

22522 - Assurance Services and Audit.

Good luck with your studying.

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1. **MID-exam** preparation consists of lecture 1-6 (included tips).
2. All the important contents for **FINAL exam** are included (lecture 7-12).
3. **Case study** preparation for FINAL exam – 7 eleven case study (included steps how to prepare for the case study).
4. ***Provide structure for final exam.**

(page 2)

Mid-exam covers lecture 1 to 6. You need to be careful and understand the content. All the questions in the mid-exam are very straightforward and easy, so make sure you do your best to get high marks because the **final exam** is much harder than this. I will provide tips for your final exam and its structure below, and you will be fine.

NOTES:

The underlined words are the places where they need your attention.

** (two stars) means important concept.

Lecture 1.

Introduction to audit

Define an assurance engagement

An assurance engagement is defined as ‘an engagement in which an assurance 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’.

Different types of audit services (the most common are “financial report audits”)

An engagement designed to express an opinion about whether the report is prepared in all material respects in accordance with a financial reporting framework (ASA 200, para. 11; ISA 200, para. 11)

Limitations of an audit

- **NO guarantee** that the financial report is free from error or fraud
Because we can't check every single transactions, as there many of them (Coles, etc)
- The **nature of the audit process** are required to be performed within a reasonable period and at a reasonable cost (ASA 200)
For intangible assets, we can't determine their costs correctly
- **Judgement** is required in the process of preparation of the financial statements
Judgement needs to be done by individual from different culture and education
⇒ *Auditors can't provide with 'absolute' assurance due to these limitations*

Different levels of assurance

- **Reasonable** assurance (**audit full**-year report) – can't guarantee but reasonably sure, provide with true and fair nature of the financial reports (look at 10% => give 100% assurance) – can't provide 'absolute' assurance - positive expression of opinion – provides unqualified opinion.
- **Limited** assurance (**review half**-year report) – give assurance only at certain things that I look at (look at 10% => give 10% assurance) – negative expression.
- **No** assurance (**compilation**) – for small organisations that don't have someone specialise to create financial report – don't need to provide any opinion.

A review may be less expensive than the cost of an audit, but the scope of a review is smaller than the scope of an audit

#A little more reading to get the better understanding for these concepts.

(This is page 27 from the note).

Permanent file

- Client information and documentation that apply to more than one audit
 - e.g. client address, key personnel, long term contracts
 - Main accounting policies, results of prior audits
 - Copies of prior period financial reports

Current file

- Client information and documentation that apply to current audit
 - Evidence gathered for this audit
 - ❖ To obtain reasonable assurance, auditor will need audit evidences and then draw a conclusion based on auditor's opinion.
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Below is the summary for the whole semester (really important concepts covered), from lecture 1 to 12. You will have everything you need for the final exam there. The **final exam** is a lot harder than mid semester, it will test your understanding of the concepts and how you apply all the theories you have learnt into practice. Hence, get to understand the contents will be beneficial for you.

****Audit risk (ASA 200)** includes risks of material misstatement (*control* and *inherent* risks) and *detection* risk.

- Risk of **material misstatement** at the **assertion** level are assessed to determine the **nature, timing and extent** of further **audit procedures** necessary to obtain *sufficient appropriate audit evidence*.

To be clarified. At assertion level, **risk of material misstatement** will be identified to decide **how much, when and what audit procedures** would be applied to obtain *appropriate* and *sufficient audit evidence*.

Sufficiency and *appropriateness* are interrelated. *Sufficiency* measures the quantity (higher of risks require more audit evidences). *Appropriateness* measures the quality (is the evidence reliable and relevant?).

Control and inherent risks are entity's risk.

Inherent risk is higher for some assertions and related to *transactions, account balances and disclosures*. Might be higher for complex accounting or technological development. Need to consider the nature of the client's business, nature of data processing (think of Apple), complexity, inattentive management, related party transactions and management integrity. These factors could contribute to increase the inherent risk.

Control risk is a function of effectiveness of design, implementation and maintenance of internal control by management (eg. *Human errors or mistakes, or collusion or inappropriate management override*).

Detection risk relates to **nature, timing and extent of audit's procedures** and has an inverse relationship with material misstatement risks at the assertion level. (eg. *Higher of material misstatement risks, the lower of detection risk and, accordingly, the more persuasive the audit evidence is required*).

(This is page 40 from the note)

There will be questions about the case study that you are asked to prepare. Here is how I prepare for my **case study** – 7 eleven. You will need to read relevant articles to get an understanding about the case.

First, research about market forces. Nature of business and industry. General and industry economic trends and conditions, competitive environment, product, customer and supplier info, technology, law, requirements, internet. The purpose is to identify inherent risks (if applicable).

Entity level

Ownership structure: private company.

Major customers: Mobil and Shell.

Client reputation and operations: one of the largest convenience retail stores with license to operate and franchise 7-Eleven stores in Australia from the US based 7-Eleven Inc.

Industry level

Type of industry: convenience retailing industry

Level of competition: MEDIUM - 7 Eleven has operated in a rapidly changing environment over the past five years. Falling consumer sentiment, fluctuating household income growth and continued competition from small-format grocery stores, supermarkets and fuel retailers have all challenged industry operators. Recently, falling demand for tobacco products has threatened industry revenue.