

	Parts:	When will be tested?	No. of lectu
part 1	Corp gov-ce - preparerers of fin statements		
	scope	midterm test	lecture 1
	structure	midterm test	lecture 1
	IC	midterm test	lecture 2
part 2	Assurance - assurares of fin statements		
	general	midterm test	lecture 2, le
	Stages of audit		
part 3	Acceptance of client	midterm test	lecture 4
part 4	Planning of audit	final exam	lecture 5, le
part 5	Audit tests	final exam	lecture 7, le
part 6	Audit report	final exam	lecture 9, le

Note: topics for midterm test will be also included into final exam

ire class MU week

Total split of points:

		Task	Points	Comments:
	wk1			
	wk1	presentation of 1 case	20	schedule w
	wk2	midterm test	20	will be on N
ecture 3	wk2, wk3	final exam	60	will be in Ja
		<u>total</u>	<u>100</u>	
	wk4			
ecture 6	wk5,wk7			
ecture 8	wk8, wk9			
<u>ecture 10</u>	<u>wk10, wk11</u>			
		max grade	100 points (A)	

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with cases and dates will be confirmed. Complex case can be presented by two persons and simple case s
Nov 4, 2020. Duration of test will be confirmed later
January 2021. Date and duration will be confirmed later.

ould be presented by one person.

Part I. Corp gov-ce (CG) - is about how company is managed on day-to-day basis

- 1 purpose of CG - to direct and control resources owned by investors and intraste
- 2 why CG is needed? - management, shareholders and government (as major sha
objectives of management - to sustain listing on the exchange, to im
objectives of shareholders - to have environment within which they
objectives of government - to create conditions for growth and emp
- 3 scope of CG (see see principles of corporate gove-ce as per Code of corp gov-ce
board of directors aka those charged with governance

responsibilities of effective board:

- lead the company strategy
- set company's values
- meet regularly
- issue annual report
- to uphold the law
- to safeguard the assets of the organization
- should ensure that chairman and non-execut
- should ensure that non-executive directors (N
- no one person or group should be able to do
- should be of appropriate size, right balance o
- at least of half of the board should be made u
- NED should

- not be an employee within the la
- not have business relationships w
- be only remunerated with a fee fc
- no lclose family ties to the compar
- no cross-directorship
- any NED who has been on the boæ
- not be a major shareholder
- advantages and disadvantages of

advantages

- provide exp
- provide mc
- demonstra
- facilitate sh
- facilitate cc

disadvantages

- this will cre
- NEDs do nc
- some NEDs

types of companies depending on role of board:

- unitary board - board represents superviosry
- two-tier board - shareholders and stakeholde

committees - report to the board

- they allow the board to offload responsibility for a partic
- they provide a forum to focus on a limited and distinct ta

they should provide an expertise in the given area of operation

they should provide disclosure to shareholders

they provide assurance to shareholders

types of committees:

audit committee

organization:

should consist of at least

at least 1 member should

responsibilities

make recommendations

review and monitor external

review and monitor internal

review of company's internal

review and monitor effectiveness

provide advice on whether

to review cases of which

benefits of audit committee

it assists to external auditors

it increases confidence

it follows up external auditors

limitations of audit committee

it imposes additional costs

difficulty in finding members

audit committee and internal auditors

AC should ensure that

review and assess internal

receive periodic reports

review and monitor management

meet with head of internal

risk management committee

responsibilities

advise the board on risk

monitor company to ensure

help to identify major risks

receive reports from management

receive report from internal

ensure all risk-related

benefits of risk committee

independence in decision

support for board of directors

if committee works effectively

more predictable

impact of decisions

greater confidence

phases of risk management

identify risks. risks may

impact of risk

fraud
regulations
estimate impact and p
develop solutions
implement risk strateg
review, adapt and disc

nomination committee
remuneration committee

all directors should get induction and training
board, its committies and individual directors should hav
directors should be elected at least every 3 years (for FTS
significant proportion of remuneration of directors shoul
remuneration should consider industry level.

board should insure sound system of controls, the effect
if the board has the audit committee, it should be made

board should have regular dialogue with shareholders ar
chairman and COE

should not be the same person

chairman leads the board, sets agenda for board's meeti

CEO runs the company

chairman is key contact for shareholders

4 CG and internal controls

IC - is system of values, rules, procedures and systems (IS) impleme

Controls are designed by risk management committee as response t

=> Impact of quality of IC on scope of statutory audit

if IC are strong (there is low control risk) the a

if IC are weak (there is high control risk), the a

purpose of IC

to prevent and detect errors (unintentional or ontention.

to help safeguard the assets (against theft)

to ensure the business runs cost efficiently

components of IC

control environment

management attitudes and values

staff attitudes and values

control procedures

application controls

general controls

comparison

authorization

reconciliation

computer control

arithmetical control

physical control

segregation of duties

risk assessment

information systems

monitoring of existing controls

limitations of IC

human error

collusion to commit fraud

the cost/time to implement the controls may outweigh

it may be impossible to design a control for one-off trans

IC are designed and implemented within each accounting cycle. For

sales cycle - stages, risks emerging at each stage and con

Stage	Risks	Control p
Order received	Orders not recorded accurately.	Confirm o writing.
	Customers cannot pay, or do not pay on time.	All new ci subject to check bef accepted checks pe existing c
	Orders cannot be honoured, and customer goodwill is lost.	Credit lim on custom All orders by sales & production

Stage	Risks	Control p
Goods despatched	Goods are not despatched.	Sequential numbered order pads
	Incorrect goods sent.	Copy of or the warehc picking.
		Weekly on to ensure : is complet missing).
		Order sign inventory p
		Goods des

(GDN) mail order (stage and file).

Customer copy of the returns it to receipt of goods.

Use sequentially numbered review frequently incomplete and unmatched items.

Stage	Risks	Control procedures
Invoice raised	Invoices may be missed, incorrectly raised or sent to the wrong customer.	Copy of GDN accounts matched to the invoice. Unmatched Credit notes may be raised incorrectly.
		Copy invoice as agreed to order, GDN customer print.
		Copy invoice to agree accuracy.
		Credit note allocated to relates to an authorised manager.

Stage	Risks	Control procedures
Sale recorded	Invoices may be inaccurately recorded, missed or recorded for the wrong customer.	Review receivable ledger for credit balances. Perform a reconciliation ledger records. Double check

...
to invoice.

Customer's
sent out (cu
let you know
wrong).

Stage	Risks	Control pro
Cash received	Incorrect amounts received. Customer does not pay.	Agree cash back to the Review rece ledger for ci balances (c overpaid). Review age listing and i old balance Debt chasir procedures control.
Cash recorded	Cash incorrectly recorded or the wrong account Cash stolen	Monthly cus statements Bank reconc Regular banking/phy security ove (i.e. a safe). Reconciliatic banking to c receipts rec Segregation duties.

purchases cycle

Stage	Risks	Control pro
Requisition raised	Unauthorised purchases made	All requisiti authorised manager

Stage	Risks	Control pro
Order placed	<p>Invalid or incorrect orders made or recorded</p> <p>The most favourable terms not obtained</p>	<p>Sequentially numbered r pads, copie numerically with copy o stapled to i</p> <p>Request or confirmation writing.</p> <p>Preferred si agreed pric</p> <p>Check quot against sup list.</p>
Goods received	<p>Goods stolen.</p> <p>Goods may be accepted that have not been ordered or are of wrong quantity or inferior quality.</p>	<p>One secure area.</p> <p>Inventory re updated on basis.</p> <p>Goods inwa inspected fc condition ar quantity & c agreed to or goods recei (GRN).</p> <p>Copy of pur order (PO) : warehouse, sequentially numbered, i matched to</p> <p>Raise GRN</p>

stamp it, sign goods check PO and check quality.

Stage	Risks	Control pro
Invoice received	<p>Invoices not recorded resulting in non-payment and loss of supplier goodwill.</p> <p>Invoices may be logged for goods not received.</p> <p>Invoices may contain errors.</p>	<p>Copy of sequential numbered GRNs to invoicing department, matched to invoice (stamp).</p> <p>If no GRN a supplier for delivery + match PO (authorities mentioned a</p>
Purchase recorded	<p>Purchases missed or recorded incorrectly.</p>	<p>Batch control input.</p> <p>Stamp the invoices to indicate receipt check all file invoices are stamped.</p> <p>Suppliers see monthly statements reconcile the suppliers ledger account.</p>

Stage	Risks	Control pro
Cash paid	<p>Invoices not paid or incorrect amount paid.</p>	<p>Stamp invoices paid; check invoices stamped.</p> <p>Keep paid invoices separately from unpaid ones.</p> <p>Cheque sign check to invoice when signing cheque/authorities BACS.</p>

timesheets.

Have author
cheque sign

Get invoices
as authorise
relevant ma

payroll cycle

Stage	Risks	Control proc
Timesheets submitted	Bogus employees paid or employees paid for hours not worked.	Supervision of clocking in and out. Check number of cards to number of employees. Keep all spare cards locked in cupboard. Supervisor to authorise all timesheets.
Standing data input	Standing data could be changed without authorisation. Unprocessed updates may mean employees who have left are paid or joiners are missed.	Monthly print changes to go to senior manager for review and signature. Standing data regularly printed and sent to department managers for confirm. Restriction to standing data e.g. passwords. Managers should complete a leavers/joiner form noting date of departure/arrival and send promptly to payroll dept.

Stage	Risks	Control proc
Processing	Inaccurate	Sample of wa

of data	processing of data could lead to wages and taxes being incorrectly calculated.	recalculated manually. Exception reported automatically anyone paid c \$xxx, or paid \$yyy. Sample of de (PAYE, NIC) recalculated. Managerial re weekly paym summaries.
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Stage	Risks	Control process
Recording of payroll	Recorded payroll may not match actual payroll.	Nominal ledger signs payroll print to confirm entries double-check print. Senior manager review wages expenses for reasonableness.

Staff paid	Staff may not be paid. Bogus staff could be paid.	Have two people present when wages are paid. Responsible individual should review any B payroll summary to paying staff to confirm review.
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and to those charged with governance so that to contribute to creating long-term shareholder value.
shareholders) have different objectives. Corporate governance is a glue that keeps objectives of these three
implement best practices in managing of entrusted resources, to attract investments
can invest with minimum risk
employment, to attract global investments
from OECD)

independent directors (NED) meet without executives to consider their performance
NED) meet without chairman to consider the performance of chairman
independently
diversify the board
of skills and experience. This includes diversity, including gender.
composition of NEDs

at least 5 years
within the last 3 years
no director duties - no profit share or share options
independently

Director serving for longer than 9 years is assumed to no longer be independent and should be re-appointed annually

having NEDs in the board

to advertise
monitoring to curb excessive behavior of executives
to ensure that decisions are made in shareholder's best interests
shareholder representation on the board
to promote and create balance on the board

to incur high costs and may slow down decision-making
do not work full time for the company. It is debatable how much they actually know about the company and
they are too willing to accept what executives tell them.

at the executive and management level
Directors who have an active interest in running the company represent supervisory tier and board representation

to monitor regular activity
to monitor risks

tion

at least 3 NEDs (for smaller companies - 2)
should have recent and relevant financial experience

rights to the board in relation to appointment, re-appointment and removal of external auditor
external auditor's independence and objectivity and effectiveness of audit process
how external auditor recommendations are followed up once statutory audit is over
internal controls
effectiveness of company's internal audit function
whether the annual report and accounts taken as a whole is fair, balanced and understandable and provides
clear information

auditors => better communication between external auditor and the board
rights in the company's financial controls and reporting mechanisms.
external auditor's recommendations with regard to internal control weaknesses

costs
members with the right experience at the market
audit department
IAD has direct access to the chairman and that it is accountable to IA
workplan
reports on the results of IAD work
management responsiveness to IAD's findings and recommendations
at least once a year without presence of management

an appropriate risk strategy for the company
ensure the risk strategy is embedded and strategy not being ignored by certain departments/staff
identify risks, suggest solutions
engage other departments on their specific risk issues
review and assess their recommendations
disclosures are in Annual report

decision-making
directors and for AC
effectively, then:
predictable cash flows are produced
liability is limited
confidence among investors, employees, customers, suppliers and partners

risks arise from many sources:
new technology or changing competition

priority in their tackling

lose

re performance appraisal at least annually
E-350 companies re-election should be every year.
ld be performance-based

iveness of which should be reviewed every year as part of annual report.
up of at least 3 NEDs. Main role of such committee is to liason with internal (i.e. internal audit departr
d encourage debate through AGM (annual general meetings)

ngs ensuring there is enough time for important matters

nted by a company to ensure the integrity of financial and accounting information, promote accountal
o identified internal and external risks and volnurabilities and which are reviewed regularly by internal
auditors can rely on these controls and reduce the amount of detailed (substantive) testing that they d
auditors cannot rely on these controls and they must increase the amount of detailed (substantive) tes
al)

the benefit of following them so the controls are ignored
actions e.g. determining a provision for a court case. Controls work best in systems where there is a high
example:

control procedures to minimize the existing and potential risks

Procedures

order in

customers
> credit
before order
and regular
performed on
customers.

limits imposed
orders.

approved
and
in managers.

Procedures

likely
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order sent to
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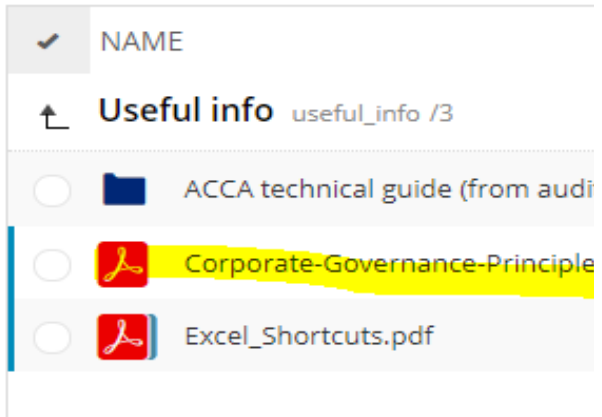
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ff – sign
viewed.

e parts together.

- 1 purpose of
- 2 need for CC
- 3 scope of CC
- 4 CG and IC



lly after this

d how much they can add value

1sts the management tier

the information necessary for shareholders to assess the company's performance and strategy

ment) and external auditors on all matters

bility, and prevent fraud.





I audit department and which are tested by external auditors during statutory audit.

o

sting that they do. Audit statistics indicate that sample sizes needed should be tripled to compensate for |

igh volume of routine transactions.

CG
3
3

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poor internal control

