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Lecture One (20th February)

What is Auditing?

- Obtaining and evaluating evidence.... about assertions... to form an opinion about those assertions... and communicate that opinion to interested users
- ASA 200 Overall objectives of the independent auditor and the conduct of an audit in accordance with Australian Accounting Standards
- Financial report audit is most common

Why the need for independent financial report audits?

- Remember from earlier accounting courses:
 - Financial statements need to be relevant, reliable, understandable and comparable to be useful
 - Reliability is the main reason why there is a need for independent financial report audits
 - User decisions have economic consequences
 - Possible errors, fraud, manipulation and other illegal acts e.g. due to agency conflict

Auditing – who cares?

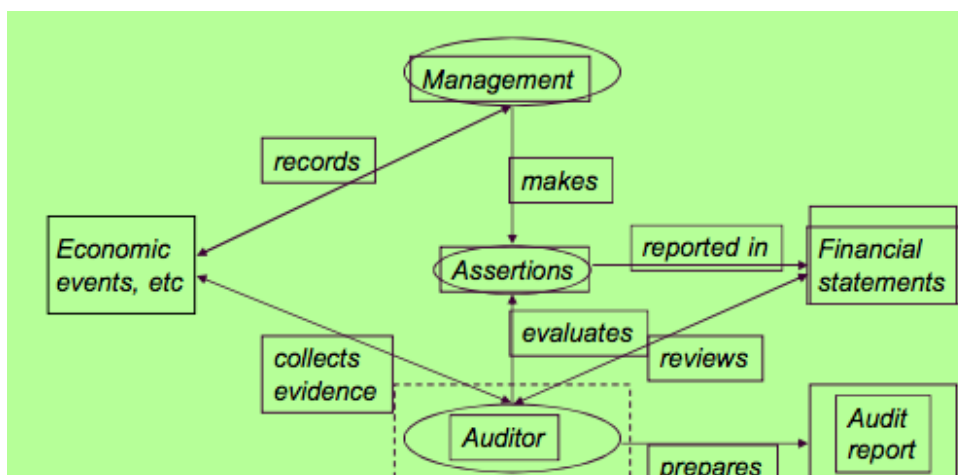
- Shareholders/Members
- Creditors & Customers (e.g. HIH, One. Tel)
- Suppliers & Employees
- Government / Regulators
- The Public (e.g. Ansett, HIH)
- Parties involved in monitoring companies (e.g. directors: professional reputation, personal liability)

Important objectives of Audits

- Investor protection
- Accountability and credibility

The relationship between Accounting & Auditing

- Accounting prepares accounting information for people to use (for example, financial statements)
- Auditing checks the reliability of that information and finds value evidence about the financial statements



Relevant Terminology

Assurance Engagement

- An engagement in which a particular practitioner expressed a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. For example, an audit or a review engagement.
 - Compliance with accounting standards is one of the “criteria” in which the subject matter is measured against

Attestation Service

- A type of assurance service in which the public accounting firm issues a written communication that expresses the conclusion about the reliability of a written attestation/statement of another party
- A financial report audit/review is a type of attestation service

Difference Types of Audit

1. Financial Statement audit
2. Compliance audit
3. Performance audit = Operations audit: efficiency (how quickly), effectiveness (how well) and economy (using minimum resources)
4. Comprehensive – combination of the above three
5. Environmental audit – impact of environment on financial statements
6. Internal audit

Different Types of Auditor

- Independent auditors = external auditors
- Internal auditors: employees of the auditee
- Government auditors: employed by the Commonwealth of State Audit Offices; headed by the Auditor General
- Tax auditors

Quick Questions

State the most likely type of auditor and the type of audit in these two examples:

- 1) Annual audit of Qantas’ financial statements
 - Financial Statement audit
 - Performed by an independent auditor (external auditor)
- 2) Determine whether a company’s debt covenants have been met
 - Compliance audit
 - The type of auditor that performs this audit will depend on the company (the auditee), and the purpose. For example, if the auditee is a bank and their debt covenants is regulated by a Government body the performance audit will most likely be performed by an independent auditor (external auditor). On the other hand, if you are a company and it is end of financial year and you know your creditor is going to come in and check your debt ratios, you will do an internal audit i.e. the audit will be performed by employees of the auditee.

Demand for Financial Statement Audits

1. Agency Theory – monitoring performance of agents
2. Information hypothesis – reliability of information for decision making
3. Insurance hypothesis – provide insurance if audit fails to report material misstatements