

	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

MU week

Total split of points:

	Task	Points	Comments:
wk1	presentation of 1 case	20	schedule w
wk1	midterm test	20	will be on N
wk2	final exam	60	will be in Ja
wk2, wk3	<u>total</u>	<u>100</u>	

wk4

wk5, wk7

wk8, wk9

wk10, wk11

max grade

100 points (A)

ith cases and dates will be confirmed. Complex case can be presented by two persons and simple case s

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 entrust
- 2 why CG is needed? - management, shareholders and government have different objectives of management - to sustain listing on the exchange, to improve
objectives of shareholders - to have environment within which they can
objectives of government - to create conditions for growth and employment
- 3 scope of CG (see see principles of corporate governance as per Code of corporate governance)
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-executive directors (NEDs)
should ensure that non-executive directors (NEDs)
no one person or group should be able to dominate
should be of appropriate size, right balance of
at least of half of the board should be made up

NED should

- not be an employee within the last 5 years
- not have business relationships within the last 5 years
- be only remunerated with a fee for director duties
- no close family ties to the company
- no cross-directorship
- any NED who has been on the board for longer than 9 years
- not be a major shareholder

advantages and disadvantages of having NEDs

advantages

- provide expertise
- provide monitoring to management
- demonstrate that decisions are in the best interests of the company
- facilitate shareholder resolutions
- facilitate compromise

disadvantages

- this will create costs as NEDs do not work full time
- some NEDs are too will

general rules:

- all directors should get induction and training
- board, its committees and individual directors
- directors should be elected at least every 3 years
- significant proportion of remuneration of directors
- remuneration should consider industry level.

board should insure sound system of controls,
if the board has the audit committee, it should
board should have regular dialogue with share
chairman and COE

should not be the same

chairman is CEO runs the company

chairman is CEO is key contact for

types of companies depending on role of board:

unitary board - board represents supervisory

two-tier board - shareholders and stakeholder

committees - report to the board

they allow the board to offload responsibility for a particu

they provide a forum to focus on a limited and distinct ta

they should provide an expertise in the given area of open

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 ex

review and monitor ho

review of company's in

review and monitor eff

provide advice on whe

to review cases of whic

benefits of audit committee

it assists to external au

it increases confidence

it follows up external a

limitations of audit committee

it imposes additional c

difficulty in finding me

audit committee and internal audi

AC should ensure that

review and assess IAD

receive periodic report

review and monitor m

meet with head of IAD

risk management committee

responsibilities

advise the board on an

monitor company to ei

help to identify major r

- receive reports from h
- receive report from IAI
- ensure all risk-related c
- benefits of risk committee
 - independence in decisi
 - support for board of di
 - if committee works eff
 - more pred
 - impact of d
 - greater con
- phases of risk management
 - identify risks. risks may
 - impact of n
 - fraud
 - regulations
 - estimate impact and pi
 - develop solutions
 - implement risk strateg
 - review, adapt and discl

- nomination committee
- remuneration committee

4 CG and internal controls

IC - is system of values, rules, procedures and systems (IS) implemen
 Controls are designed by risk management committee as response to

=> 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 intentional)
- 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 t
 - it may be impossible to design a control for one-off trans:

IC are designed and implemented within each accounting cycle. For e

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

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 pr
Goods despatched	Goods are not despatched. Incorrect goods sent.	Sequential numbered order pads Copy of or the warehc picking. Weekly on to ensure : is complet missing). Order sign inventory p Goods des (GDN) ma order (stap and file). Customer copy of the returns it to receipt of Use seque numbered review freq incomplete and unmat items.
Invoice raised	Invoices may be missed, incorrectly raised or sent to the wrong customer. Credit notes may be raised incorrectly.	Copy of GE accounts a matched to the invoice. Unmatched be periodic reviewed. Copy invoic as agreed t order, GDN customer p

Copy invoice to agree accuracy.

Credit note allocated to relates to a authorised manager.

Stage	Risks	Control pro
Sale recorded	Invoices may be inaccurately recorded, missed or recorded for the wrong customer.	Review rece ledger for cr balances. Perform a re ledger recor

Double che to invoice.

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

Stage	Risks	Control pro
Cash received	Incorrect amounts received.	Agree cash back to the

Customer does not pay.
Review rece ledger for cr balances (c overpaid).

Review age listing and i old balance

Debt chasir procedures control.

Cash recorded	Cash incorrectly recorded or the wrong account	Monthly cus statements Bank recon
----------------------	--	--------------------------------------

Regular

	Cash stolen	banking/phy security ove (i.e. a safe).
		Reconciliatic banking to c receipts reci
		Segregation duties.

purchases cycle

Stage	Risks	Control pro
Requisition raised	Unauthorised purchases made.	All requisiti authorised manager. Central pur dept. Check inver levels first.
Order placed	Invalid or incorrect orders made or recorded The most favourable terms not obtained	Sequentiall numbered r pads, copie numerically with copy o stapled to i Request on confirmator writing. Preferred si agreed pric Check quot against sup list.
Goods received	Goods stolen. Goods may be accented that	One secure area. Inventory re

accepted that inventory has not been updated on ordered or are of basis. wrong quantity or inferior quality.

Goods inwa inspected for condition and quantity & agreed to or goods received (GRN).

Copy of purchase order (PO) : warehouse, sequentially numbered, 1 matched to

Raise GRN stamp it, sign goods check PO and check quality.

Stage

Risks

Control pro

Invoice received

Invoices not recorded resulting in non-payment and loss of supplier goodwill.

Copy of sequentially numbered GRN to invoicing department, matched to invoice (stamp)

Invoices may be logged for goods not received.

If no GRN a supplier for delivery + match PO (authorisation)

Invoices may contain errors.

mentioned a

Purchase recorded

Purchases missed or recorded incorrectly.

Batch control input.

Stamp the invoices to indicate receipt check all files invoices are stamped.

Supplier's ac

Suppliers see monthly statement to reconcile the suppliers ledger account.

Stage	Risks	Control pro
Cash paid	Invoices not paid or incorrect amount paid.	Stamp invoice paid; check invoices status. Keep paid invoices separately from unpaid ones. Cheque sign check to invoice when signing cheque/authorise BACS. Have authorised person sign cheque. Get invoices as authorised relevant manager.

payroll cycle

Stage	Risks	Control pro
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	Monthly print changes to get senior manager for review and signature. Standing data:

mean employees regularly print
 who have left are and sent to
 paid or joiners department
 are missed. managers for
 confirm.

Restriction to
 standing data
 e.g. passwor

Managers sh
 complete a
 leavers/joiner
 noting date o
 departure/arri
 send promptl
 payroll dept.

Stage	Risks	Control proc
Processing of data	Inaccurate processing of data could lead to wages and taxes being incorrectly calculated.	<p>Sample of wa recalculated manually.</p> <p>Exception rep produced automatically anyone paid c \$xxx, or paid \$yyy.</p> <p>Sample of de (PAYE, NIC) recalculated.</p> <p>Managerial re weekly paym summaries.</p>
Recording of payroll	Recorded payroll may not match actual payroll.	<p>Nominal ledge signs payroll ; to confirm ent double-checke print.</p> <p>Senior manag review wages expenses for reasonable:</p>
Staff paid	Staff may not be paid.	Have two pec present wher

Bogus staff
could be paid.

wages are pa

Responsible
individual shc
review any B.
payroll summ
to paying sta
to confirm rev

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 with

control procedures to minimize the existing and potential risks

Tests used by auditors during planning stage to assess effectiveness



Procedures

Example tests of controls

order in

Select a sample of sales made and inspect copy of order retained on file.

customers

credit before order and regular performed on customers.

Inspect a sample of new customer's files to ensure a satisfactory credit check has been obtained.

limits imposed managers.

With the client's permission, attempt to enter a sales order which will take a customer over the agreed credit limit, the system should reject the order.

approved and n managers.

Inspect a sample of sales orders for approval by an appropriate senior member of staff.

Procedures

Order sent to customer
Order sent to warehouse
Order check sequence
(i.e. none)

Order signed by picker.

Goods despatch note attached to order together

Goods signed against GDN and to confirm goods.

Order checked against GDNs and quantities for sequence checked

Procedures

Order sent to warehouse
Order copy of GDN

Order GDNs to warehouse

Order signed to original order, and price list.

Example tests of controls

Inspect orders held by warehouse to ensure sequence is complete.

Visit warehouse and observe the goods despatch process to assess whether all goods are double checked against the order and goods despatch note (GDN) prior to sending out.

Inspect documentary evidence of sequence check.

Inspect a sample of orders to ensure signed by inventory picker.

Inspect a sample of GDNs and ensure an signed copy of the order is attached and filed with it.

Select a sample of GDNs and reperform matching to order, to ensure goods and quantities agree and any differences are noted/followed up.

Inspect GDNs for incomplete sequence and unmatched items.

Inspect a sample of GDNs and ensure a copy was signed by the customer and filed with the original.

Example tests of controls

Inspect sample of GDNs and agree that a valid sales invoice has been correctly raised.

Inspect file of unmatched GDNs to ensure no old GDNs remain unmatched (i.e. unmatched GDNs are being reviewed periodically).

Inspect sample of invoices to ensure signed as agreed to original order, GDN and price list.

ce signed
arithmetical

Inspect sample of invoices and agree prices to current authorised price list.

is to be
o invoice it
and
by

Recalculate sample of invoices to confirm arithmetical accuracy.

Inspect sample of credit notes to ensure authorised by appropriate manager.

cedures |
ivables
redit

Example tests of controls

Inspect receivables ledger for credit balances.

receivables
nciliation.

Inspect sample of reconciliations.

ck back

Reperform receivables ledger reconciliation.

statements
ustomers
w if

Inspect customer correspondence re. statements sent out for reported errors.

Inspect sample of invoices and agree to entries made in receivables ledger.

cedures
receipt
invoice.

Example tests of controls

Agree sample of cash receipts during the year to the copy invoice.

ivables
redit

Inspect aged debt listings for evidence of review.

ustomer

Inspect receivables ledger for evidence of review.

old debt
investigate
is.

Inspect aged debt listing and enquire what action has been taken regarding old balances, obtaining corroborative evidence.

ing
/credit

Review credit control procedures and inspect evidence of compliance with procedures.

ustomer
sent out.
nciliation.

Select a sample of customers with outstanding debts and ensure

Reperform bank reconciliation.

Physical of cash books	Inspect a sample of bank reconciliation to ensure reconciliations performed on a timely basis and evidenced as reviewed.
Review of cash books.	Obtain paying-in slips to ensure cash banked regularly.
Review of	Observe cash receipt and recording procedures to ensure adequate segregation of duties.

Procedures	Example tests of control
Orders by	Inspect sample of requisitions to ensure authorised by manager.
Purchasing	Inspect sample of requisitions for evidence of inventory levels having been checked first.
Inventory	
By requisition is filed if order t.	Inspect a sample of requisitions and ensure an order is attached, and supplier confirmation filed with it.
Order number in	Inspect requisitions held by purchasing department and ensure sequence is complete.
Suppliers/ price lists.	Inspect sample of orders and ensure price agrees to agreed price list.
Ordered price supplier price	Inspect sample of orders and ensure placed with supplier on preferred suppliers list.

Procedures	Example tests of control
Delivery	Visit a warehouse and inspect delivery area for security of goods.
Records	Inspect a sample of recent delivery

records a timely	inspect a sample of recent delivery notes to ensure inventory records updated.
ard or nd goods rder and ived note	Visit a warehouse and observe goods receipt process to assess whether all goods are double checked against PO & GRN and inspected for quality. Inspect sample of GRNs for evidence of signature confirming checks.
urchase sent to / filed, GRN.	Inspect sample of POs and ensure GRN raised and filed with, and enquire about action taken re. outstanding POs.
and grid gned as :ked to acked for	For a sample of GRNs reperform matching to PO to confirm amount and description received agrees to amount and description ordered.
cedures quentially GRNs sent , filed and copy of pled).	Example tests of control Inspect sample of GRNs and check that an invoice has been recorded and payment made for the goods received. Obtain explanations for any missing invoices/payments.
isk proof of match to sed as above).	Inspect sample of invoices to ensure signed as agreed to PO, GRN and supplier's price list. Inspect sample of invoices and match to PO, GRN and supplier's price list.
ols on	Inspect batch control sheets for evidence of performance of batch controls.
nvoice to orded, ad	Inspect sample of invoices for record stamp.
sed in	Reperform supplier statement reconciliations for a sample of suppliers

and in
tements,
ese to
dger

suppliers.

cedures

ices when
all
imped.

Example tests of control

Inspect sample of invoices for
payment stamp.

nvoices
from
s.

Observe procedures for keeping
paid invoices separate from unpaid
ones.

natory to
oice
ig
norising

Inspect evidence of cheque
signatory reviewing invoices before
payment.

rised
natories.

Review authorised cheque
signatories for appropriate seniority
of signatories and limits.

s signed
ed by
nager.

Inspect sample of invoices for
authorisation by relevant manager.

cedures
of
nd out.

Example tests of controls

Observe procedures for supervision
of clocking in and out.

er of
iber of

Reconcile recorded number of
cards issued to number of
employees.

re cards
board.

Observe procedures for locking
spare cards away.

)

Inspect sample of timesheets for
supervisor authorisation.

: of any
io to
gement
d

Inspect monthly print of changes to
standing data for senior
management signature.

a files

Inspect sample of printed standing
data files for evidence of
department manager's confirmation

ted out	Attempt (with client's permission) to access and amend standing data without the appropriate passwords
r them to	
) a files, ds.	Select a sample of leavers forms and inspect payroll records to ensure leavers were not paid after departure date.
ould	
s form f ival and ly to	Select a sample of joiners forms and inspect payroll records to ensure first pay date is correct, and joiners are paid the correct amount.
<hr/>	
cedures ges	Example tests of controls Reperform manual recalculation of sample of wages.
port	Review exception report produced and evidence of action taken in respect of exceptions identified.
for over under	Reperform recalculation of sample of deductions.
ductions	Inspect evidence of managerial review of weekly payment summaries.
view of ent	
cedures I	Example tests of controls
er clerk print out tries ed to	Inspect payroll print out for ledger clerk's signature.
ement	Inspect evidence of managerial review of wages expenses.
ss.	
ople re cash	Observe procedures in place for

aid.

payment of cash wages.

ould
ACS
nary prior
ff – sign
viewed.

Inspect BACS payroll summary for
signature of responsible individual.

Premise-based ERP

SAP IS retail

find some old version of Ora

Aptos

ROI

NPV

Payback period based on discounted CF

Payback period based on not-discounted CF

Cloud-based

SAP 4 Hana

Hyperion

Hybrid

...

...

..




- 1 purpose of CG
- 2 need for CG
- 3 scope of CG





board of directors and
executives
nonexecuti

- 4 CG and IC

✓ NAME

↑ Useful info useful_info /3

-  ACCA technical guide (from audit client perspective) a
-  Corporate-Governance-Principles-ENG.pdf
-  Excel_Shortcuts.pdf

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Part II. Assurance engagement

1 need for external assurance

stewardship and agency theory

directors are stewards of shareholders, to whom shareholders

auditors are agents of shareholders who give assurance to

2 purpose of assurance service

to increase confidence

to reduce risk of users of services

3 levels of assurance and types of assurance services

reasonable (aka positive) - e.g. external audit which confirms that financial

Note! Reasonable assurance is not = to 100% guarantee of

use of testing - because it is impracticable to test

inherent limitations of IC

audit just like financial statements under audit is based on

many audit conclusions are based on judgement

possibility of fraud

Also many users of audit report often assume that audit is

limited (aka negative) - e.g. review which states that nothing was

4 external audit

objectives

to obtain reasonable assurance about whether the financial

statements are true in all material aspects

elements of audit engagement

3 parties - assuror (i.e. auditor), intended users (of financial

statements) - financial statements

suitable criteria - reporting framework (e.g. IFRS) plus law

sufficient appropriate evidence

written report (i.e. audit report)

5 external auditor

who can be external auditor

pass an approved set of qualifications set by Recognized

Qualifying Body

must not be either director or employee of the client or its

associated entity

ethical requirements

professional scepticism - auditor should have open and

independent mind

professional judgement - auditor should exercise professional

judgement

appointment of external auditor

candidate is proposed by board and approved by shareholders

removal of external auditor

resignation

before resignation

in this case auditors need to write

to speak at the GM to shareholders

after resignation

auditors need to issue a statement

forced removal

this should be agreed on GM by shareholders

quality control

quality control procedures are internal controls implemented

characteristics (components) of strong quality control environment

appointment of quality control partner

have documented processes for staff to follow

ensure all staff are trained in these processes

have strict recruitment policies

ensure appraisal process to recognize high quality

ensure careful selection of assignment teams

have a cold review process where a selection

quality control during audit engagement

pre-appointment checks should be carried out

all work of audit team should be

directed

supervised by senior members of the team

recorded in working papers

reviewed by senior

there should be appropriate consultations with management

a hot review should be done before audit is finalized

there should be careful procedures on acceptance

6 internal auditor

role of internal auditor

role of IA department is to provide a feedback on effectiveness

having of IA department is best practice rather than requirement

for IA department to be effective the following should be considered

appropriate resourcing: money, time, training

good organization (incl. audit documentation)

regular reviews of work performed

independence - reporting to audit committee

Note! If it is impossible to insure independence

advantages of outsourcing:

it can be cheaper

it gives an access to expertise

it gives higher flexibility

it gives max independence

it ensures that auditors are

it reduces management

it reduces training cost

disadvantages of outsourcing:

less depth of knowledge

can be exposed to selection

management has less control

limitations of IA department

independence - reporting to fin director instead of AC dec
scope - scope of EA's work is defined by statute and cannot
familiarity - IA can become friendly with their colleagues for
appointment - IA are appointed by management, while EA
quality - EA keep their knowledge up-to-date and undergo
length - IA employed for a long period of time may be ex

assignments

VFM (value-for-money) checks (also known as operational
effectiveness check - what should be achieved |
efficiency - if such department's objectives are
economy - to purchase stock/services needed
customer experience

IT - IA (and EA as well) check the security of company's IT,
financial - fraud investigations, management accounts, tax
legal - regulatory compliance

assistance of IA to EA:

assignments for IA

testing of accuracy of management accounts &
IC testings during the year
attendance at the inventory count

pre-requisites of assistance of IA to EA

experience and qualification of IA
whether or not the recommendations of IA are
quality and organization of work of IA department

7 Professional ethics

Role of auditor (external) is to increase confidence of end users of fin
independence in mind - decision making of auditor is not
independence in appearance - audit needs to be seen to be

Ethical principles of audit professions

professional behavior
integrity (=straightforwardness and honesty)
professional competence and due care
confidentiality
objectivity (without bias)

Ethical threats - exposure to all the threats below needs to be regu

self-interest threat
self-review threat
familiarity threat
advocacy threat
intimidation threat

Confidentiality - auditors should never share client information with :

mandatory disclosure
client is suspected of money laundering
client is suspected of terrorism
qualifying body is investigating auditor's work
court order is obtained requiring the auditor to
voluntary disclosure

client gives permission

auditor feels it is in public interest to do so

auditor has to defend himself in the court or a

Conflict of interest - auditors must be seen to act in the best interest

if such situation arises, all clients involved must be inform

if consent is received, auditors need

to assign different audit teams headed by diffi

procedures to monitor confidentiality should l

if consent is not received, auditors should decline an app

financial statements are true and fair. To be able to provide reasonable assurance, assurer needs to perform tests on all transactions, tests should be done on samples. Problems can be as follows: tests can be designed

assurers are required to detect fraud. BUT: auditors are required to do testing, gather evidence and issue an opinion. If an auditor could suggest that statements are not true and unfair has come to attention of assurers. If assurer has performed

What does

From the ri
organizatio

overall qu

partners a


ularly assessed during whole course of the audit and other assurance arrangements. If there is any threa

1
2
3
4
5
6

perform first a lot of work on subject matter, particularly substantive tests.

performed incorrectly, can use non-representative samples, can be done by non-qualified employees

opinion and it is the responsibility of directors to prevent fraud in their financial statements. Auditors performed only a limited amount of work over subject matter, for example, only analytical

What do quality review partners do? 

From a risk management point of view, engagement quality review partners are a critical internal layer in audit firms because **their primary objective is to evaluate the quality of the audit engagement and the performance of the engagement and their team** (Epps and Messier 2007) .

it, appropriate safeguard needs to be taken. If safeguard cannot be take or if It is









need for external assurance
purpose of external assurance
levels of external assurance
external auditor
internal auditor
professional ethics

ough employees, tests can have bad timing

alytical procedures without substantive testing, then assurer is bale to confirm that nothing has come to






✓ NÁZEV

↑ Lectures (slides) 60366333 /8

-  By phase - Evaluating and reporting
-  By cycle - Sales and collection By_cy
-  By phase - Testing and evidence By
-  By phase - Planning By_phase_-_Plar
-  Fundamentals - Ethics Fundamental
-  By phase - Acceptance By_phase_-_A
-  Introduction, Fundamentals - audit
-  Fundamentals - CPA Fundamentals_

✓ NÁZEV ▾

↑ Useful info useful_info /5

-  ACCA technical guide (from audit cli
-  ethical_threats.pdf
-  ethical_threats_UK.pdf
-  Corporate-Governance-Principles-E
-  Excel_Shortcuts.pdf

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Part III. Client assessment

1 before accepting the client auditor should

check available resources and integrity of client

agree on fee and deadlines

determine the level of audit risk

check professional clearance

ask client permission to contact predecessor if there any

if client refuses to give permission - test is failed

if client gives its permission but predecessor confirms tha

check formal preconditions for accepting the client

what is the reporting framework used by client

if management of client agrees to provide to auditor acc

2 after accepting the client

prepare engagement letter with description of all conditions of the u

objective and scope of audit

management's responsibilities

auditor's responsibilities

form and content of any reports to be issued

description of audit procedures

arrangements regarding planning and performance of au

risk assessment matters

auditor's use of external specialists and internal auditors

access to information

communication between auditor and client

basis of fees and billing arrangements

agreement of management to inform the auditor of facts

agreement of management to make available to auditor :

if there are such reasons - discuss this with client and if not fully agreed on all potential issues, decline a

1 actions of auditor before accepting the client
2 actions of auditor after accepting the client

accepting this client

↑ Lectures (slides) 60366333 /8

- P** By phase - Evaluating and reporting By_phase_-_Reporting.ppt
- P** By cycle - Sales and collection By_cycle_-_Sales_and_collection
- P** By phase - Testing and evidence By_phase_-_Testing.pptx
- P** By phase - Planning By_phase_-_Planning.pptx
- P** Fundamentals - Ethics Fundamentals_-_Ethics.pptx
- P** By phase - Acceptance By_phase_-_Acceptance.pptx
- P** Introduction. Fundamentals - audit market Introduction,_Fur
- P** Fundamentals - CPA Fundamentals_-_CPA.pptx

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	Lemeshko, O.	7. 11. 2015	
	Lemeshko, O.	26. 10. 2015	
	Lemeshko, O.	11. 10. 2015	
	Lemeshko, O.	11. 10. 2015	
ndamentals_-_a...	Lemeshko, O.	5. 10. 2015	
	Lemeshko, O.	5. 10. 2015	

Part III. Planning of audit

- 1 Planning - it is not a discrete phase of audit but it is a continual process that starts
planning helps the auditor to:
 - devote appropriate attention to important areas of the audit
 - identify audit risks
 - identify and solve potential problems on a timely basis
 - properly organize and manage the audit engagement so to
 - select engagement team members with appropriate level
 - direct and supervise engagement team and to review the
 - coordinate the work done by external experts

2 Stages of planning

setting up of audit strategy

parts of strategy

scope of audit

timing of individual audit procedures

direction of procedures

it is based on such assertions

initial assessment of **materiality**

initial identification of **risk areas**

about the nature, timing and **resources** needed

preparing of detailed audit plan - it is a set of instructions

parts of plan

detailed description of client

description of accounting policies and internal controls

detailed materiality assessment

results of preliminary analytical procedures or

likely audit approach to each area of financial statements

detailed description of high risk areas and how to address them

specific audit testing issues (e.g. if external experts are used)

timing of specific procedures

details of staffing, a budget and a timetable

special areas for planning

fraud and error

fraud vs error

fraud - intentional act by one or more persons

error - unintentional mistake, can be corrected

types of fraud

misstatement (i.e. fraudulent financial reporting)

misappropriation of assets (i.e. the theft of cash or other assets)

responsibilities of management and auditors

management - has primary responsibility for the accuracy of financial statements

auditors - should consider the risk of material misstatement

any audit evidence that indicates a material misstatement

economic downturn puts pressure on management

impact of fraud on audit strategy

reduction in materiality level
increased level of testing in areas
reduced reliance on evidence generated
reduced reliance on management
reporting of fraud - if fraud is identified the auditor should report to the
audit committee if it exists
highest level of management
shareholders if fraud was committed
to 3rd parties (official authorities)
Note! Communication should be done
keep management and
discover what actions to take
evaluate the likelihood
discover what if any legal

law and regulations

auditors cannot know and understand every law
any breach of the law may need to make provisions
audit procedures to get assurance in terms of
obtain general understanding of compliance
inspect correspondence with the authorities
obtain written representation that

materiality

during audit auditors concentrate on identifying
misstatements incl. omissions are considered
auditors must design their audit procedures to
there is no specific methodology for calculating
however some guidance as to when misstatements are
1/2 - 1% of turnover/revenue
1-2% of gross assets
5-10% of profit before tax
overall vs performance materiality vs tolerable
overall materiality - level of materiality
performance materiality - amount
initial assessment of materiality may change
all misstatements discovered should be
clearly trivial misstatements
not trivial misstatements
material - non
immaterial

analytical procedures (AP)

AP are important tool used by auditors. When
AP are used at many different stages throughout the audit
at planning
AP are compulsory. They must be used
during testing
AP are optional. They should be used
at completion

AP are compulsory. Au

How to use AP

AP can be used in the following ways:
ratio analysis (profitability)
trend analysis
proof in total
process to be followed
auditors create their own expectations
compare their expectations with actuals
investigate any significant differences
possible reference points for used:
vs last year
vs budget/forecast
vs industry average
vs change in gross margin

internal controls

there are two audit approaches based on initial assessment of internal controls:
when IC are assessed as strong - audit is more limited
when IC are assessed as weak - in-depth audit
Usually IC are tested during interim audit which is more effective
Tests of IC

Tests used by auditors during planning

assistance from internal audit department

internal audit is part of the client's system of internal controls
types of work the external auditor can do:
tests of effectiveness of internal controls
fraud investigations
observation of inventories
compliance with laws and regulations
substantive procedure:
tracing transactions through the system
see also: assignments for IA
pre-conditions which should be met for IA's work to be properly supervised:
IA's work is properly supervised by qualified persons from IA department
IA's work is properly supervised by qualified persons from IA department
sufficient and appropriate evidence is obtained
conclusions drawn are based on sufficient evidence
recommendations made are based on sufficient evidence
see also: pre-requisites

Note! External auditor cannot devolve responsibility
If external auditors plan to use help from IA department, management must agree in writing that internal auditors must provide written reports and that external auditor will provide direct

ls of capabilities and competence to respond to anticipated risks and the proper assignment of work to t



ore individuals among management, those charged with governance, employees or 3d parties to obtain

isibility for prevention and detection of fraud. Implementing of an efefctive system of internal control, tl

s set by auditors at below overall materiality to reduce to an appropriately low level the probability that

- material can refuse to correct such misstatements motivating its rejection by the immateriality of each

auditor will approach the audit by testing the effectiveness and operation of that control system. If control is effective, in this case the only way the audit risk can be kept low is by performing a very high amount of work them

internal control. Thus it may well reduce control risk and the need for external auditor to perform detail

them

↑ Lectures (slides) 60366333 /8

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- P By cycle - Sales and collectic
- P By phase - Testing and evid
- P By phase - Planning By pha
- P Fundamentals - Ethics Fund
- P By phase - Acceptance By_p
- P Introduction. Fundamentals
- P Fundamentals - CPA Fundar

identification of risk areas is done through obtaining **understanding of entity** and its environment:

- industry, regulatory and other external factors

- nature of the entity (products and services, customers and suppliers, location, group structure)
- its objectives, strategies and risks (e.g. new products and services, expansion plans)

- internal control (all components)

- financial performance (key ratios and statistics, forecasts and budgets, credit rating, trends)

audit risk - the risk that auditors give the wrong opinion on the fin statements

- it can be uncovered at any stage of the audit

- in the light of the work done the level of risk may be reappraised

- risk assessment procedures

 - enquires of management and others within the entity

 - observation and inspection

 - analytical procedures (e.g. ratio analysis, comparing actuals and budget)

 - unusual relations

 - unusual trends

- risk components

- inherent risk - a possibility of incorrect or misleading information in fin statement

 - control risk - a risk that company's controls fail to prevent or detect material fraud

 - detection risk - a risk that the auditor's procedures do not detect material misstatements

- auditor's responsibility in regard of audit risk - auditors have to

 - assess the risk

 - address the risk

the directors should review the results to make sure that audit risk was reduced to acceptable level

- auditor's responses to assessed risk:

 - design audit procedures (e.g. tests of control and substantive tests) to address the risk

 - assign more experienced staff or those with special skills or using experts

 - incorporate additional elements of unpredictability

: the aggregate of uncorrected and undetected misstatements exceeds overall materiality. In simple terms

such misstatement. If management refuses to correct immaterial misstatements auditors need to check

ols are needed found to be operating well, then the risk of an error in the fin statements is low and the au
elves to achieve a very low detection risk. This means a audit based on full substantive testing rather th

ed substantive testing. This will b obviously taken into account during planning phase of the audit.

(Cont.)

Computer controls

general controls

- making regular back-up
- having IT help-desk and
- access controls such as
- having a disaster recov
- all computers have log
- anti-virus software and
- segregation of duties b

application controls

- control that standing d
- passwords
- exception r
- batch check
- reasonable
- character c
- range limits
- manual che
- print-outs a

Computer Assisted Audit Techniques (CAATs)

test data - data designed by the au

drawbacks

any false tr

this may ca

Therefore test data is c

audit software - auditor's software

reorganizin

performing

verifying th

reperforma

sequence c

choosing ra

advantages of using au

easy to use

limited IT sl

improves e

can be usec

disadvantages of using

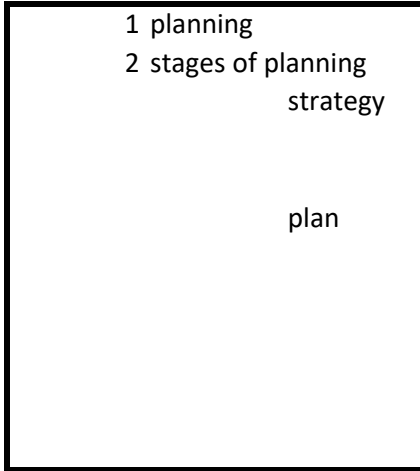
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extensive n

use of copy

Bottomline: audit softv

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amentals_-_CPA.pptx	Lemeshko, O.	5. 10. 2015



risks resulting from something other than failure of controls. For example, use of judgments and approximations or errors because they do not exist, or are designed badly or they do not operate properly. Lack of controls, either individual or in aggregate. It can happen due to choosing an unrepresentative sample to

(cont.)
Risk areas

- lack of physical controls
- lack of IT based controls
- lack of authorisation controls

lack of segregation of duties
account balances e.g. R&D and wa
client operates in high tech or fash
client is based in multiple location:
bank is relying on fin statements o
it is cash-based business
company trades overseas
new computer system in the year
new audit client
tight audit deadline imposed by c
temporary staff used during the year
a client in specialized industry

ms, performance materiality is the 'working materiality'. It sets a numerical level which helps guide audi

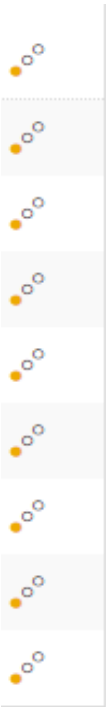
k if such accumulated immaterial misstatements remaining as uncorrected do not in aggregate consitu

auditor will perform relatively little substantive testing on the financial statements amounts. This results in an emphasis on relying on internal controls. This will usually result in an inefficient, expensive audit because of the high

auditor and which is used to test controls within a client's computer system. Basically it is running of audit

often run as dead data. This means that it is run using a copy of client's system so that any false transactions which is used to perform substantive tests on client data. These can be off-the-shelf packages (e.g. IDE.

ware can simplify the auditor's task by selecting samples for testing, identifying risk areas and by perform



More about audit risk:

<https://www.accaglobal.com/in/en/student/exam-support-resources/professor>

- parts
- assertions (incl. audit risk and materiality)
- fraud and error
- law and regulations
- materiality
- analytical procedures (AP)
- internal controls
- assistance from internal audit department

situations like in case of complex financial instruments, nonroutine accounts or transactions
controls may be due to costs of their implementation: installation of new equipment, employment of external auditors, human error, lack of training, inexperience, misinterpretation of results of test

tors to do enough work (but, importantly, not too much) to support their audit opinion. In comparison v

...or's data through the client's system. It will help the auditor to test client system's limits. Auditors will n

A, ACL) or tailor-made systems. Auditors will upload a copy of client's data onto their computers and wil

ning certain substantive procedures. The software doesn't however, replace the need for auditor's own

make their data from normal transactions and invalid transactions to test that the system works ok.

