CHAPTER 1

# INTRODUCTION AND OVERVIEW OF AUDITING

### SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **LO** | **Item** | **LO** | **Item** | **LO** | **Item** | **LO** | **Item** | **LO** | **Item** | **LO** | **Item** | **LO** |
| **True-False Statements** | | | | | | | | | | | | | |
| 1. | 3 | 4. | 2 | 7. | 2 | 10. | 2 | 13. | 8 |  |  |  |  |
| 2. | 4 | 5. | 4 | 8. | 3 | 11. | 6 |  |  |  |  |  |  |
| 3. | 2 | 6. | 2 | 9. | 3 | 12. | 6 |  |  |  |  |  |  |
| **Multiple Choice Questions** | | | | | | | | | | | | | |
| 14. | 1 | 19. | 3 | 24. | 6 | 29. | 3 | 34. | 5 | 39. | 6 |  |  |
| 15. | 2 | 20. | 3 | 25. | 1 | 30. | 3 | 35. | 5 | 40. | 6 |  |  |
| 16. | 2 | 21. | 4 | 26. | 2 | 31. | 4 | 36. | 5 | 41. | 6 |  |  |
| 17. | 2 | 22. | 5 | 27. | 2 | 32. | 4 | 37. | 5 | 42. | 8 |  |  |
| 18. | 3 | 23. | 5 | 28. | 3 | 33. | 4 | 38. | 6 | 43. | 8 |  |  |
| **Short Answer Questions** | | | | | | | | | | | | | |
| 44. | 1,2,3,4,5 | 45. | 2 | 46. | 3 | 47. | 4 | 48. | 6 | 49. | 8 |  |  |
| **Essay Questions** | | | | | | | | | | | | | |
| 50. | 2,5 |  |  |  |  |  |  |  |  |  |  |  |  |

**SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Type** | **Item** | **Type** | **Item** | **Type** | **Item** | **Type** | **Item** | **Type** | **Item** | **Type** | **Item** | **Type** |
| **Learning Objective 1** | | | | | | | | | | | | | |
| 25. | MC | 44. | SA |  |  |  |  |  |  |  |  |  |  |
| **Learning Objective 2** | | | | | | | | | | | | | |
| 3. | TF | 6. | TF | 10. | TF | 16. | MC | 26. | MC | 44. | SA | 50. | Ca |
| 4. | TF | 7. | TF | 15. | MC | 17. | MC | 27. | MC | 45. | SA |  |  |
| **Learning Objective 3** | | | | | | | | | | | | | |
| 1. | TF | 9. | TF | 19. | MC | 28. | MC | 30. | MC | 46. | SA |  |  |
| 8. | TF | 18. | MC | 20. | MC | 29. | MC | 44. | SA |  |  |  |  |
| **Learning Objective 4** | | | | | | | | | | | | | |
| 2. | TF | 21. | MC | 32. | MC | 44. | SA |  |  |  |  |  |  |
| 5. | TF | 31. | MC | 33. | MC | 47. | SA |  |  |  |  |  |  |
| **Learning Objective 5** | | | | | | | | | | | | | |
| 22. | MC | 34. | MC | 36. | MC | 44. | SA |  |  |  |  |  |  |
| 23. | MC | 35. | MC | 37. | MC | 50. | Ca |  |  |  |  |  |  |
| **Learning Objective 6** | | | | | | | | | | | | | |
| 11. | TF | 24. | MC | 39. | MC | 41. | MC |  |  |  |  |  |  |
| 12. | TF | 38. | MC | 40. | MC | 48. | SA |  |  |  |  |  |  |
| **Learning Objective 7** | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Learning Objective 8** | | | | | | | | | | | | | |
| 13. | TF | 42. | MC | 43. | MC | 49. | SA |  |  |  |  |  |  |

Note: TF = True-False SA = Short Answer Es = Essay

MC = Multiple Choice Ca = Case

**CHAPTER STUDY OBJECTIVES**

1. **Define an assurance engagement.**

An assurance engagement involves an assurance provider arriving at an opinion about some information being provided by their client to a third party. A financial statement audit is one type of assurance engagement. This engagement involves an auditor arriving at an opinion about the fair presentation of the financial statements. The audit report is addressed to the shareholders of the company being audited, but other users may read the financial statements. Learning about auditing and assurance requires an understanding of auditing and assurance terminology, including terms such as audit risk, materiality, internal controls, listed entity, and assertions.

2. **Differentiate between types of assurance services.**

Assurance services include financial statements audits, compliance audits, performance audits, comprehensive audits, internal audits, and assurance on corporate social responsibility (CSR) disclosures.

3. **Explain the different levels of assurance.**

The different levels of assurance include reasonable assurance, which is the highest level of assurance, moderate assurance, and no assurance. Reasonable assurance is provided on an audit of a company’s financial statements. Moderate assurance is provided on a review of a company’s financial statements that provides negative assurance. No assurance is provided in a compilation engagement.

4. **Outline different audit opinions.**

An auditor can issue an unmodified and unqualified opinion, also known as a clean report, an unqualified opinion with an emphasis of matter opinion, or a modified and qualified opinion, which is issued when the financial statements contain a material (significant) misstatement (error or fraud).

5. **Differentiate between the roles of the preparer and the auditor, and discuss the different firms that provide assurance services.**

It is the responsibility of a company’s governing body to ensure that their financial statements are relevant, reliable, comparable, understandable, and true and fair. It is the responsibility of the auditor to form an opinion on the fair presentation of the financial statements. In doing so the auditor must maintain professional scepticism and utilize professional judgement and due care. The firms that provide assurance services include the Big-4 international firms, the national firms (with international links), local and regional firms, and consulting firms that tend to specialize in assurance of CSR and environmental disclosures.

6. **Explain why there is a demand for audit and assurance services.**

Financial statement users include investors (shareholders), suppliers, customers, lenders, employees, governments, and the general public. These groups of users demand audited financial statements because of their remoteness from the entity, accounting complexity, their incentives competing with those of the entity’s managers, and their need for reliable information on which to base decisions. The theories used to describe the demand for audit and assurance services are agency theory, the information hypothesis, and the insurance hypothesis.

7. **Identify the different regulators, legislation, and regulations surrounding the assurance process.**

Regulators of the assurance process include the Auditing and Assurance Standards Oversight Council (AASOC), the Auditing and Assurance Standards Board (AASB), the Canadian Business Corporations Act (CBCA), Canadian Securities Administrators (CSA) and the various provincial securities commissions, and the Canadian Public Accountability Board (CPAB). Relevant legislation includes the Canadian Business Corporations Act (CBCA). The three organizations responsible for accounting designations in Canada are the Canadian Institute of Chartered Accountants (CICA), the Certified General Accountants of Canada (CGA-Canada), and the Society of Management Accountants of Canada (CMA Canada).

8. **Describe the audit expectation gap.**

The audit expectation gap occurs when there is a difference between the expectations of assurance providers and financial statement or other users. The gap occurs when user beliefs do not align with what an auditor has actually done.

**TRUE-FALSE STATEMENTS**

1. An auditor can provide a reasonable level of assurance on information other than historical financial information.

2. A negative expression of opinion is only given when there is a disagreement with management and the auditor.

3. A compliance audit involves gathering evidence to ascertain whether the person or entity under review has followed the rules, policies, procedures, laws and regulations with which they must conform

4. An operational audit is an example of a compliance audit.

5. All modified audit reports are qualified audit opinions.

6. The most common types of assurance engagements are financial statement audits, confirmation audits, performance audits, comprehensive audits and assurance on corporate social responsibility (CSR) disclosures.

7. The nature of audit procedures refers to the reliance on evidence provided by the client and its management.

8. A reasonable level of assurance is the highest level of assurance that an auditor can provide.

9. A no assurance engagement is of little use as no assurance is given to the client.

10. It is the auditor’s responsibility to prepare the financial statements.

11. Only current investors (not potential investors) are considered to be users of the financial statements.

12. Insurance hypothesis is a means whereby the investor can guarantee the success of their investment.

13. The expectation gap is caused by unrealistic user expectations such as the auditor providing a moderate level of assurance.

#### ANSWERS TO TRUE-FALSE STATEMENTS

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| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 1. | T | 3. | T | 5. | F | 7. | T | 9. | F | 11. | F | 13. | F |
| 2. | F | 4. | F | 6. | F | 8. | T | 10. | F | 12. | F |  |  |

**MULTIPLE CHOICE QUESTIONS**

14. Mary Moras was reviewing the previous year’s audited financial statements of a clothing manufacturer. Her manager explained to her that for a financial statement audit, the clothing company was the accountable party, its shareholders were the users, and the subject matter was the financial statements. What kind of audit engagement was her manager describing?

a. consulting engagement

b. assurance engagement

c. review engagement

d. compliance engagement

15. Vera Sobczyk spent a week at a client’s wholesale operation determining whether the client’s remittances to the tax authorities were in accordance with tax regulations. This is an example of a(n)

a. taxes payable mandate

b. financial audit

c. operational audit

d. none of these

16. Ming Yao reviewed the operations of a basketball academy. His objectives were to determine how effectively the academy delivered its many programs. What kind of an audit did he perform?

a. operational

b. compliance

c. financial

d. comprehensive

17. Matt Fuller reports to the board and evaluates how the company can improve risk management practices, internal control procedures, and certain governance issues. Who is he?

a. President

b. Controller

c. Treasurer

d. Internal Auditor

18. Matt Stairs performed work for a client in the real estate business and issued a Notice to Reader. What degree of assurance does a Notice to Reader provide to the user of the statements?

a. reasonable assurance

b. moderate assurance

c. no assurance

d. none of the above

19. Theodore Heinrich prepared a set of financial statements based on information provided to him. He checked mathematical accuracy of the data, and the client complimented him on the reasonable cost of the work he performed. Theodore performed

a. a compilation

b. a review

c. an audit

d. none of the above

20. James Brown, the senior auditor at *Yanzhou* Coal Mining and Minerals, performed the following tasks: he used analytical procedures and he had discussions with management. These activities were a basis for a negative form of opinion. What did James Brown perform?

a. a qualified report

b. an unmodified opinion

c. a compilation

d. a review engagement

21. Maggie Oh performed an audit of a client that had undergone flooding to its operations in St*-*Jean Sur Richelieu*.* The client was insured and was able to keep operating. However, there was material damage to the client’s warehouse and Maggie felt it would be appropriate to inform the users of the financial statements of this fact in the audit report. This form of audit report is called:

a. an adverse opinion

b. unmodified opinion – emphasis of matter

c. modified opinion

d. disclaimer of opinion

22. Mary Logan was careful to undertake her audits in a most responsible manner. Her audit manager complimented her on her diligence and how well she documented her work at the different stages of the audit process. Which element of responsibility did she display?

a. due care

b. professional judgment

c. professional scepticism

d. none of these

23. Larry Dibitonto is a partner in his firm and runs management consulting, mergers and acquisitions, insolvency, tax, and accounting services. How are these services referred to collectively?

a. audit

b. non-assurance services

c. reviews

d. none of the above

24. While awaiting a meeting in his firm’s boardroom, the senior partner, Bill Goldsworthy, read the following statement in an article in the Globe & Mail: “The greater the perceived quality of the information contained in the financial statements, the more likely it will be relied upon by the users of that information.” This statement best describes

a. the expectations gap

b. agency theory

c. information hypothesis

d. insurance hypothesis

25. An example of the three parties in an assurance engagement would be:

a. audit client, employee, customer

b. audit client, supplier, auditor

c. auditor, shareholder, general public

d. auditor, general public, employees.

26. A limitation of an audit is caused by:

a. the nature of financial reporting

b. the nature of audit procedures

c. the need for the audit to be conducted within a reasonable period of time and at a reasonable cost

d. all of the above.

27. Which of the following is NOT true about Corporate Social Responsibility assurance?

a. reporting is voluntary and is becoming more widespread.

b. includes both financial and non-financial information.

c. is required to be performed by an auditor.

d. disclosures include environmental, employee and social reporting.

28. Which of the following would be an example of a reasonable assurance engagement?

a. the review of annual financial statements.

b. the audit of annual financial statements.

c. the reporting of procedures performed by the auditor as agreed by the client.

d. all of the above.

29. The wording of a negative expression of opinion generally states that:

a. there is nothing wrong with the subject matter.

b. there is something wrong with the subject matter.

c. there is nothing that has come to the attention of the auditors that would lead them to believe that the information being assured is not true and fair.

d. there is something that has come to the attention of the auditors that would lead them to believe that the information being assured is not true and fair.

30. In a review engagement, which of the following is least likely to occur during the engagement?

a. analytical procedures

b. enquiries with management and other personnel

c. substantive audit procedures

d. review of the internal controls of the entity.

31. An example of an unmodified audit opinion is:

a. qualified audit opinion

b. adverse audit opinion

c. unqualified audit opinion with an emphasis of matter.

d. none of the above.

32. Which of the following is not a type of opinion?

a. qualified opinion

b. modified opinion

c. adverse opinion

d. disclaimer of opinion

33. The following can be said about an emphasis of matter:

a. it is included when the auditor’s opinion has changed and the auditor wants to bring the users’ attention to a particular matter.

b. it is only used in unqualified audit opinions.

c. it is included when the auditor’s opinion has not changed and the auditor wants to bring the users’ attention to a particular matter.

d. it can not be used when expressing audit opinion that has pervasive misstatements.

34. In addition to the preparation of financial statements, it is also the responsibility of those charged with governance to:

a. identify the financial reporting framework to be used in the preparation and presentation of their financial statements.

b. establish and maintain internal controls that are effective in preventing and detecting material misstatements

c. selecting and applying appropriate accounting policies and making reasonable accounting estimates

d. all of the above.

35. Which of the following is not true in relation to comparability:

a. able to identify trends, that may influence their perception of how well the entity is doing.

b. able to assess performance of the entity over time and with other entities

c. able to evaluate

d. all of the above are correct.

36. Professional scepticism does not involve:

a. the professional requirement that all management representations be substantiated with supporting documentation.

b. seeking independent evidence to corroborate information provided by their client

c. being suspicious when evidence contradicts documents held by their client or enquiries made of client personnel

d. none of the above.

37. The largest accounting firms in Canada are known collectively as the

a. ‘Big-3’

b. ‘Big-4’

c. ‘Big-5’

d. ‘Big-6’

38.As users of the financial statements, suppliers would least consider which of the following aspects of the financial statements:

a. solvency of the entity

b. profitability of the entity

c. return on investment of the entity

d. corporate social responsibility of the entity

39. Which of the following is incorrect? A government can be considered to be a user of the general purpose financial statements because:

a. it is the basis for the calculation of taxes owed to the government

b. it can determine whether certain regulations have been complied with

c. to gain a better understanding of the entity’s activities

d. governments need to assess the entity so that they can provide the entity with grants that will benefit society.

40. Agency theory can be described as the theory of:

a. hiring an agency to review the work of the management, in this case it is the auditor.

b. when the finance function is outsourced to an outside party, and the auditor is required to audit the outside party’s work.

c. the relationship between the owner and the management of the business when the owner is not the manager of the business.

d. none of the above.

41. Insurance hypothesis tells us that:

a. investors will demand that financial statements be audited as a way of insuring against some of their loss should their investment fail.

b. investors can insure themselves against loss by investing in a diverse investment portfolio should an individual investment fail.

c. investors cannot insure themselves against loss when investing in an entity.

d. the entity can take out insurance to protect itself from such risks as employee or management fraud which can lead to material misstatements in the financial statements.

42. The expectation gap is caused by:

a. realistic auditor expectations

b. unrealistic user expectations

c. realistic user expectations

d. unrealistic auditor expectations

43. The expectation gap can be reduced by:

a. auditors performing their duties properly

b. enhanced reporting to explain what processes have been followed in arriving at an audit or a review opinion

c. assurance providers reporting accurately the level of assurance being provided

d. all of the above.

#### ANSWERS TO MULTIPLE CHOICE QUESTIONS

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| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 14. | b | 19. | a | 24. | c | 29. | c | 34. | d | 39. | a |  |  |
| 15. | d | 20. | d | 25. | b | 30. | c | 35. | d | 40. | c |  |  |
| 16. | a | 21. | b | 26. | d | 31. | c | 36. | a | 41. | a |  |  |
| 17. | d | 22. | a | 27. | c | 32. | b | 37. | b | 42. | b |  |  |
| 18. | c | 23. | b | 28. | b | 33. | c | 38. | c | 43. | d |  |  |

**SHORT ANSWER QUESTIONS**

**S-A 44**

Indicate whether you agree or disagree with the following statements and explain your reasoning.

a) Rejean Tremblay feels that an internal auditor that reports to the chief financial officer of the company can be as independent as an auditor that reports to the audit committee.

b) Angela Pelletier discovered a very material overstatement in the financial statements of McKenzie Growth. She felt that the misstatement would have an impact on the decisions of users of the financial statements, and indicated to her audit senior that she would be including it as an “emphasis of matter” paragraph in the audit report.

c) An auditor is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

d) An assurance engagement involves evaluation or measurement of subject matter against criteria.

**Solution:**

a) Disagree. The internal auditor’s independence is protected best when they report to the highest level of governance, usually the Audit Committee of the Board or to the President of the company.

b) Disagree. The pervasiveness of the material misstatement will require an adverse opinion. In this case, the misstatements affect the financial statements materially and will require disclosures that are vital to a user’s understanding of the financial statements. When statements are pervasively and materially misstated, an adverse opinion is appropriate.

c) Disagree. The above statement describes management’s responsibilities. An auditor has the responsibility to express an opinion on financial statements based on an audit.

d) Agree. An assurance engagement is an engagement where a practitioner issues a written report and concludes on a subject matter for which the accountable party is responsible. Therefore, a prerequisite for an assurance engagement is the existence of an accountability relationship, where one party is answerable to another for the subject matter.

**S-A 45**

The main assurance service the general public are familiar with are financial statement audits. Briefly describe the other services that an auditor can provide.

**Solution:**

A compliance audit involves gathering evidence to ascertain whether the person or entity under review has followed the rules, policies, procedures, laws and regulations with which they must conform.  
Performance audits are concerned with the economy, efficiency and effectiveness of an organization’s activities.  
A comprehensive audit may encompass elements of a financial statement audit, a compliance audit and a performance audit.  
Internal audits are conducted to provide assurance about various aspects of an organization’s activities.  
Corporate social reporting disclosures include environmental, employee and social reporting.

**S-A 46**

Describe the three levels of assurance. Name the types of engagements they would come up in and the expression of opinions that would be provided by the assurance provider

**Solution:**

|  |  |  |
| --- | --- | --- |
| Level of Assurance | Type of Engagement | Expression of Opinion |
| Reasonable | Audit | Positive |
| Limited | Review | Negative |
| None | Agreed-Upon Procedures | None |

**S-A 47**

What does pervasive mean? When would an auditor use an audit report that was material and pervasive?

**Solution:**

‘Pervasive’ refers to misstatements that are not confined to individual accounts or elements of a financial statement, or, if confined, the misstatements impact an extensive portion of a financial statement or are disclosures that are vital to a user’s understanding of the financial statements.

An auditor would use an audit report that identified material and pervasive misstatements either in a situation that the auditor was either able to identify (adverse) or not able to identify (disclaimer of opinion) through sufficient and appropriate audit procedures.

**S-A 48**

Outline the reasons for the demand for assurance services.

**Solution:**

Remoteness – As most users do not have access to the entity under review, this makes it difficult to determine whether the information contained in the report is a fair presentation of the entity and its activities for the relevant period.  
Complexity – Most financial statement users do not have the accounting and legal knowledge to enable them to assess the complex accounting and disclosure choices being made by the entity.  
Competing incentives – management may have their own incentives to present the information in a particular light which may help them achieve their own objectives. This may introduce bias in what is being presented.  
Reliability – As the information is being depended upon to make important decisions, it is important that the information being presented is reliable

**S-A 49**

How is the expectation gap caused and how can the effects on the expectation gap be reduced?

**Solution:**

In particular, the gap is caused by unrealistic user expectations such as:  
• the auditor is providing complete assurance  
• the auditor is guaranteeing the future viability of the entity  
• an unqualified (clean) audit opinion is an indicator of complete accuracy  
• the auditor will definitely find any fraud  
• the auditor has checked all transactions.  
The expectation gap can be reduced by:  
• auditors performing their duties appropriately, complying with auditing standards and meeting the minimum standards of performance that should be expected of all auditors;  
• peer reviews of audits to ensure that auditing standards have been applied correctly;  
• auditing standards being reviewed and updated on a regular basis to enhance the work being done by auditors;   
• education of the public;  
• enhanced reporting to explain what processes have been followed in arriving at an audit (reasonable assurance) or a review (limited assurance) opinion (significant improvements have been introduced by standard setters improving assurance reporting); and  
• assurance providers reporting accurately the level of assurance being provided (reasonable, limited or none).

**CASE**

**Ca 50**

Jeff Carboy owns St. LawrenceSt. Lawrence Vineyards, a successful winery in the Thousand Islands region. Annual sales are $3,500,000 and he has a $1,200,000 loan with a local bank.   
  
Sales are split between wine sales (88%) and wine tasting and catering (12%).  
  
Jeff has excellent personal relationships with his suppliers and has been provided with special contractual terms which allow him delays of up to 120 days to make invoice payments. These arrangements run out this year and he will have 30 days to pay after being invoiced.  
  
The bank has made the $1,200,000 loan to St. Lawrence Vineyards based on an understanding that the company will undergo audits of its financial statements.  
  
Jeff is an astute entrepreneur and has set up an advisory board which consists of his bank manager, another wine grower in the region, his old high school ethics instructor and track coach, himself, and his accountant.  
  
The board has discussed certain issues including the following:  
  
 The need for assurance service providers to audit his financial statements so that users can be provided with assurance that his statements are relevant and reliable.  
Non-audit services that would provide advice on special projects he may be considering in the future.   
A proper accounting firm to conduct an audit mandate.

**Required:**

a) What is the objective of a financial statement audit and how does it relate to St. Lawrence Vineyards?

b) Jeff Carboy’s financial statements must be *relevant and reliable*. What do these two terms mean in the context of this case?

c) What three characteristics should St. Lawrence Vineyards’ auditors possess when conducting an audit? Explain them briefly.

d) What are non-audit services? Can you describe possible non-audit services that St. Lawrence Vineyards might employ?

**Solution:**

a) A financial statement audit provides reasonable assurance about whether the financial statements are prepared in all material respects in accordance with the financial reporting framework.  
The St. Lawrence Vineyards auditors will use the rules of Canadian GAAP to ensure that the main current users (shareholders, bank, tax authorities) and potential users (suppliers, future investors) are provided with audited statements that will provide them with assurance. The auditors will lend credibility to the information because they are independent.

b) Relevant  
Information is relevant if it has an impact on the decisions made by users regarding the performance of the entity. For example the bank would be interested in evaluating past decisions made by St. Lawrence Vineyards management and predicting whether the entity will remain viable (that is, a going concern) into the future. This will give them confidence that the $1,200,000 loan will be repaid. Users like the bank or key suppliers of St. Lawrence Vineyards can use current information to estimate the future ability of the entity to meet its obligations.  
  
Reliable  
Information is reliable when it is free from material misstatements (errors or fraud). The information must be unbiased; it must not be presented in such a way as to influence the decision-making process of the user. The best way St. Lawrence Vineyards can ensure others will perceive that its financial statements are without bias, is through an independent audit of the statements.

c) When undertaking an audit, the auditor should use professional scepticism, professional judgment, and due care.  
  
Professional scepticism  
Professional scepticism is an attitude adopted by the auditor when conducting the audit. It means that the auditor remains independent of the entity, its management, and its staff when completing the audit work. In a practical sense, it means that the auditor maintains a questioning mind and thoroughly investigates all evidence presented by the client. The auditor must seek independent evidence to corroborate information provided by the client and must be suspicious when evidence contradicts documents held by the client or enquiries made of client personnel (including management and those charged with governance).  
  
Professional judgment  
Professional judgment relates to the level of expertise, knowledge, and training that an auditor uses while conducting an audit. An auditor must utilize their judgment throughout the audit. For example, an auditor must determine the reliability of an information source and decide on the sufficiency and appropriateness of evidence gathered, the procedures to be used in testing, and an appropriate sample size.  
  
Due care  
Due care refers to being diligent while conducting an audit, applying technical and statute-backed standards, and documenting each stage in the audit process.

d) Non-assurance services include management consulting, mergers and acquisitions, insolvency, tax, and accounting services.  
Accounting firms are not the only providers of non-assurance services. St. Lawrence Vineyards could hire someone to review its plan to expand its vineyard operations, as an example. Other types of services: corporate social responsibility, employee safety, tax planning, insurance arrangements for key officers of the company, etc.