

## AUDITING EXAM NOTES:

### TOPIC ONE: INTRODUCTION TO AUDITING

Assurance engagement: engagement which assurance practitioner (auditor) expresses a conclusion designed to enhance the confidence of the intended users, about the outcome of the evaluation or measurement of financial reports against criteria (accounting standards, corporations law).

Assurance services: financial report: express an opinion about whether the report is prepared in all material respects in accordance with a financial reporting framework.

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

Performance audit: refers to the economy, efficiency and effectiveness of an organisation's activities.

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

Internal audit: provides assurance about various aspects of an organisation's activities.

Corporate social responsibility (CSR) assurance: includes verification of reporting about environmental, employee and social subject matter.

Demand for financial reports include:

1. Remoteness: users do not have access to information sources.
2. Complexity: users do not have knowledge to be able to make disclosure choices.
3. Competing incentives: users may find it difficult to identify when the incentives of management have been over-ruled.
4. Reliability: as decisions are being made based on information presented, it is important that it be reliable.

Theoretical frameworks:

1. Agency theory: due to the separation of ownership from the entity, the owners have an incentive to hire an auditor to assess information provided by management.
2. Information hypothesis: due to the demand 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.

Audit: a systematic process of objectively obtaining and evaluating evidence regarding the assertions of management (reports) to ascertain the degree that the assertions correspond with the established criteria, and then communicating the results (opinion) to the intended users.

Audit plan: organised approach will minimise the likelihood of errors and maximise the efficiency (time and cost).

The audit report accompanies the financial report because intended users:

- Do not usually have access to financial systems.
- May not have expertise to interpret financial reports