologies areas will enable them to provide greater value to clients by identifying new, more effective and efficient ways to collect, analyze, and interpret results. In using audit data analytics, for example, auditors must understand the client and its industry, as well as the fundamentals of accounting and auditing, to ask the right questions in querying the data and in interpreting the results obtained.

1-12 Every client is different and applying auditing concepts in different situations requires logic and common sense, and frequently creativity and innovation. Auditors frequently face situations where no standard audit procedure exists, such as the example from the chapter's conclusion of verifying the inventory of cattle. Such circumstances require that the auditor exercise creativity and innovation when planning and administering audit procedures where little or no guidance or precedent exists.

Answers to Multiple-Choice Questions

1-13	b	**1-19**	a
1-14	b	**1-20**	d
1-15	c	**1-21**	d
1-16	c	**1-22**	d
1-17	c	**1-23**	b
1-18	c		

Solutions to Problems

1-24 There are two major factors that may make an audit necessary for Greenbloom Garden Centers. First, the company may require long-term financing for its expansion into other cities in Ontario. Entities such as banks or insurance companies are likely to be the source

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of the company's debt financing. There is information asymmetry between the lender of funds and the owner of the business, and this asymmetry results in information risk to the lender. For this reason, these entities normally require audited financial statements before lending significant funds and generally require audited financial statements during the time period the debt is outstanding. Even if the business could get funding without an audit, a clean audit report by a reputable auditor might very well reduce the lender's information risk and make the terms of the loan (e.g. interest rate, collateral) more favorable to the owner. Second, as the company grows, the family will lose control over the day-to-day operations of the stores. An audit will be potentially valuable for the company as it can provide additional monitoring activity for the family in controlling the expanded operations of the company.

1-25 **a**. Audit evidence is defined as any evidence that assists the auditor in evaluating financial statement assertions. It consists of the underlying accounting data and any additional information available to the auditor, whether originating from the client or externally.

b. Management makes assertions about the components of the financial statements. For example, an entity's financial statements may contain the line item accounts receivable at $1,750,000. In this instance, management is asserting, among other things, that the receivables exist, the entity has the right to the receivables, and the receivables are properly valued. In short, the assertions are a conceptual tool to help the auditor ensure that they have "covered all the bases." Audit evidence collected and evaluated by the auditor during the audit helps them determine whether management's assertions are being met. If the auditor is comfortable with providing reasonable assurance that all assertions are met for all accounts, they can issue a clean audit report.

c. In searching for and evaluating evidence, the auditor should be concerned with the relevance and reliability of evidence. If the auditor mistakenly relies on evidence that does not relate to the assertion being tested, an incorrect conclusion may be reached about the management assertion. Reliability refers to the ability of evidence to signal the true state of the assertion, i.e., whether it is actually being met or not.

1-26 **a**. The major phases of the audit and their descriptions are:

1. **Client acceptance/continuance.** The auditor decides to accept a new client or to retain an existing client.
2. **Preliminary engagement activities**. This phase involves (1) determining the audit engagement team requirements, (2) ensuring the independence of the audit team and audit firm, and (3) establishing an understanding with the client regarding the services to be performed and the other terms of the engagement.
3. **Plan the audit.** During this phase of the audit, the auditor uses the knowledge of the client to perform preliminary analytical procedures and plan the audit. The purpose of this phase is to plan an effective and efficient audit.
4. **Consider and audit internal control**. The auditor understands and evaluates the client's internal controls to assess the risk that they will not prevent or detect a material misstatement.
5. **Audit business processes and related accounts**. The auditor conducts

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substantive tests, including analytical procedures and tests of details of the account balances, searching for material misstatements.

6. **Complete the audit**. The auditor searches for liabilities and subsequent events and performs a final review of the evidence gathered.
7. **Evaluate results and issue the audit report**. Based on the collection and evaluation of evidence, the auditor issues a report on whether the financial statements are fairly presented.

b. As the book explains, if the auditor designs procedures to test whether the entity's internal control over financial transactions is effective, the auditor can obtain additional indirect information regarding whether the account balances are fairly stated: if controls over financial transactions are effective in preventing and detecting material misstatements, then the transactions will probably be captured and summarized properly, which means in turn that the account balances are likely to be free of material misstatement. While it is indirect, evidence about internal control is often a relatively cost-effective form of audit evidence about the fairness of account balances compared to the direct evidence obtained through the tests of details.

c. Auditors must develop an understanding of an entity's internal control to establish the scope of the audit. However, during this work, the auditor may become aware of weaknesses in the entity's accounting systems. The auditor is required to communicate this information to management. The auditor may also make suggestions on how to correct the weaknesses. The auditor's work on internal control may also have a preventive effect on the behavior of the entity's employees. If the employees know that their work will be audited, they are less likely to commit errors or fraud. Because of the Canadian securities regulators' National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, internal control is a topic that is front-and-center in the accounting profession.

1-27 A search of the homepage of most public companies will include links to their latest financial information. Examining the independent auditor's report and financial statements will allow the student to have a better idea as to how the chapter's information is applied in real companies.

1-28 **Opinion paragraph**: "… the accompanying financial statements present fairly, in all material respects, …" This sentence indicates that the financial statements are a "fair," not exact, representation. Also, the idea of materiality is revisited here, indicating that the audit does not provide assurance that there are no *immaterial* errors in the financial statements.

Solution to Discussion Case

1-29 The memo should cite the following facts:

- There is a historical relationship between accounting and auditing.
- When parties to the agency relationship (contract) do not possess the same amount of information (information asymmetry) there is a natural conflict of interest between the parties. For example, when an owner and manager are negotiating an employment

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contract, the owner may assume that the manager likely will use organizational funds for personal use. Auditing plays an important role in such relationships. The owner and manager will consummate an employment contract only if the manager agrees to be monitored. Auditing can be used to monitor the contract agreed to by the two parties. (As an attorney, Dashawn should be well versed in contract law.)

- Auditing is also used to monitor other types of contracts for which no laws or regulations require an audit, for example, contracts between management and debt holders.
- There is historical evidence of forms of auditing in the early Greek states and in the United Kingdom during the industrial revolution. More relevant evidence is the fact that 82 percent of the NYSE companies were audited prior to the securities acts of 1933 and 1934.
- Additional evidence for the demand for auditing is also provided by the fact that many private companies and municipalities not subject to the securities acts contract for audits.

Solution to Internet Assignment

1-30 There are numerous Internet sites that contain accounting information. Following are some suggested sites:

- Canadian accounting and auditing standards are located at a site called Knotia. This contains the CPA Canada Handbook.
- The Canadian Chartered Professional Accountant (CPA) homepage contains information on the organization's activities. There are also homepages for CPA organizations in provinces and territories.
- The Canadian Federal Office of the Auditor General's (OAG) homepage has information on the OAG's activities and allows users to download OAG reports. Provincial OAG's also have information on provincial OAG activities and reports.
- The Canadian security regulators' website contains all filings by public companies in Canada.
- The Canadian Public Accountability Board (CPAB) oversees audits performed by public accounting firms and provides information on the integrity of financial reporting.
- The AICPA's home page contains extensive information on the organization's activities. For example, it contains the entire report of the Special Committee on Assurance Services.
- The Canadian Academic Accounting Association's home page has numerous links, including professional organizations, accounting journals, and education sites.
- The Association of Certified Fraud Examiners' home page has extensive information on the Association's certification (CFE) program.
- The Institute of Internal Auditors' home page contains detailed information on internal auditing.
- The International Federation of Accountants' website provides detailed information on international accounting and auditing standards.
- The Government Accountability Office's website (formerly the General Accounting

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Office) provides detailed information on the GAO's activities and allows users to obtain copies of GAO reports.

- The SEC's Edgar website contains all filings by public companies with the SEC. It also contains information on other activities by the SEC.
- The PCAOB's website offers detailed information about the PCAOB and the standards it has proposed and established.
- The major public accounting firms and many smaller firms also maintain websites.

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Chapter 1
An Introduction to Assurance and Financial Statement Auditing

Learning Objectives	Review Questions	Multiple-Choice Questions	Problems	Discussion Cases	Internet Assignments
LO 1-1: Understand why studying auditing can be valuable to you whether or not you plan to become an auditor, and why it is different from studying accounting.	1			29	30
LO 1-2: Understand the demand for auditing and be able to explain the desired characteristics of auditors and audit services through an analogy to a house inspector and a house inspection service.	2, 3, 4	13, 14	24, 25	29	
LO 1-3: Understand that auditing is a business					
LO 1-4: Understand the relationships among auditing, attestation, and assurance services.	5	15, 16			
LO 1-5: Know the basic definition of a financial statement audit.	5, 6	13, 14	25		
LO 1-6: Understand three fundamental concepts that underlie financial statement auditing.	7	17, 18	25		
LO 1-7: Be able to understand why on most audit engagements an auditor tests only a sample of transactions that occurred.					
LO 1-8: Be able to describe the basic financial statement auditing process and the phases in which an audit is carried out.	8, 9	17, 19, 20	26		
LO 1-9: Know what an audit report is and understand the nature of an unqualified report.	10	21, 22, 23	27, 28		
LO 1-10: Understand that the way audits are done is changing in exciting ways due to the application of technology, and audit data analytics in particular.	11				
LO 1-11: Understand why auditing demands logic, reasoning, and resourcefulness.	12				30

NOTE: References to auditing standards in the instructor manual follow a similar convention to that followed in

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the text: CPA standards will be referenced by CAS section. For any US standards, references to AICPA standards will be by clarified AU section and PCAOB standards will be referenced by Auditing Standard (AS) number.

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Introduction

Class Introduction and Engagement Strategy
Begin by reviewing class expectations with students. Immediately follow this with a discussion on the *demand for auditing* and its *role in society*. The goal is to spark interest by showing that auditing is not only important but also broadly applicable. Highlight that the principles behind auditing—such as evaluation, verification, and judgment—are valuable in many fields, including consulting and management.

Engaging Example – Auditing Automotive Revenues
Later in the session, present a practical scenario:
"Imagine you are auditing a large automobile manufacturer with $100 billion in reported automobile revenues. The company sold 8 million cars and trucks, each with an invoice in the window and recorded in the computer system. How many invoices would you examine to verify the $100 billion in revenue?"
Encourage discussion. Expect some exaggerated answers (e.g., 400,000 invoices). Then guide students toward the insight that an auditor may not examine any invoices directly. Instead, they might rely on the company's internal controls combined with ratio analysis or other analytical procedures.

Key Teaching Point
This exercise demonstrates that auditing requires significant professional judgment, efficiency in evidence gathering, and the use of common sense. The surprising nature of the answer typically captures students' attention and sets the tone for deeper exploration of auditing concepts.

[LO 1-1] Tips for Learning Auditing

Purpose: Help students understand how auditing differs from accounting and set expectations for the course.

Teaching Approach:

- Spend a few minutes contrasting *accounting* (familiar to students) with *auditing* (new to most).
- Emphasize that auditing is **conceptual**—focused on evaluation, judgment, and assurance—rather than just recording transactions.
- Introduce the idea of an **"auditing tool kit"**:
    - Each topic covered in the course adds a new tool.
    - Tools are applicable beyond auditing (e.g., consulting, management, risk analysis)

[LO 1-2] The Demand for Auditing and Assurance

Purpose: Establish *why* auditing exists and its societal value.

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Teaching Approach:

- Introduce demand drivers:
    - Correct the common misconception that demand exists only due to securities laws.
    - Explain the **agency relationship** and its role in creating the need for independent audits (refer to **Figure 1-1**).
- Link to CPA role:
    - Highlight independence, integrity, and objectivity as core CPA attributes.
- Engagement activity – Role Play (use **Figure 1-1**):
    - One student plays a car seller, another a buyer.
    - Discuss concerns, incentives, and information asymmetry.
    - Tie back to why society needs auditors.

An Assurance Analogy: The Case of the House Inspector

Purpose: Make the principal-agent relationship tangible.

Teaching Approach:

- Compare a **house inspection** to a **financial statement audit**.
- Identify the players, their roles, and relationships (**Table 1-1**).
- Ask students to brainstorm other assurance services and match them to **Table 1-1 characteristics**.

Introducing Management Assertions

Purpose: Build understanding of what companies claim in their financial statements.

Teaching Approach:

- Use **Table 1-2** to guide discussion.
- Example: Cash or inventory—students identify assertions such as *existence*, *accuracy*, *completeness*.
- Distinguish:
    - Assertions about **account balances** vs. **transactions**.
    - Relationship between assertions, evidence, and audit risk.

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- Link back to **Table 1-1** and consider covering Problem 24.

After exploring management's specific assertions, prompt students to consider what *additional* information a prospective investor might seek before making an investment decision. Encourage them to think about factors such as:

- Overall industry and economic conditions
- Quality and track record of management
- Company strategy and competitive position
- Regulatory environment and potential risks

Once students have generated ideas, connect their responses back to the framework in **Table 1-1**. Highlight how these additional considerations align with the characteristics of assurance services and reinforce the auditor's broader role in reducing information risk.

[LO 1-3] Assurance Services as a Business

- Reinforce that auditing is a **business** requiring:
    - Strong communication
    - Leadership skills
    - Technical expertise
- Applicable whether working as an auditor or within an audited organization.

[LO 1-4] Auditing, Attest, and Assurance Services Defined

Teaching Approach:

- **Linking Core Attributes to Service Expansion**
  Explain to students that the historical demand for financial statement audits arose from the profession's core attributes—**independence**, **integrity**, and **competence**. These qualities have built public trust in auditors' work.
- Over time, this trust has led organizations to request a broader range of services beyond traditional financial statement audits. Briefly outline examples of these expanded offerings:
- **Attestation services** – e.g., verifying the accuracy of a company's sustainability report or internal control compliance.
- **Assurance services** – e.g., assessing cybersecurity risk management processes or evaluating customer satisfaction metrics.

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- Use this as a bridge to introduce **Figure 1-2**, showing how auditing, attestation, and assurance services compare in scope and purpose.
- Discuss *A Statement of Basic Auditing Concepts* ASOBAC's definition of auditing, emphasizing:
    - Systematic process.
    - Objectively obtaining and evaluating evidence.
    - Assertions about economic actions and events.
    - Degree of correspondence between those assertions and established criteria.
    - Communicating the results to interested users.
- Show how attest and assurance services are broader, focusing on **improving information quality**.

[LO 1-6] Fundamental Concepts in Conducting a Financial Statement Audit

Purpose: Introduce the three pillars—materiality, audit risk, and evidence—early.

Teaching Approach:

- Use **Figure 1-3** to outline the audit process.
- Explain how **judgments about materiality and audit risk** shape audit procedures.

Once students have a general overview of the audit process (using **Figure 1-3**), introduce the three core concepts that underpin every financial statement audit:

1. **Materiality** – The threshold at which misstatements, individually or in aggregate, could reasonably influence the decisions of users of the financial statements.
2. **Audit Risk** – The risk that the auditor may issue an inappropriate opinion on financial statements that are materially misstated.
3. **Evidence** – The information the auditor gathers to support conclusions, particularly as it relates to management assertions about account balances and transactions.

Briefly outline both the **conceptual** aspects (why each matters) and the **procedural** aspects (how each is applied in practice). Emphasize that these concepts are interconnected—judgments about materiality and audit risk influence the nature, timing, and extent of evidence collected.

Emphasize to students that an auditor's professional judgments regarding **materiality** and **audit risk** directly shape the audit strategy. These judgments determine:

- **Nature** – What types of audit procedures will be performed.

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- **Timing** – When those procedures will be carried out during the audit.
- **Extent** – How much evidence will be collected.

Stress that understanding this relationship early is critical, as it forms the foundation for designing efficient and effective audit procedures throughout the engagement.

[LO 1-7] Sampling: Inferences Based on Limited Observations

- Correct the misconception that auditors examine *all* transactions.
- Introduce **sampling** and its continued relevance despite AI and big data.
- Use inventory count as an example of where sampling remains essential.

Example – Why Sampling Still Matters in Physical Inventory Counts
Even with emerging technologies such as AI and big data analytics allowing auditors to analyze entire transaction populations, certain audit procedures—like physical inventory counts—still require sampling.
For instance, imagine auditing a retail chain with 1,200 stores, each holding thousands of unique inventory items. While the company's perpetual inventory records can be analyzed in full using big data techniques, the auditor must still **physically verify** that recorded items actually exist and are in saleable condition.
It is impractical and costly to count every single item across all locations. Instead, the auditor uses **statistical sampling** to select a representative subset of stores, departments, and specific SKUs for physical inspection. The results from this sample are then projected to the entire inventory population, while also considering the risk of material misstatement.

[LO 1-8] The Audit Process

Teaching Approach:

1. Brainstorm steps students think are involved in an audit.

   Framing the Audit Planning Discussion
   Before outlining the steps of the audit process, explain to students that an auditor's primary objective in planning and conducting an audit is to **limit audit risk**—the risk of unknowingly failing to appropriately modify the audit opinion when the financial statements are materially misstated—to an **acceptable level**.
   Emphasize that effective planning is essential for:

   - Identifying areas of potential material misstatement early.
   - Designing procedures that address those risks efficiently.
   - Ensuring the audit is both effective in detecting material misstatements and efficient in its use of time and resources.

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This sets the stage for why each phase of the audit process is structured the way it is and how professional judgment guides decision-making.

When introducing the audit process, frame it by reminding students that the ultimate goal of an audit is to issue an **opinion** on the fairness of the financial statements.
Ask students: *"If your job is to provide that opinion, what information would you need to gather to support it?"*
Guide the discussion toward a preliminary outline of the major steps in the audit. Capture their ideas on the board, then refine them into a professional sequence such as:

- Obtain an understanding of the company, its business and industry.
- Assess risks the company faces and how it deals with those risks.
- Identify risks that may be likely to lead to material misstatement in the financials.
- Design audit tests to address those risks.
- Carry out audit tests and gather evidence.
- Evaluate the evidence.
- Issue a report.

2. Use **Figure 1-4** to illustrate the seven phases and link each to the textbook chapters.
3. Optionally, cover Problem 26.

[LO 1-9] Evaluate Results and Issue Audit Report

Purpose: Explain the end goal—communicating the audit opinion.

Teaching Approach:

- Use **Exhibit 1-1** to introduce the unqualified ("clean") opinion.
- Briefly outline qualified and adverse opinions, linking to scope limitations and departures from GAAP.
- Mention **Key Audit Matters (KAMs)** as a significant reporting change. This addition represents the first major change to the auditor's report in over 50 years!
- Keep detail minimal at this stage; focus on the big picture.

Note that the text does not discuss a disclaimer of opinion in this chapter, though it is covered later in the text. We also highlight the newly added section of the report relating to key audit matters (KAMs) and the auditor's response to KAMs.

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[LO 1-10] Audit Data Analytics

- Address student concerns about AI replacing auditors.
- Emphasize technology as an **augmenter** of judgment, not a substitute.
- Discuss how mastering core auditing principles is more important in a data-rich environment.

Why Technology Increases (Not Decreases) the Need for Fundamental Knowledge and Judgment
Explain to students that while AI, big data, and advanced analytics can process information faster and more completely than ever before, these tools **do not replace the need for professional skepticism and conceptual understanding**. Instead, they shift the auditor's role toward **interpreting results, identifying anomalies, and making complex judgments**.

- **Examples:**
    - **Interpreting Automated Results** – An AI tool might flag an unusual revenue spike, but it's the auditor's responsibility to determine whether it's due to a legitimate seasonal promotion, an accounting error, or potential fraud.
    - **Evaluating Data Quality** – Big data analysis is only as reliable as the inputs. An auditor must assess whether the underlying data is complete, accurate, and relevant before relying on it.
    - **Assessing Risk in Context** – Technology can identify patterns and exceptions, but it cannot fully evaluate business context, management incentives, or qualitative factors that might increase risk.
    - **Designing Appropriate Procedures** – Even when using entire-population testing, auditors must decide what additional procedures are necessary to address specific risks or control weaknesses.
- **Key Message:**
  Technology enhances efficiency and expands testing capabilities, but **only auditors with strong conceptual foundations** can use it effectively to draw reliable conclusions and form a sound audit opinion.

[LO 1-11] Conclusion

- Reinforce the need for logic, reasoning, innovation, and resourcefulness in auditing.
- Remind students to focus on **understanding concepts** rather than memorizing details.
- End on a motivational note—auditing is a challenging but valuable skill set.

This is a great opportunity to get your students excited about and motivated to work hard studying auditing!

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Discussion Case

Using discussion cases can help the students expand their understanding of the basic topics covered in the chapter. If you want your students to be able to articulate the value of an audit, use **Discussion Case 1-29**.

Internet Assignment

To familiarize your students with Internet sites that have accounting or auditing resources (e.g., CPAB's website), assign **Internet Assignment 1-30**.

Practice Insight

Practice Insights provide real-world integration. Practice Insight scenarios are included in each chapter to highlight important and interesting real-world trends and practices. These self-contained insights or scenarios focus on current events, student decision-making, and professional problem-solving.

Connect Assets

EarthWear Mini-Cases
The Chapter 1 mini-case can be assigned as a stand-alone case and gives students the opportunity to familiarize themselves with the EarthWear Mini-Case website. This is especially useful if you plan to make use of EarthWear mini-cases in subsequent chapters! Students are asked to find several different pieces of information pertaining to EarthWear and its auditor, Willis & Adams, CPAs. Please visit Connect for the EarthWear Mini-Case assignment.

TABLEAU
The Chapter 1 **TABLEAU** problems are an excellent hands-on supplement to the textbook material. Please go to Connect for chapter-specific assignments.

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