

## AUDIT TOC

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### **TOPIC 1 – Overview of Auditing & Assurance**

Audit – professional service that involves **objective & critical examination** of a **subject matter** with aim of **assessing its credibility**, in order to **provide assurance** through the **issue of an objective opinion**.

Assurance- auditor's ability to provide **degree of satisfaction** regarding the **reliability of info provided**. DOS determined by the **nature & extent of procedures** performed by auditor, **results of procedures & objectivity of evidence obtained**.

Why have A&A?

#### **Reasons for Audit**

- ◆ Information Asymmetry (Info preparer(co mgmt.) & user(sh/lender/other user)
  - Relationship & stewardship function btwn Information User
  - Value: facilitate info user confidence, promote public interest, meets regulatory obligation, feature of corporate governance.

**Demand for audit** – separation of ownership & control.

- Agency Theory- principal(SH) engage agent(co. mgmt.) use resources of org in most appropriate way. Agents – best interest of principal.
- Info Hypothesis- demand for info for DM( reliability of info), better quality info =better DM, audit of f/s – lead better info & make better decisions.
- Insurance Hypothesis- shift responsibility to auditor(effect limit risk)

**Audit Expectation Gap** – btwn public perception, auditor role & performance.

Perceived Performance of Auditors  
Auditors

Society expectation of

Audit Expectation Performance Gap  
Performance Gap + Reasonableness Gap  
Deficient performance/standards + Unreasonable expectations

Audit is not a guarantee, proof that co – good/bad, fix error, find fraud.  
Education – min. gap between expectation and audit service provided.

Recent History & Response

Corporate Collapse- Enron, WorldCom, HIH Insurance,

Issue – EM, Corporate governance failure, fraud, auditor role failure.

Value of audit? Independence? Objective & critical reliance on consulting fees? Credibility? Assurance.

Australia – CLERP – Corporate Law Economic Reform Program :

-add disclosure in directors report, general & specific auditor independence requirement, restriction on auditor being employed by audit client, auditor rotation for listed co.

US- Sarbanes- Oxley Act

-Public Co Acct Oversight Board, provision regarding auditor independence, corporate governance, i.c assessment, COI, enhanced financial disclosure.

Recent Year

Value of audit report questioned – intro new style report, Inclusion of KAM (Key audit matter) & greater focus on user understandin' audit report.

Australian Auditing and Assurance Env.

Financial Reporting Council (FRC) – oversees setting of acct & audit standards in Aus, responsible for oversight of AUASB & approve strategic direction & responsible 4 oversight of AASB & approve its strategic direction.

A&A Standards Board ( AUASB)

-Development of ASA(Aus Audit Standards) – clear public interest focus of highest qlty.Obj : enhance the relevance, reliability & timeliness of info provided to users of a&a services, AUASB – appropriate ISAs of IAASB.

Australian Auditing Standards – introduction, objectives, definition, requirement, application & other explanatory material, conformity with Isa, Appendices

Audit & Assurance - ? audit? Assurance , Demand for audit \*\* , expectation gap – view of audit & role of audit differ, env- impact on audit. Planned & executed – audit opinion form.

## TOPIC 2 – F/S Audit~ inside AE.

Assurance Engagement- assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, outcome of the evaluation/measurement of a subject matter against criteria (AUASB for AE)

- Reasonableness AE : obj reduction in AE risk – acceptably low lvl form basis of +ve form of expression of the concl. ( AUDIT)
- Limited AE : obj reduction in risk to a level acceptable, risk > RAE, form basis –ve "" (REVIEW)

Audit of financial report

N – prepare f/s, acct entries

Y – examine fin info of org, perform procedures to obtain evidence, form opinion & report

Auditor – obtain & evaluate evidence, verify – performed appropriate, express opinion, deliver report, distribute report.

### Objectives 4 auditor

- Reasonable assurance – financial report; whole – free from material misstatement whether due to fraud/error – enable auditor to express an opinion – financial report –prepared in all material respects in accordance with applicable financial reporting framework.
- Report on financial report & communicate required by AAS – accordance with auditor's findings.

### Audit Process

Client Acceptance/Continuance – Audit Plan/Risk Identification – Risk Assessment & Strategy – Execution – Conclusion & Reporting.

### Audit D

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<ul style="list-style-type: none"> <li>• Access capital market ( increased credibility- greater access to funds)</li> <li>• Lower ke (increased credibility, less risk)</li> <li>• Limit inefficiency/fraud – benefit SH- higher profit</li> </ul>	<ul style="list-style-type: none"> <li>• Time lapse (audit opinion after event)</li> <li>• Test sample ( inability to test all financial report)</li> <li>• Assessment of materiality(focus on material misstatement)</li> <li>• Specialised areas( judgement required more in some areas)</li> </ul>

<ul style="list-style-type: none"> <li>Increased control &amp; effectiveness of operations ( financial benefit – lower costs)</li> </ul>	<ul style="list-style-type: none"> <li>Report format limitation(standard report format( enough info)</li> </ul>
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### F/s Assertions

- Representation by mgmt. & those charged with governance, explicit or otherwise, embodied in financial report, used by auditor consider diff type of potential misstatement that may occur.

Representation by mgmt. & used by auditor.

F/s user.

Relate to : classes of transactions(event/amt), acct bal ( A/L/E) , presentation & disclosure of item in f/s(current v NCA/ Disclosure in notes to acct.

- Existence/Occurrence

A/L exist @ date (tangible nature)

Transaction(Event) occurred during the period.( sales & purchases, exp./change A/L/E)

- Completeness

Transactions,event& acct present in f/s included

- Cut-Off

Transaction & event – recorded in correct acct period.

- Rights & Obligations

Asset – right ; Liabilites – obligation.

- Accuracy, Classification, Valuation & Allocation

A & L – valued & allocated appropriately in f/s.

Transactions recorded in appropriate acct ( accuracy & classification)

- Presentation & Disclosure

Components of f/s properly presented & disclosed

(Occurrence, Rights & Obligations & Classification, Accuracy & Valuation

Classes of transactions

-P & L Statement Focus [Occurrence, Completeness, Accuracy, Cut-Off, Classification]

-B/S Statement[Existence, Rights & Obligations,Completeness. Valuation & Allocation]

-Presentation & Disclosure[ Occurrence, rights & obligations, Completeness,Classification & Understandability,Accuracy & Valuation]

Receivables – existence, Completeness –all, Valuation – disclosed at appropriate amt

### **F/s Assertions**

Exist – receivable exist (plan then execute procedures)

Completeness & Valuation (appropriate amt) – (receivable exist, included, appropriate value)

### **Auditor Appointment & Obligations**

AA- CA s 301 – audit of annual financial report – co, registered scheme disclosing entity audited Div 3 obtain auditor report.

Small pty co – x audit – s 293, x audit

CA s 327B- public co auditor must appoint auditor 1<sup>st</sup> AGM, appoint auditor to fill vacancy

Auditor hold office until die, remove, ceases to be an auditor or ceases.

### **Auditor Registration**

Apply ASIC registered s 1279.

Removal – resolution at a general meeting, special notice at least 2 months prior

Resignation – ASIC consent to resign.

CA S324DA – significant role in audit of listed co/registered scheme – significant role in audit of co/ scheme later financial year.

### **Auditor Obligation**

Relationship with stakeholder – SH (mgmt.), BOD (audit committee), internal auditor, mgmt.

Audit financial report-? Auditor do, diff record & report, assertions, benefit & limitation to co capital market to financial statement user. Assertion – evidence form opinion.