

# ABOUT THE AUTHORS

**Al Arens** is PricewaterhouseCoopers Auditing Professor of Accounting at Michigan State University. His primary teaching and research area is auditing and he teaches undergraduate auditing at least one term annually. Al is a past president of the American Accounting Association and a former member of the AICPA Auditing Standards Board. He practiced public accounting with both a local CPA firm and the predecessor firm to Ernst & Young. He has received many awards including the AAA Auditing Section Outstanding Educator award, the AICPA Outstanding Educator award, the national Beta Alpha Psi Professor of the Year award and many teaching and other awards at Michigan State.

**Randy Elder** is an Associate Professor of Accounting at Syracuse University. He teaches undergraduate and graduate auditing courses, and has received several teaching awards. His research focuses on audit quality and current audit firm practices. He has extensive public accounting experience with a large regional CPA firm, and is a Certified Fraud Examiner and member of the AICPA and Michigan Association of CPAs.

**Mark S. Beasley** is a Professor of Accounting at North Carolina State University. He teaches undergraduate and graduate auditing courses, and has received several teaching awards including membership in NC State's Academy of Outstanding Teachers. His research, which focuses primarily on financial statement fraud, audit quality, and corporate governance, received both the American Accounting Association's Competitive Manuscript Award and the Notable Contributions to the Auditing Literature Award. He has extensive professional audit experience with the predecessor firm to Ernst & Young and has extensive standards-setting experience working with the Auditing Standards Board as a Technical Manager in the Audit and Assurance Division of the AICPA. He served on the ASB's Fraud Standard Task Force responsible for developing SAS 99, and serves on the ASB's Antifraud Programs and Controls Task Force and the Advisory Council overseeing COSO's Enterprise Risk Management Framework project.

# THE DEMAND FOR AUDIT AND OTHER ASSURANCE SERVICES

## THE AUDITOR IS A STRATEGIC BUSINESS PARTNER

Joe Anthony, a partner in Berger & Anthony, CPAs stares nervously at his computer screen. He breathes a sigh of relief as he watches the ticker symbol for his client, Hillsburg Hardware, as it begins initial trading as a public company. Five years ago, he would never have guessed that his client would go public, and he is proud of the role that his firm played in the process.

Two years ago, Berger & Anthony performed a strategic analysis of Hillsburg's wholesale distribution business. Based on the analysis, Berger & Anthony recommended that Hillsburg restructure its customer relations and invest heavily in information technology to allow Hillsburg to partner with its customers in inventory management. These investments greatly expanded Hillsburg's revenues and customer base, creating a need for expansion and further capital that was raised in the public offering.

Berger & Anthony had audited the financial statements of Hillsburg Hardware for many years as required by Hillsburg's bank loan agreement. Now, many other investors will rely on the Hillsburg Hardware financial statements audited by Berger & Anthony. Joe Anthony recognizes the responsibility that he has to those investors, and the importance of performing a quality audit.

*Each chapter's opening vignette illustrates important auditing principles based on realistic situations. Some vignettes are based on public information about the audits of real companies, whereas others are fictitious. Any resemblance in the latter vignettes to real firms, companies, or individuals is unintended and purely coincidental.*

## LEARNING OBJECTIVES

*After studying this chapter, you should be able to*

- 1-1 Describe assurance services and distinguish audit services from other assurance and nonassurance services provided by CPAs.
- 1-2 Explain the importance of auditing in reducing information risk.
- 1-3 List the causes of information risk, and explain how this risk may be reduced.
- 1-4 Describe auditing.
- 1-5 Distinguish between auditing and accounting.
- 1-6 Differentiate the three main types of audits.
- 1-7 Explain the strategic systems approach to auditing.
- 1-8 Identify the primary types of auditors.
- 1-9 Describe the requirements for becoming a CPA.
- 1-10 Describe the impact of e-commerce on CPAs.