

Chapter 1

Demand for Audit and Assurance Services

Review Questions

1-1 The relationships among audit services, attestation services and assurance services are reflected in Figure 1.1 of the text. Audit services are a form of attestation service in which the auditor expresses a written conclusion about the degree of correspondence between information and established criteria. An attestation service is a form of assurance service in which the public accounting firm issues a written conclusion about an assertion made by a third party. An assurance service is an independent professional service to improve the quality of information for decision makers.

The most common form of audit service is an audit of historical financial statements in which the auditor expresses an opinion as to whether the financial statements are presented in conformity with accounting standards and other mandatory disclosure requirements. An example of an attestation service is attesting to the information in an entity's projected financial statements, which are often used to obtain financing. There are many possible forms of assurance services, including services related to business performance measurement, health care performance and information system reliability.

1-2 An independent audit is a means of satisfying the need for reliable information on the part of decision makers. Factors of a complex society which contribute to this need are:

1. Remoteness of information
 - a. Owners (shareholders) divorced from management
 - b. Directors not involved in day-to-day operations or decisions

- c. Dispersion of the business among numerous geographic locations and complex corporate structures
- 2. Biases and motives of provider
 - a. Information will be biased in favour of the provider when his or her goals are inconsistent with the decision maker's goals
- 3. Voluminous data
 - a. Possibly millions of transactions processed daily via sophisticated computerised systems
 - b. Multiple product lines
 - c. Multiple transaction locations
- 4. Complex exchange transactions
 - a. New and changing business relationships lead to innovative accounting and reporting problems
 - b. Potential impact of transactions not quantifiable, leading to increased disclosures

1-3

1. *Risk-free interest rate:* This is approximately the rate the bank could earn by investing in government bonds 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.

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

1-4 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 (refer page 11 of the textbook).

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	<ol style="list-style-type: none"> 1. User obtains information desired. 2. User can be more confident of the qualifications and activities of the person getting the information. 	<ol style="list-style-type: none"> 1. High cost of obtaining information. 2. Inconvenience to the person providing the information because a large number of users would be on premises.
USER SHARES INFORMATION RISK WITH MANAGEMENT	<ol style="list-style-type: none"> 1. No audit costs incurred. 	<ol style="list-style-type: none"> 1. User may not be able to collect on losses. For example, if loss is incurred due to the company becoming insolvent, the user may find it difficult to get his or her loss repaid.
AUDITED FINANCIAL STATEMENTS ARE PROVIDED	<ol style="list-style-type: none"> 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. 	<ol style="list-style-type: none"> 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.

1-5 To do an audit, there must be information in a *verifiable form* and some standards (*criteria*) by which the auditor can evaluate the information. Examples of established criteria include accounting standards and the *Income Tax Assessment Act*. 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. The information for Jones Co. Ltd's tax return audit is the income tax returns filed by the company. The established criteria are found in the *Income Tax Assessment Act* and all interpretations (public rulings). For the audit of Jones Co. Ltd's financial statements, the information is the financial statements being audited and the established criteria are accounting standards.

1-6 The primary evidence the tax auditor will use in the audit of Jones Co. Ltd's tax return include all available documentation and other information available in Jones' office or from other sources. For example, when the tax auditor audits taxable income, major sources of information will be bank statements, invoices, the cash receipts journal and deposit slips. The tax auditor is likely to emphasise unrecorded receipts and revenues. For expenses, the major sources of evidence likely to be presented are cheques, vendors' invoices and other supporting documentation.

1-7 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 summarising 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. However, it has become increasingly apparent in recent times that accountants have a greater understanding of the role of the external auditor and acknowledge that the role of the external auditor complements the accounting role rather than conflicting with the accounting role. This allows the accountants to take advantage of the benefits accruing from the undertaking of the auditing function (e.g. gaining a better understanding of the internal control structure of the organisation).

	AUDITS OF FINANCIAL STATEMENTS	COMPLIANCE AUDITS	PERFORMANCE AUDITS
PURPOSE	To determine whether the overall financial statements are presented in accordance with specified criteria (accounting standards)	To determine whether the client is following specific procedures set by higher authority	To evaluate whether operating procedures are efficient and effective
USERS OF AUDIT REPORT	Different groups for different purposes—many outside entities	Authority setting down procedures, internal or external	Management of organisation
NATURE	Highly standardised	Not standardised, but specific and usually objective	Highly non-standard; often subjective
<i>PERFORMED BY:</i>			
PUBLIC ACCOUNTANTS	Almost universally	Occasionally	Frequently
OFFICERS SERVING AUDITOR- GENERAL	Occasionally	Frequently	Frequently
TAX AUDITORS	Never	Universally	Never
INTERNAL AUDITORS	Frequently	Frequently	Frequently

1-9 Five examples of specific performance audits that could be conducted by an internal auditor in a manufacturing company are:

1. Examine computerised employee timesheets and personnel records to determine if sufficient information is available to maximise the effective use of personnel.
2. Review the procedures of sales invoices to determine if they 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.

1-10 The major differences in the scope of audit responsibilities are:

1. Public accountants perform audits in accordance with auditing standards of published financial statements prepared in accordance with accounting standards.
2. Officers serving the Auditor-General perform compliance or performance audits in order to assure the Parliament of the expenditure of public funds in accordance with its directives and the law.
3. Tax auditors perform compliance audits to enforce the Federal tax laws as defined by Parliament, interpreted by the courts and regulated by the Australian Taxation Office.
4. Internal auditors perform compliance or performance audits in order to assure management or the board of directors that controls and policies are properly and consistently developed, applied and evaluated.

1-11 The major characteristics of public accounting firms that permit them to fulfil their social function competently and independently are:

1. *Organisational form:* A public accounting firm exists as a separate entity to avoid an employer–employee relationship with its clients. The public accounting firm employs a professional staff of sufficient size to

prevent one client from constituting a significant portion of total revenue and thereby endangering the firm's independence.

2. *Conduct:* A public accounting firm employs a professional staff of sufficient size to provide a broad range of expertise, continuing education and promotion of a professional independent attitude and competence.
3. *Peer review:* This practice evaluates the performance of public accounting firms in an attempt to keep competence high.

1-12 The professional accounting bodies set professional requirements for their members. These bodies also conduct research and publish materials on many different subjects related to accounting, auditing, management advisory services and taxation. They also prepare and grade their entry examinations and provide continuing education to members.

1-13 *Australian Auditing Standards* establish mandatory requirements and provide explanatory guidance to auditors in fulfilling their professional responsibilities in the audit of financial reports. The standards apply in addition to ethical and legal requirements relevant to a particular engagement. Examples may be any of the ASAs. *Australian accounting standards* are specific rules for accounting for transactions occurring in a business organisation. Examples may be any of the AASBs. Auditing standards have the 'force of law' under the *Corporations Act 2001*. Section 307A of the Act requires auditors to conduct audits and reviews of the financial reports prepared under Part 2M.3 of the Act, in accordance with auditing standards.

1-14 An audit in accordance with ASAs provides *reasonable assurance*, and not a *guarantee*, that the financial report is free from material misstatement. What is 'reasonable' depends on the circumstances. An audit involves application of professional judgment in planning the audit, the selection of audit procedures and the conclusions drawn. Audits also have inherent limitations, including the use of samples rather than tests of complete populations, the limitations of internal control structures, the possibility of collusion and the fact that most evidence is persuasive rather than conclusive.

1-15 For the most part, auditing standards are general rather than specific. Many practitioners along with critics of the profession believe the standards should provide more clearly defined guidelines as an aid in determining the extent of

evidence to be accumulated. This would eliminate some of the difficult audit decisions and provide a source of defence if the auditor is charged with conducting an inadequate audit. On the other hand, highly specific requirements could turn auditing into mechanistic evidence gathering, void of professional judgment. From the point of view of both the profession and the users of auditing services, there is probably a greater harm from defining authoritative guidelines too specifically than too broadly.

Auditing standards take a '*substance over form approach*' consistent with the approach taken in the Accounting Standards framework. This allows the auditor to have greater control over the auditing of financial information. The imposition of specific rules governing specific situations would give rise to a need for a greater volume of changes and updates in the Auditing Standards to ensure the Auditing Standards adequately cover situations prevailing in the financial reports. An example of this is the rules-based approach required for assessing taxation and the subsequent voluminous level of taxation rulings and taxation determinations published.

1-16 Quality controls are established by individual public accounting firms to help ensure that their firm meets its professional responsibilities to clients. Quality controls are the procedures used by a firm that help it meet auditing standards consistently on every engagement. Quality controls are therefore established for the entire firm as opposed to individual engagements.

1-17 The element of quality control is *human resources—assignment of engagement teams*. The purpose of the requirement is to help assure public accounting firms that all new personnel should be qualified to perform their work competently. A firm must have competent employees conducting the audits if quality audits are to result.

1-18 A peer review is a review, by public accountants, of a public accounting firm's compliance with its quality control procedure system. A mandatory peer review means that such a review is required periodically by the relevant professional accounting body.

Peer reviews can be beneficial to the profession and to individual firms. By helping firms meet quality control standards, the profession gains if reviews result in practitioners doing higher quality audits. A firm having a peer review can also gain if it improves the firm's practices and thereby enhances its reputation and

effectiveness, and reduces the likelihood of law suits. Of course, peer reviews are costly. There is always a trade-off between cost and benefits. A public accounting firm also gives up some independence of activities when it is reviewed by another firm. The peer review is an effort at self-regulation. Its long-term success cannot yet be evaluated.

1-19 The role of the *Corporations Act 2001* is to ensure that investors are provided with adequate reliable information upon which to make investment decisions. It has considerable authority in setting and enforcing disclosure and auditing requirements, as well as the qualifications, appointments, removal, powers and duties of auditors. Auditors are required to report failures to comply with accounting and other statutory requirements.

It is important for public accountants to be knowledgeable about e-commerce technologies because more of their clients are rapidly expanding their use of e-commerce. Examples of commonly used e-commerce technologies include purchases and sales of goods through the Internet, automatic inventory reordering via direct connection to inventory suppliers, and online banking. Public accountants who perform audits or provide other assurance services about information generated with these technologies need a basic knowledge and understanding of information technology and e-commerce in order to identify and respond to risks in the financial and other information generated by these technologies.

1-20 Information technology forms the foundation of many accounting information systems. The increased relevance of e-commerce has created unique issues relating to the financial information associated with e-commerce transactions and has affected the information systems used in modern organisations. Mobile computing is changing the way public accountants engage with their clients and other professionals, and with this in mind it is important to acknowledge the impact and influence of e-commerce on the reporting function. Public accountants need to understand how key technologies are transforming all aspects of business and the information being generated in an organisation. E-commerce technologies may give rise to potential information risk, further raising the importance of understanding the impact of e-commerce in a business environment.

Multiple Choice Questions

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|-------------|--------|--------|--------|--------|
| 1-21 | a. (3) | b. (2) | c. (2) | d. (3) |
| 1-22 | a. (2) | b. (3) | c. (4) | d. (3) |
| 1-23 | a. (3) | b. (2) | c. (4) | d. (2) |

Discussion Questions and Problems

1-24 a. The relationships among audit services, attestation services and assurance services are reflected in Figure 1.1 of the text. 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. (1) Audit of historical financial statements
 - 2. (2) An attestation service other than an audit service; or
 - (3) An assurance service that is not an attestation service (*WebTrust* developed from the AICPA Special Committee on Assurance Services, but the service meets the criteria for an attestation service.)
 - 3. (2) An attestation service other than an audit service
 - 4. (2) An attestation service other than an audit service
 - 5. (3) An assurance service that is not an attestation service
 - 6. (2) An attestation service other than an audit service (Review services are a form of attestation but are performed according to ASRE 2410.)
 - 7. (2) An attestation service other than an audit service
 - 8. (3) An assurance service that is not an attestation service

1-25 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, Vial-tek should select the loan from Westpac 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	SERVICE	COST OF SERVICES	ANNUAL INTEREST	ANNUAL LOAN COST
Existing loan	None	0	\$142 500	\$142 500
National Aust Bank	Review	\$12 000	\$127 500	\$139 500
Westpac	Audit	\$20 000	\$112 500	\$132 500

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

LENDER	SERVICE	COST OF SERVICES	ANNUAL INTEREST	ANNUAL LOAN COST
Existing loan	None	0	\$142 500	\$142 500
National Aust Bank	Review	\$12 000	\$120 000	\$132 000
Westpac	Audit	\$25 000	\$112 500	\$137 500

- d. Vial-tek may desire to have an audit because of the many other positive benefits that an audit provides. The audit will provide Vial-tek'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 effectiveness of controls. In addition, the audit may result in recommendations to management that will improve efficiency or effectiveness.

- 1-26** a. The services provided by Consumers Union are very similar to assurance services provided by public accounting firms. The services provided by Consumers Union and assurance services provided by public accounting firms are designed to improve the quality of information for decision makers. Public accountants 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 a motor vehicle 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 a motor vehicle 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 a motor vehicle and a user of financial statements:
 - (1) *Remoteness of information*: It is difficult for a user to obtain much information about either a motor vehicle manufacturer or the vehicle itself without incurring considerable cost. The motor vehicle buyer does have the advantage of possibly knowing other users who are satisfied or dissatisfied with a similar vehicle.
 - (2) *Biases and motives of provider*: There is a conflict between the motor vehicle buyer and the manufacturer. The buyer wants to buy a high-quality product at minimum cost whereas the seller wants to maximise the selling price and quantity sold.
 - (3) *Voluminous data*: There is a large amount of available information about motor vehicles that users might like to have in order to evaluate a vehicle. Either that information is not available or is too costly to obtain.
 - (4) *Complex exchange transactions*: The acquisition of a motor vehicle is expensive and certainly a complex decision because of all the components that go into making a good motor vehicle and choosing between a large number of alternatives.
- d. The three ways users of financial statements and buyers of motor vehicles reduce information risk are also similar:
 - (1) *User verifies information him or herself*: That can be obtained by driving different vehicles, examining their specifications, 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 a motor vehicle can

return the vehicle 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 public accounting firm that audited financial statements.

1-27 a. The following parts of the definition of auditing are related to the narrative:

- (1) Virms 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 Virms: existence of the trucks on the night of 30 June 20X1, ownership of each truck by Regional Delivery Service, physical condition of each truck and fair market value of each truck.
- (3) Susan Virms will *accumulate* and *evaluate* four types of *evidence*:
 - (a) Count the trucks to determine their existence.
 - (b) Use registration documents held by Owens 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.
- (4) Susan Virms, public accountant, appears qualified, as a *competent, independent person*. She is a CPA, and she spends most of her time auditing used motor vehicles and truck dealerships and has extensive specialised knowledge about used trucks that is consistent with the nature of the engagement.
- (5) The *report results* are to include:
 - (a) Which of the 35 trucks are parked in Regional's parking lot the night of 30 June.
 - (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 which will be difficult for Virms 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.

- 1-28** a. The major advantages and disadvantages of a career as a tax auditor, public accountant, officer serving the Auditor-General or internal auditor are:

EMPLOYMENT	ADVANTAGES	DISADVANTAGES
TAX AUDITOR	<ol style="list-style-type: none"> 1. Extensive training in individual, corporate, GST and other taxes is available with concentration in area chosen. 2. Hands-on experience with sophisticated selection techniques. 	<ol style="list-style-type: none"> 1. Experience limited to taxes. 2. No experience with performance or financial statement auditing. 3. Training is not extensive with any business enterprise.
PUBLIC ACCOUNTANT	<ol style="list-style-type: none"> 1. Extensive training in audit of financial statements, compliance auditing and performance 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 specialise in a specific industry. 	<ol style="list-style-type: none"> 1. Exposure to taxes and to the business enterprise may not be as in-depth as the tax auditor or the internal auditor. 2. Likely to be less exposed to performance auditing than is likely for internal auditors.
OFFICER SERVING AUDITOR-GENERAL	<ol style="list-style-type: none"> 1. Increasing opportunity for experience in performance auditing. 2. Exposure to highly sophisticated statistical sampling and computer auditing techniques. 	<ol style="list-style-type: none"> 1. Little exposure to diversity of enterprises and industries. 2. Bureaucracy of Federal Government.

INTERNAL AUDITOR	<ol style="list-style-type: none"> 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 performance auditing. 	<ol style="list-style-type: none"> 1. Little exposure to taxation and the audit thereof. 2. Experience is limited to one enterprise, usually within one or a limited number of industries.
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b. Other auditing careers that are available are:

- Auditors within many of the branches of the Federal Government (e.g. Department of Defence)
- Auditors for many State and local government units (e.g. State Main Roads Department)

1-29 The most likely type of auditor and the type of audit for each of the examples are:

EXAMPLE	TYPE OF AUDITOR	TYPE OF AUDIT
1.	Tax auditor	Compliance
2.	Auditor-General	Performance
3.	Internal auditor or public accountant	Performance
4.	Public accountant or internal auditor	Financial statements
5.	Auditor-General	Performance
6.	Public accountant	Financial statements
7.	Auditor-General	Financial statements
8.	Tax auditor	Compliance
9.	Public accountant	Financial statements
10.	Internal auditor or public accountant	Compliance
11.	Internal auditor or public accountant	Financial statements
12.	Auditor-General	Compliance

- 1-30**
- a. The conglomerate should engage either the management advisory services division of a public accounting firm or its own internal auditors to conduct the performance audit.
 - b. The auditors will encounter problems in planning the audit, identifying suitable criteria for evaluating the activities to be audited and determining what should constitute sufficient appropriate audit evidence. The auditor should refer to ASAE3500 (Performance Engagements) for guidance. In writing the report, the auditors must use proper wording in accordance with ASAE3500 (Performance Engagements).

1-31 The comments on the problem do summarise the beliefs of many practitioners about quality control and peer review. The arguments against quality control and peer review are stated in the comments and can be summarised as five basic arguments:

1. Relative cost for local firms is excessively high.
2. Smaller firms have less need for quality control because of partner involvement.
3. Quality control regulations eliminate the major competitive advantage of local firms, which is a simple and efficient organisational structure.
4. Quality control standards are not needed because they have already been implemented by quality firms.
5. Three other things already provide assurance of adequate quality: auditing standards, legal liability and a competitive economic environment.

a. To support these comments it can be argued that the profession has functioned well with relatively little controversy and criticism. A major reason many practitioners choose the profession is the relative freedom to operate their professional practice as they see fit.

The arguments against these comments are primarily as follows:

1. Certain critics of the profession have argued strongly against self-regulation of the profession. Many public accountants believe that only through self-regulation will it be possible to minimise government interference. Even if the elements of quality control are in existence, the quality control and peer review requirements may be necessary to avoid government interference.
 2. For those firms that already meet the elements of quality control in their practice, the additional implementation costs should be minimal. Those lacking such elements will incur more cost, but presumably are lacking in certain elements needed for a high-quality practice.
 3. Partner involvement on engagements does not necessarily assure that all quality control requirements have been met. For some smaller firms, top partners may spend relatively little time on audits and therefore not be as knowledgeable about auditing as may be necessary.
- b. There is no correct answer to this question. Different people reach different conclusions, depending on the weights put on each of these arguments stated in part a. for and against quality controls and peer

reviews. The authors believe that both quality control and peer review are worth the cost.

- 1-32**
- a. Assignment of engagement teams
 - b. Assignment of engagement teams
 - c. Assignment of engagement teams
 - d. Leadership responsibilities; engagement performance
 - e. Ethical requirements
 - f. Monitoring
 - g. Client acceptance and continuance
 - h. Assignment of engagement teams
 - i. Monitoring

1-33

AUDITING STANDARDS	ACTIONS OF HARRIS RESULTING IN FAILURE TO COMPLY
1. ASA 220	There is a lack of professional independence. Because of the financial interest in whether the bank loan is granted, Harris is independent neither in fact nor appearance with respect to this assignment.
2. ASA 210	No reference to an audit engagement letter.
3. ASA 220	It was inappropriate for Harris to hire the two students to conduct the audit. Audit assistants may help in the conduct of the audit provided that there is proper supervision and review.
4. ASA 220	Harris did not properly supervise nor review the work and judgments of the assistants.
5. ASA 230	There was no documentation of the audit plan, audit procedures and the results of the work conducted.
6. ASA 300	Harris accepted the engagement without considering the availability of competent staff. Knowledge of the client's business was not obtained. The audit was not adequately planned and supervised.

7. ASA 315	Harris did not assess risk nor obtain an understanding of the internal control structure. No audit has been conducted. The work performed was more an accounting service than an audit.
8. ASA 500	Harris acquired no evidence to support the financial statements. Harris merely checked the mathematical accuracy of the records and summarised the accounts. Standard audit procedures linked to audit objectives were not performed.
9. ASA 700	<p>Harris' report made no reference to accounting standards. Because a proper audit was not conducted, the report should state that no opinion can be expressed as to the fair presentation of the financial statements in accordance with accounting standards. No reference was made to the <i>Corporations Act 2001</i>.</p> <p>By not properly planning and conducting the audit, Harris did not obtain a proper understanding of the client and could not assess consistency of the financial statements with such knowledge.</p>

- 1-34** a. The public accounting firm for the Internet retailer described in this problem could address these customer concerns by performing a *WebTrust* attestation engagement. The *WebTrust* assurance service was created by the profession to respond to the growing need for assurance resulting from the growth of business transacted over the Internet.
- b. The appropriate *WebTrust* principle for each of the customer concerns noted in the problem is as follows:
1. Accuracy of product descriptions and adherence to stated return policies: (3) Processing Integrity.
 2. Credit card and other personal information: (1) Online Privacy and (2) Security.
 3. Selling information to other companies: (1) Online Privacy and (2) Security.
 4. System failure: (4) Availability.