



Auditing and  
Assurance  
Services ACCT30004  
Notes

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## 1. Audit Overview

Level of assurance		Assurance expression
Reasonable	Highest level of assurance	Positive form (e.g. I've done it and I've found)
Limited	Moderate assurance on the reliability	Negative form (e.g. nothing come to my attention)
No assurance		None given

### Different audit types

Financial report audit	The objective of a financial report audit is for the auditor to express an opinion about whether the financial report is prepared in all material respects in accordance with a financial reporting framework
Compliance audit	Review whether an entity has followed rules, policies, procedures, laws and regulations with which they must conform
Performance audit	Concerned with the economy, efficiency and effectiveness of an organisations activities
Comprehensive audit	Encompass elements of a financial report audit, a compliance audit and a performance audit
Internal audit	Conducted to provide assurance about various aspects of an organisations activities. Audit controls and internal processes
Corporate social responsibility (CSR) assurance	Voluntary reports that detail social responsibility factors (i.e. environmental impact)

Unmodified opinion	Modified Opinion	Qualified opinion
<ul style="list-style-type: none"> <li>Auditor concludes that the financial report is prepared with the applicable financial reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>The auditor believes                             <ul style="list-style-type: none"> <li>The financial statements are not free from material misstatement</li> <li>They are unable to obtain sufficient appropriate audit evidence</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Issued when the auditor believed that except for the effects of a matter that is explained the financial reports can be relied upon</li> </ul>

**Auditor responsibilities**

- Professional scepticism
  - Auditor remains independent of the entity. Auditor maintains questioning mind and investigates all evidence
- Professional judgment
  - Auditor must use judgment through out the audit
- Due care

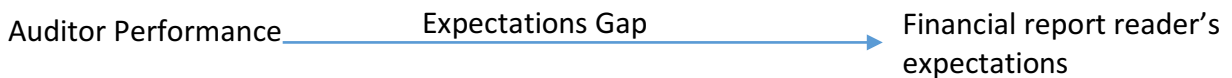
**Demand for audits**

Agency theory	<ul style="list-style-type: none"> <li>• Principals engage agents to use the resources of the organisation in the most appropriate way</li> <li>• Information asymmetry</li> </ul>
Information hypothesis	<ul style="list-style-type: none"> <li>• Better quality info will lead to better decision making</li> </ul>
Insurance hypothesis	<ul style="list-style-type: none"> <li>• Shifts responsibility to auditor</li> <li>• If material mistake and company sued, auditor liable</li> </ul>

Benefits of audits	Limitations of audits
<ul style="list-style-type: none"> <li>• Access to capital markets</li> <li>• Lower cost of capital</li> <li>• Limited inefficiency and fraud</li> <li>• Increase control and effectiveness of operations</li> </ul>	<ul style="list-style-type: none"> <li>• Time lapse</li> <li>• Testing of samples</li> <li>• Assessment of materiality</li> <li>• Specialised areas</li> <li>• Report format limitations</li> </ul>

**Audit Expectations Gap**

Audit expectation gap: The gap between audit performance and the expectations of financial report readers



Auditor performance affected by:

- Auditing standards
- Ethical standards
- Regulations
- Firm policy and procedures

Financial report reader's expectations affected by:

- Audit firm reputation
- Audit firm's independence
- Economic conditions