
Contents

Preface, xi

PART ONE

GETTING ACQUAINTED WITH YOUR RESPONSIBILITIES 1

1 Corporate Accountability: Focus on the Audit Committee, 3

- Appropriate Accounting Skills, 4
- Internal Control Oversight, 5
- Auditor Oversight, 6
- Audit Committee Resources, 7
- Transactional Economics, 8
- The Nature and Importance of Corporate Accountability, 8
- Developments in Corporate Accountability, 12
- Corporate Accountability and the Audit Committee, 32
- Conclusion, 43
- Sources and Suggested Readings, 43

2 Audit Committees: Basic Roles and Responsibilities, 46

- Organization of the Audit Committee, 47
- The Audit Committee Functions, 63
- The External and Internal Auditing Process, 82
- Sources and Suggested Readings, 94

3 The External Users of Financial Reporting Information, 97

- Introduction, 97
- The Investors, 101
- Credit Grantors, 110
- Regulatory Agencies, 114
- Other Outside Constituencies, 121

Important Developments in Business Reporting
and Assurance Services, 122
Benchmarking, 130
Sources and Suggested Readings, 131

4 The Legal Environment of the Audit Committee, 134

General Legal Responsibilities, 139
Other Federal Provisions Related to Fraud, 149
Lessons for the Audit Committee from Litigation, 151
Guidelines for Minimizing Legal Liability, 166
Sources and Suggested Readings, 170

5 Rules of the Road: Financial Reports and Their Audits, 172

An Overview of U.S. Generally Accepted Auditing Standards, 174
An Analysis of the Auditing Standards, 176
Integration of Auditing and Related Accounting Standards, 179
Attestation Engagements, 188
International Auditing Standards, 195
Sources and Suggested Readings, 198

PART TWO

THE PLANNING FUNCTION OF THE AUDIT COMMITTEE 201

6 Planning the External Audit, 203

Financial Statement Assertions, 205
The Relationship between Risk and the External Audit, 206
The Engagement Team, 211
Types of Audit Tests, 211
Evaluating the External Audit Plan, 215
Sources and Suggested Readings, 217
Appendix 6A: Qualitative Factors That May Influence
the Determination of Materiality, 219
Appendix 6B: Example Audit Planning Schedule, 221

7 Planning the Internal Audit, 224

Components of the Internal Audit Plan, 224
Enterprise Risk Management, 227
Oversight and Reporting, 228
Sources and Suggested Readings, 229

Contents

ix

PART THREE

**THE MONITORING AND REVIEWING FUNCTIONS
OF THE AUDIT COMMITTEE**

231

8 Monitoring the System of Internal Control, 233

- Definition and Basic Concepts, 235
- Responsibility for the System of Internal Control, 238
- Reporting Requirements, 241
- Audit Committee Expectations, 245
- Sources and Suggested Readings, 246

9 Evaluating the Internal and External Audit Function, 247

- Selecting and Staffing an Internal Audit Function, 247
- Monitoring the Internal Audit Function, 257
- Selecting and Evaluating an External Auditor, 261
- Reporting by the External Auditor, 266
- Sources and Suggested Readings, 267

**10 Communications between Auditors
and Audit Committees, 269**

- Audit Committee's Review Objective, 269
- Accounting Policy Disclosures, 272
- Guidelines for Reviewing Accounting Policy Disclosures, 275
- Sources and Suggested Readings, 278

11 A Perspective on Fraud and the Auditor, 279

- Meaning of Fraud in a Financial Statement Audit, 279
- The External Auditor's Responsibility, 289
- The Internal Auditor's Responsibility, 296
- Investigating Known Fraud, 297
- The Audit Committee's Oversight Approach to
 Fraud Risk Assessment, 299
- Sources and Suggested Readings, 304

**12 The Audit Committee, Corporate Culture,
and Tone at the Top, 307**

- Questionable Foreign Payments, 307
- Corporate Perquisites and Executive Compensation, 311
- Executive Compensation, 316
- Corporate Contributions, 317

x

Contents

Conclusion, 321
Sources and Suggested Readings, 324

PART FOUR

THE REPORTING FUNCTION AND THE AUDIT COMMITTEE 327

13 Independent Auditors' Reports, 329

The Auditors' Reports on Audited
Financial Statements, 329
Other Auditing Opinions, 334
Other Reports of the Auditors, 338
Sources and Suggested Readings, 345

**14 The Audit Committee's Report and
Concluding Observations, 346**

Purpose of the Audit Committee's Report, 347
Guidelines for Preparing the Report, 349
Concluding Observations, 355
Sources and Suggested Readings, 362

APPENDIX 363

Professional Accounting Associations, Business Organizations, Boards,
Commissions, and Directors Publications, 363

ABOUT THE AUTHORS 367

INDEX 371