

AUDITING EXAM NOTES

AUDITS:

Compliance audit: includes gathering evidence to ascertain whether rules, procedures, policies, laws and regulations have been followed.

Performance audit: refers to economy, efficiency and effectiveness of an organisations activities

Comprehensive audit: combines elements of financial reporting audit, compliance and performance audit.

Internal audit: provides assurance about various aspects of an organisations activities

- Effective/efficient less reliance on substantive controls

Corporate social responsibility: voluntary reporting about environmental employs and social subject matter.

THEORETICAL FRAMEWORK ->demand for auditors

1. Agency theory: due to the remoteness of the owners from the entity, the owners have an incentive to hire an auditor to assess information provided by management.
2. Information hypothesis: due to the need for reliable information, users will demand that information be audited to aid in decision making.
3. Insurance hypothesis: investors demand audited financial statements to insure against potential losses.

DEMAND FOR FINANCIAL REPORTS:

1. Remoteness: users do not have access to information
2. Complexity: users do not have the knowledge to make disclosure choices
3. Completing incentives: users may find it difficult to identify when management have over-represented
4. Reliability: the information will be relied upon

AUDITOR RESPONSIBILITIES:

- Professional scepticism: independence, questioning mind
- Professional judgement: judgement based on level of expertise, knowledge and training.
- Due care: being diligent, applying standards

DIFFERENT LEVELS OF ASSURANCE:

1. Reasonable: highest level of assurance
2. Limited: moderate level of assurance on the reliability of the subject matter
3. No assurance: does not report an opinion-> merely report on the findings and the facts of their findings. The client determines the nature, timing and extent of evidence gathered and then draws their own conclusions about their findings. NO assurance given.

REDUCE THE EXPECTATION GAP:

- Educating the public
- Auditors performing their duties appropriately
- Peer reviews