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## Topic 1 Auditing

### What is Auditing?

Obtaining and evaluating evidence about assertions to form an opinion about those assertions and communicate that opinion to interested users

### Who cares about audit reports?

1. Shareholders
  - Are they going to get a return on their shares?
2. Employers
  - Are they going to be able to keep their job?
  - What if the company goes into liquidation?
3. Banks/creditors
  - Are they going to get their money back?
  - Is it safe to lend money?
4. Government/regulators
  - Is the company following regulations?
5. Potential investors
  - Is the company safe to invest in?
  - Would they get a return on their investment?
6. Suppliers/customers

### Assurance Engagements

An engagement in which a practitioner expresses 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 eg., an audit or a review engagement

### Attestation Services

A type of assurance service in which the public accounting firm issues a written communication that expresses a conclusion about the reliability of a written assertion/statement of another party

### Different types of audit

#### 1. Financial statement audit

- are financial statements presented according to accounting standards?

#### 2. Compliance audit

- is the audit client complying with rules and regulations?

#### 3. Performance audit

- relates to efficiency, effectiveness & economy

#### 4. Comprehensive audit

- combination of 1, 2, 3

#### 5. Environmental audit

- is the company doing its best to minimize harm on the environment?

#### 6. Internal audit

- relates to internal matters such as business structure, operations and employees

### Different types of auditor

- Independent auditors
  - External to company
  - Audits financial reports
- Internal auditors
  - Audits the company's board of directors and management
- Government auditors
  - Audits for the government
- Tax auditors
  - Audits for the ATO

### Economic benefits of an audit

- Reduce agency costs
- Access to capital markets
- Lower cost of capital
- Deterrent to fraud and inefficiency
- Control and operational improvements
- Insurance

### Limitations of a financial report audit

- Time lapse
- Audit testing on selective samples
- Assessment of materiality
- Forming professional judgements in highly specialised areas
- Report format limitations

### Objective of a financial report audit

To **obtain reasonable assurance** about whether the financial report **as a whole** is free from **material misstatement**, whether due to **fraud or error**, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework