

	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)	

:

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 who

responsibilities

make recommendations

review and monitor external

review and monitor internal

review of company's financial

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)

missing).

Order sign
inventory p

Goods des
(GDN) ma
order (stap
and file).

Customer
copy of the
returns it to
receipt of c

Use sequen
numbered
review freq
incomplete
and unmat
items.

Stage	Risks	Control pr
Invoice raised	Invoices may be missed, incorrectly raised or sent to the wrong customer.	Copy of GC accounts matched to the invoice.
	Credit notes may be raised incorrectly.	Unmatched be periodic reviewed.
		Copy invoic as agreed to order, GDN customer p
		Copy invoic to agree ar accuracy.
		Credit note allocated to relates to a authorised manager.

Stage	Risks	Control pro
Sale recorded	Invoices may be inaccurately recorded	Review rece ledger for cr balances

recorded, missed or recorded for the wrong customer. Perform a re-ledger record. Double check to invoice. Customer's sent out (could let you know wrong).

Stage	Risks	Control pro
Cash received	<p>Incorrect amounts received.</p> <p>Customer does not pay.</p>	<p>Agree cash back to the</p> <p>Review receipt ledger for balances (could overpaid).</p> <p>Review age listing and old balance</p> <p>Debt chasing procedures control.</p>
Cash recorded	<p>Cash incorrectly recorded or the wrong account</p> <p>Cash stolen</p>	<p>Monthly customer statements</p> <p>Bank reconciliation</p> <p>Regular banking/physical security over (i.e. a safe).</p> <p>Reconciliation banking to customer receipts received</p> <p>Segregation duties.</p>

purchases cycle

Stage	Risks	Control pro
Requisition raised	Unauthorised purchases made.	All requisitions authorised by manager. Central purchasing dept. Check inventory levels first.
Order placed	Invalid or incorrect orders made or recorded The most favourable terms not obtained	Sequentially numbered purchase orders, copies numerically with copy of order stapled to invoice. Request order confirmation in writing. Preferred suppliers and agreed prices. Check quotations against supplier list.
Goods received	Goods stolen. Goods may be accepted that have not been ordered or are of wrong quantity or inferior quality.	One secure storage area. Inventory regularly updated on a first-in, first-out basis. Goods inspected for condition and quantity & cost agreed to on goods received note (GRN). Copy of purchase order (PO) sent to warehouse.

warehouse, sequentially numbered, 1 matched to

Raise GRN 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 sequentially numbered GRN to invoicing department, matched to invoice (stamp)</p> <p>If no GRN a supplier for delivery + match PO (authorised) mentioned a</p>
Purchase recorded	<p>Purchases missed or recorded incorrectly.</p>	<p>Batch control input.</p> <p>Stamp the invoices to indicate received; check all file invoices are stamped.</p> <p>Suppliers see monthly statements reconcile the suppliers ledger account.</p>
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>

Cheque sign
 check to inv
 when signin
 cheque/aut
 BACS.

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 o clocking in ar Check numbe cards to num employees. Keep all spar locked in cup 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 g senior manaç for review anc signature. Standing dat regularly prin and sent to department managers for confirm. Restriction to standing dat e.g. passwor Managers sh complete a leavers/joiner noting date o

departure/arrival
send prompt
payroll dept.

Stage	Risks	Control process
Processing of data	Inaccurate processing of data could lead to wages and taxes being incorrectly calculated.	Sample of wages recalculated manually. Exception report produced automatically anyone paid incorrectly \$xxx, or paid \$yyy. Sample of deductions (PAYE, NIC) recalculated. Managerial review of weekly payroll summaries.

Stage	Risks	Control process
Recording of payroll	Recorded payroll may not match actual payroll.	Nominal ledger signs payroll journal to confirm entries double-checked and printed. Senior manager review wages and 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 Budgetary 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 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
ld 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

Tests used by auditors during planning stage to assess effectiveness of system controls



Procedures	Example tests of controls
Order in	Select a sample of sales made and inspect copy of order retained on file.
customers	
credit	Inspect a sample of new customer's files to ensure a satisfactory credit check has been obtained.
before order	
and regular	
performed on	
customers.	
limits imposed	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.
orders.	
approved	
and	
senior managers.	Inspect a sample of sales orders for approval by an appropriate senior member of staff.
<hr/>	
Procedures	Example tests of controls
Order held by	Inspect orders held by warehouse to ensure sequence is complete.
customer	
orders.	
Order sent to	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.
warehouse for	
Order check	
sequence	
check (i.e. none)	Inspect documentary evidence of sequence check.

signed by inventory picker.

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

Dispatch note attached to order together

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

Signs a GDN and to confirm goods.

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

Essentially GDNs and quantities for a sequence checked

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.

Procedures

GDN sent to customer with copy of invoice.

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

Old GDNs to be cancelled

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

Invoice signed to original order, GDN and price list.

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

Invoice signed arithmetical

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

Prices to be checked on invoice to confirm arithmetical accuracy.

Invoice to be signed by appropriate manager.

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

Procedures

Receivables ledger credit

Example tests of controls
Inspect receivables ledger for credit balances.

receivables reconciliation.	Inspect sample of reconciliations.
check back	Reperform receivables ledger reconciliation.
statements customers if	Inspect customer correspondence re. statements sent out for reported errors.
procedures	Example tests of controls
receipt invoice.	Agree sample of cash receipts during the year to the copy invoice.
receivables debit customer	Inspect aged debt listings for evidence of review.
old debt investigate issues.	Inspect receivables ledger for evidence of review.
aging /credit	Inspect aged debt listing and enquire what action has been taken regarding old balances, obtaining corroborative evidence.
customer sent out. reconciliation.	Review credit control procedures and inspect evidence of compliance with procedures.
physical for cash	Select a sample of customers with outstanding debts and ensure reconciliation.
portion of cash records.	Reperform bank reconciliation.
of	Inspect a sample of bank reconciliations to ensure reconciliations performed on a timely basis and evidenced as reviewed.
	Obtain paying-in slips to ensure cash banked regularly.
	Observe cash receipt and recording procedures to ensure adequate segregation of duties.

Procedures	Example tests of control
Orders authorised by purchasing department	Inspect sample of requisitions to ensure authorised by manager.
Inventory	Inspect sample of requisitions for evidence of inventory levels having been checked first.
By requisition as filed with order file.	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.
Fixed 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 up to date	Inspect a sample of recent delivery notes to ensure inventory records updated.
Goods received note	Visit a warehouse and observe goods receipt process to assess whether all goods are double checked against PO & GRN and inspected for quality.
Goods received note	Inspect sample of GRNs for evidence of signature confirming checks.
Goods sent to	Inspect sample of POs and ensure

GRN raised and filed with, and enquire about action taken re. outstanding POs.

For a sample of GRNs reperform matching to PO to confirm amount and description received agrees to amount and description ordered.

Procedures

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.

Example tests of control

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.

Inspect batch control sheets for evidence of performance of batch controls.

Inspect sample of invoices for record stamp.

Reperform supplier statement reconciliations for a sample of suppliers.

Reperform supplier statement reconciliations for a sample of suppliers.

Inspect sample of invoices for payment stamp.

Example tests of control

Observe procedures for keeping paid invoices separate from unpaid ones.

Observe procedures for keeping paid invoices separate from unpaid ones.

natory to
roice
ig
horising

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
to to
gement
d

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

a files
ted out

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

r them to

Attempt (with client's permission)
to access and amend standing
data without the appropriate
passwords

)
a files,
ds.

Select a sample of leavers forms
and inspect payroll records to
ensure leavers were not paid after
departure date.

ould

Select a sample of joiners forms
and inspect payroll records to
ensure first pay date is correct,
and joiners are paid the correct

is form
if

ival and
ly to

and generate and print the correct
amount.

cedures
ages

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

er clerk
print out
tries
ed to

Example tests of controls

Inspect payroll print out for ledger
clerk's signature.

gement

Inspect evidence of managerial
review of wages expenses.

ss.

ople
re cash
aid.

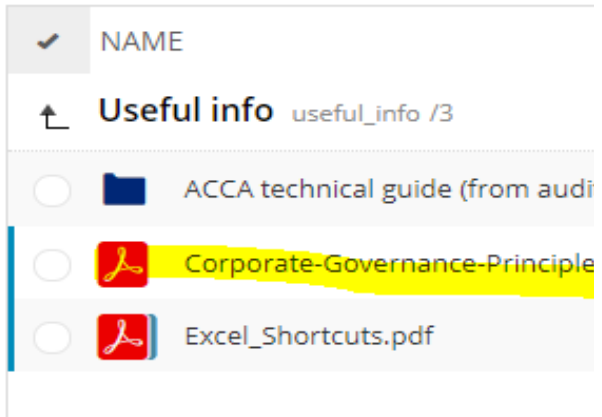
Observe procedures in place for
payment of cash wages.

ould
ACS
tary prior
ff – sign
viewed.

Inspect BACS payroll summary for
signature of responsible individual.

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.

of IC of the client

CG
3
3

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poor internal control

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 auditor

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 prepared in accordance with the applicable

elements of audit engagement

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

statements) and subject matter - 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 entities

must not be a business partner of director or employee of

ethical requirements

professional scepticism - auditor should have open and

critical thinking

professional judgement - auditor should exercise professional

judgement

audit risk - auditor should evaluate audit risk throughout the

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 of work is reviewed

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 of work

6 internal auditor

role of internal auditor

role of IA department is to provide a feedback on effectiveness of internal controls
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, expertise
- 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 maximum independence
- it ensures that auditors are objective
- it reduces management bias
- it reduces training cost

disadvantages of outsourcing:

- less depth of knowledge
- can be exposed to selection bias
- management has less direct control

limitations of IA department

- independence - reporting to financial director instead of audit committee
- scope - scope of EA's work is defined by statute and cannot be expanded
- familiarity - IA can become friendly with their colleagues for long time
- appointment - IA are appointed by management, while EA are appointed by the board
- quality - EA keep their knowledge up-to-date and undergo regular training
- length - IA employed for a long period of time may be exposed to selection bias

assignments

VFM (value-for-money) checks (also known as operational effectiveness check - what should be achieved
efficiency - if such department's objectives are met
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 (EA)
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 accepted
quality and organization of work of IA department

7 Professional ethics

Role of auditor (external) is to increase confidence of end users of financial statements
independence in mind - decision making of auditor is not influenced by client
independence in appearance - audit needs to be seen to be independent

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 regulated

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

Confidentiality - auditors should never share client information with third parties
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 disclose

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 tribunal

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

if such situation arises, all clients involved must be informed
if consent is received, auditors need to

assign different audit teams headed by different auditors
procedures to monitor confidentiality should be put in place

if consent is not received, auditors should decline an appointment

Directors entrust their capital for management to shareholders over financial statements prepared by directors

Financial statements are true and fair. To be able to provide reasonable assurance, the auditor needs to perform procedures that verify that financial statements are true and fair. This is known as 'expectation gap'. The reasons for this are the following: to test all transactions, tests should be done on samples. Problems can be as follows: tests can be designed

based on many judgements and estimates of auditors on transactions and estimates done by directors and built into financial statements

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

procedures, financial statements as a whole are free from material misstatement i.e. are true and fair

Financial statements i.e. shareholders), responsible party (for issued financial statements i.e. board)

Standards and regulations plus assurance framework (IAAS) plus materiality threshold

Qualifying Body

Not an associated company
Not from the client or its associated company

Questioning mind
Professional judgement in planning and performing audit
All stages of audit

Shareholders at AGM by ordinary resolution (i.e. >50% of shareholders are required and shareholders must be given

a written explanation to shareholders about reasons of their resignation
Shareholders must explain their reasons of resignation

of circumstances.

(voting)

nted by auditors to ensure that they produce high quality work
vironment in audit firm

v

ality of work
based on skills, experience, overall workload
of completed assignments are checked to help future work be performed better

t on all clients

the team

h others where matters are unclear
nished for those audits where audit risk is high
ance/continuance of client relationships

iveness of systems and procedures (including control procedures) in place
ed by law
fulfilled:
quality of staff and leadership

greatly strengthens internal auditors' independence.
y of IA department, then it is better to outsource it

perts
y
ence
s have up-to-date techniques and methodologies
it time
:s

ge about client
lf-review threat
ection and control over the audit

creases IA's independence to minimum
ot be limited by company's management while IA's work is defined by company's management
om other departments.
A are appointed by shareholders
go regular trainings while IA might not (e.g. due to limited resources available for their department in th
poused to familiarity threat.

Internal audits) - what should be achieved by particular department/activity of the company? (effectiveness)
by particular department/activity of the company? (effectiveness)
are achieved with min resources?
at economic cost

/IS
orders for contracts, VAT returns

during the year

are taken seriously by the company and implemented
management

Internal statements by reducing the level of risk of misstatement hidden in financial statements. Thus the auditor needs
to be influenced by client
to behave in professional manner

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

to third parties. Exceptions are:

to disclose

at disciplinary hearing
of their clients at all times.. Before accepting any new appointment auditors must be aware of any potential
risks and give their consent to auditors to continue to act

Independent partners so the team are kept physically separated
to be put in place (e.g, assign independent partner to oversee if it is fulfilled)
appointment

1
2
3
4
5
6

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

audit:

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

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

(given 21 days' notice prior voting)

e company)

eds to be trusted by end users. This can be achieved only by independence of audi

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

ncila conflicts of interest:

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









tor from preparer of fin statements.

not effective, then auditor needs to resign (as ultimate measure).

light to suggest that errors or problems exist.






✓ 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 auc

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 a

reasons why new auditor needs to decline acceptance of this client

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

cess to all information relevant for the audit

incoming audit. It should contain info about:

dit

that may affect financial statements

all supporting evidence related to prepared financial statements

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

accepting this client

↑ Lectures (slides) 60366333 /8

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- 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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Part III. Planning of audit

1 Planning - it is not a discrete phase of audit but it is a continual process that starts with 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 that
- select engagement team members with appropriate level of expertise
- direct and supervise engagement team and to review the work
- 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 other
- 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 include clerical errors

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 preparation of financial statements
- auditors - should consider the risk of fraud in any audit evidence that is obtained
- economic downturn puts pressure on management

impact of fraud on audit strategy

- reduction in materiality level
- increased level of testing in areas where fraud is suspected
- reduced reliance on evidence generated by management
- reduced reliance on management reporting of fraud - if fraud is identified the auditor should report it

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
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 client
inspect correspondence with the auditor
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
1/2 - 1% of turnover/revenue
5-10% of profit before tax
1-2% of gross assets
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
at planning AP are compulsory. They help
during testing AP are optional. They help
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
compare their expectations

investigate any significant
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
when IC are assessed as strong - at
when IC are assessed as weak - in
Usually IC are tested during interim audit which
Tests of IC

Tests used by auditors during plan

assistance from internal audit department

internal audit is part of the client's system of internal
types of work the external auditor
tests of effectiveness of
fraud investigations
observation of inventory
compliance with laws and regulations
substantive procedure:
tracing transactions through
see also: assignments for IA
pre-conditions which should be met
IA's work is properly supervised
persons from IA department
sufficient and appropriate
conclusions drawn are
recommendations made
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
internal auditors must provide written
external auditor will provide direct

ends at the end of previous audit and continues until the end of the current audit.

audit

that it is performed in an effective and efficient manner

skills of capabilities and competence to respond to anticipated risks and the proper assignment of work to team members
their work

necessary to perform the engagement

control systems

review the draft of financial statements

statements

issues that need to be dealt with

actions that will be needed)

more individuals among management, those charged with governance, employees or 3rd parties to obtain evidence
include accidental misapplication of accounting policies, oversights or misinterpretation of facts

reporting)

effort)

responsibility for prevention and detection of fraud. Implementing of an effective system of internal control, to reduce the risk of material misstatement due to fraud. Auditors should be alert to:

that contradicts other audit evidence

exerting pressure on results

where fraud is suspected

generated internally and increased focus on externally generated evidence

representations if management is suspected of involvement with fraud

auditor should report it to appropriate level of management

led by highest level of management and no audit committee is in place

done asap in order to:

1 directors informed and to ensure that they understand the position correctly

2 they have taken or intend to take to rectify the position

3 that the regularity had recurred or will recur

4 legal advice is needed

law and regulation that affects every client but they should be aware of those that could materially affect

provisions for future legal costs and fines

5 laws and regulations

6 client's legal and regulatory environment

7 authorities depending on company's business

8 that directors have disclosed all instances of known and possible noncompliance to the auditors

9 identification of significant risks of material misstatements in financial statements

10 to be material if they individually or in aggregate can influence economic decisions of users taken on the basis of

11 to reduce the risk of material misstatements to an acceptable level

12 high materiality because it is a matter of professional judgement and this ultimately lies with the audit partner

13 misstatements should be noted and therefore be brought to partner's attention exists:

14 the misstatements

15 materiality set by auditors for the financial statements as a whole at the planning stage.

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

17 misstatements will be detected when final draft of financial statements becomes available for auditors. Also materiality must be constantly re-

18 assessed and could be categorized into

19 three categories

20 1 - immaterial - all are required to be corrected by management

21 2 - material - management cannot refuse to correct such misstatements if they are discovered. Refusal to correct then

22 3 - highly material - management can refuse to correct such misstatements motivating its rejection by the immateriality of each

23 1 - when performing analytical procedures auditors compare numbers, ratios or even non-financial information in order to

24 identify risk.

25 Large changes are suspect and might point to errors unless a good explanation is given.

26 Balances help to substantiate balances. If balances are roughly in line with last year's then that is some evidence supporting

27 the audit partner stands back and looks at the overall financial statements to see if they look sensible and credible.

28 Key ratios

29 (profitability, efficiency, liquidity, return etc)

30 Known expectations of what they think the figure should be

31 compared to actual figure

ant differences
for comparison

gin/sales

l assesment of state of internal controls of the client

uditor will approach the audit by testing the effectiveness and operation of that control system. If contrc
this case the only way the audit risk can be kept low is by performing a very high amount of work them
ch is done 2-3 months before year-end date of the client.

ning stage to assess effectiveness of system of IC of the client

internal control. Thus it may well reduce control risk and the need for external auditor to perfrom detail
may wish to use assistance from internal auditors
of control

ry count
and regulations
s involving limited judgement
rough the IS relevant to fin reporting

et if external auditors are going to use help of internal auditors:

ipervised, reviewed and documented

tment have relevant experience and training

ate evidence has been obtained

valid given the results of the work performed

de have been acted on by management

tes of assistance of IA to EA

sibility for the audit opinion onto the internal audit department.

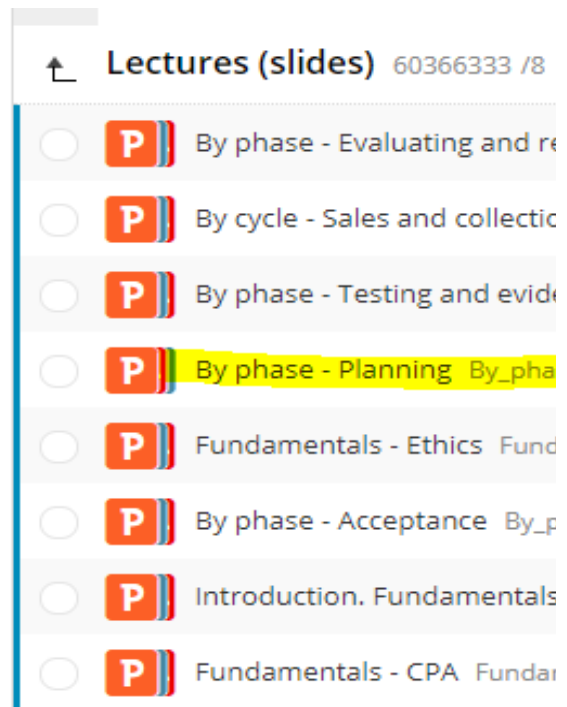
partment followinghas to be agreed:

g that IA department can provide such assistance and that they will not intervene in that work

tten confirmation that they will keep the external auditors information confidential

t, supervision and review of the internal auditr's work

them



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 reduce the pos design audit procedures (e.g. tests of control and substantive tests) to
 - assign more experienced staff or those with special skills or using experts
 - incorporate additional elements of unpredictability
 - review the results to make sure that audit risk was reduced to acceptable level

t fin statements (particularly money laundering)

e basis of fin statements

tner.

=>

: the aggregate of uncorrected and undetected misstatements exceeds overall materiality. In simple terms, it is viewed as audit progresses and it may change due to misstatements discovered:

n will lead to qualification of audit report.

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

er to identify unexpected trends or unexpected relationships which may indicate the existence of errors.

received.

upporting the figures. If balances are very different, more evidence is needed.

ols are indeed 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

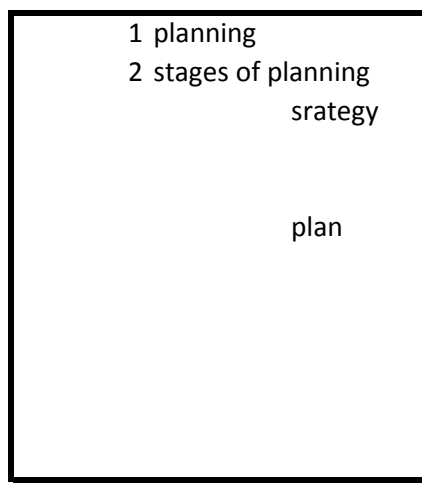
audit software - auditor's software
reorganizin
performing
verifying th
reperforma
sequence c
choosing ra

advantages of using au
easy to use

limited IT sl
improves e
can be usec
disadvantages of using
expensive t
extensive n
use of copy
Bottomline: audit softv

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ire etc.)



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

o address the risk areas
ports

(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

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

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

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

- backup of data and storing them off-site
- regular IT training for staff
- keeping computers in locked rooms
- recovery plan
- user access codes
- firewalls
- separation between programmers and users

data is correct - examples of application controls:

- reports
- checking of inputs (e.g. check of IDOCs before posting them to SAP)
- balance tests (e.g. sales tax to total value of sales)
- checks (e.g. no unexpected characters entered)
- limits (e.g. no transaction is processed over or under a certain value)
- access checks to ensure input was authorized
- and checks of amendments to standing data

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

transactions must be removed from the systems afterwards.

use inconvenience for the client.

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. IDEA) or the data into a more useful format e.g. by producing an aged listing for receivables or stock.

- analytical procedures e.g. inventory holding days by stock line, automatic calculations of ratios for analysis
- that arithmetic is correct by adding up ledgers and lists. It is important because every extra USD in stock is a consequence of calculations e.g. for recalculating of depreciation charge for every non-current asset

checks and printing out lists of missing documents such as missing cheques in cashbooks.

random samples for example for receivables circularisation.

audit software

skills required to use

efficiency of audit as large volumes of data can be processed quickly

and multiple times i.e. for future audits of the same client and for audits of similar clients

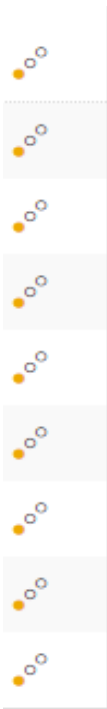
audit software

to develop especially when the client is new and it not fully understood by auditor

modifications required if client changes its systems

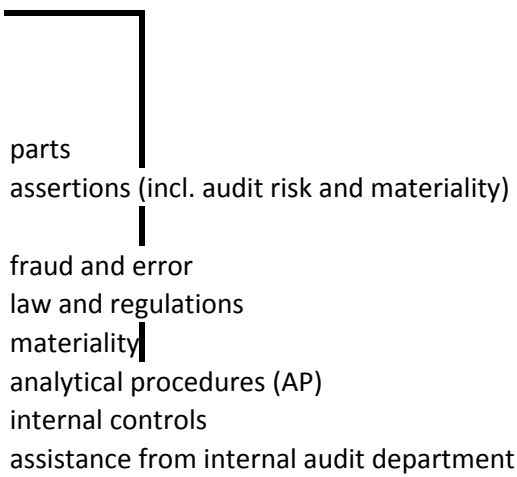
of files - when using copies of client's data auditors need to be sure that these copies accurately reflect the

software 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>



itions like in case of complex fin instruments, nonroutine accounts or transactions
ontrols may be due to costs of their implementation: installation of new equipment, employment of extr
o test, human error, lack of training, inexperience, misinterpretation of results of test

arranty provisions
ion industry
s
r directors are paid a bonus based on profits

lient
ar at the client's side

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

te a material amount.

efficient and relatively inexpensive audit because the auditors work is reduced.
high amount of audit work needed.

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

ions or damage caused by the auditor's data will not matter.

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

typical procedures

is an extra USD in profit.

original live data.

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

nal-exams-study-resources/p7/technical-articles/audit-risk.html

a staff, time taken by additional administrative procedures

with overall materiality, performance materiality is a lower figure.

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

|| run through the audit software. This software assists in performing tasks such as

procedures.

assertions

BS assertions (aka assertions about account balances) at the end of the period
PL assertions (aka assertions about classes of transactions and events) for the period
Disclosure assertions (aka assertions about presentation and disclosure) for the period

PL assertions

occurrence - means that transactions and events and other matters that have been recorded in the financial statements have actually occurred

Relevant test – select a sample of entries from the sales account in the ledger and check to ensure that they are supported by sales invoices

completeness - all transactions have been recorded in the financial statements

Relevant test – select a sample of customer orders and check to ensure that they have been recorded in the sales account

accuracy - amounts and other data relating to transactions and events have been recorded in the financial statements

Relevant test – reperformance of calculations on invoices, payroll, etc.

cut off - transactions and events have been recorded in the correct accounting period

Relevant test – recording last goods received notes and dispatch notes

classification - transactions recorded in the appropriate accounts – for example

Relevant test – check purchase invoices postings to general ledger accounts

presentation - information about transactions and events is appropriately presented

Relevant test – confirm that the total employee benefits expense is disclosed

BS assertions

existence - assets, liabilities and equity interests (capital and reserves) are physically present

Relevant tests – physical verification of non-current assets, circulars, etc.

completeness

Relevant tests – A review of the repairs and expenditure account

valuation - all items have been included in the financial statements at appropriate amounts

Relevant tests – Vouching the cost of assets to purchase invoices and receipts

rights and obligations - the entity has a right to its assets – ie it is free to use or dispose of them

Relevant tests – in the case of property, deeds of title can be reviewed

classification

Relevant tests – the test for transactions of checking purchase invoices

presentation - information about account balances is appropriately presented

Relevant tests – auditors often use disclosure checklists to ensure that all disclosures are made

approach

identify the assertion that needs to be tested

Identify the audit procedure

Choose the assertion that will be tested

Identify the risk that will cause a material misstatement in the financial statements

Think of the audit procedures that should be performed in order to address the risk

Evidence

auditors are seeking for two types of evidence

evidence that controls are operating effectively. This evidence is collected through tests of controls

evidence that amounts presented in financial statements are true and fair

characteristics of audit evidence - in order to form an opinion on financial statements

sufficient and

sufficiency is about quantity

the riskier the item is, the more evidence should be collected



the more material the item is, more evidence
the less reliable audit evidence is, the more e
appropriate audit evidence in form of
reliable

auditor generated evidence is more reliable t
external (3d party) evidence is more reliable t
written evidence is more reliable than oral ev
original documents are more reliable than co

relevant

evidence collected by auditors should suppor

evidence gathering techniques

analytical procedures
external confirmations
inspections and observations
enquiries
recalculation and re-performance

see also here: [risk assessment procedures](#)

auditing accounting estimates - estimates are particularly difficult area for the a
types of estimates

provisions

doubtful debt provisions
legal provision
warranty provision
accruals

values

depreciation
net realisable value
fair value
deferred tax
deferred income

audit approach

auditors need to obtain an understanding of
how management identifies those transaction
how management actually makes the estima
procedures the auditors need to do in response to above
review the outcome of the estimates made in
discuss with management their process for ca
develop an independent estimate to use as re
review subsequent events - for example if ther

sampling

audit sample - application of audit procedures to less than 100% of it
population - a set of data about which an auditor wishes to draw co
sampling is used in auditing because it is usually impossible to exam
risks connected with sampling

sampling risk - risk that selected sample is not represent

non-sampling risk - other factors not related to sample it

sampling methods

statistical sampling - when every member of population has
methods:

random sampling

systematic sampling

monetary unit sampling

non-statistical sampling - when items selected by auditor

haphazard selection of items - non-statistical

judgemental sampling - non-statistical technique

Audit procedures are part of the first step in explaining a

under audit
period under audit
period under audit

When recorded actually took place – and relate to this organisation
The general ledger and trace to the appropriate sales invoice and supporting goods dispatched notes are – ie all assets, liabilities, equity interests (capital and reserves) and other disclosures have been included
Match notes and sales invoices and the posting to the sales account in the general ledger.

When recorded at the correct amounts – ie at the amounts appearing in the source documents.
Tests, and the review of control account reconciliations are designed to provide assurance about accuracy
period – for example, if goods are delivered prior to year end, they are included in the cost of goods sold
at the inventory count and tracing to purchase and sales invoices to ensure that goods received before
, the purchase of raw materials has not been posted to repairs and maintenance.

Accounts.
When stated and disclosed, and disclosures are clearly expressed so as to make them understandable to the users
analysed in the notes to the financial statements under separate headings– ie wages and salaries, pensions

When actually present/belong to the entity on the reporting date.
Verification of receivables, payables and the bank letter.

When sometimes identify items that should have been capitalised and have been omitted from non-current
assets amounts according to company policy and the relevant financial reporting framework. Furthermore
checked checking depreciation rates and calculations.

When dispose of the assets as it sees fit. Furthermore, the entity is obliged to pay off the liabilities that are shown
on the balance sheet. Current assets are often agreed to purchase invoices although these are primarily used to confirm

When the postings to the appropriate accounts in the general ledger will be relevant again. Also that research
has been conducted and disclosed, and disclosures are clearly expressed so as to make them understandable to the users. Finally
that financial statement presentation complies with accounting standards and relevant legislation. These

When financial statements – the audit risk is the total value of PPE that may be misstated due to over-valuation/ understatement
to avoid the risk mentioned

More:
<https://www.accaglobal.com>
<https://www.accaglobal.com>

When collected by performing tests of controls
When This evidence is collected by performing substantive tests.
When auditors must obtain

tests of controls and substantive tests

When could be collected

about it is needed
evidence is needed

than external (3d party) evidence
than client generated evidence
evidence
copies and faxes

the particular assertion which they are testing

audit as they involve considerable judgement and are based on future events. Thus estimates are not si

ns, events and conditions that give rise to the need for estimate
tes including the control porcedures in place to minimize the risk of misstatement
assessment
the prior period
calculating the estimate and assess whether this appears reasonable
reference point (i.e. for comparison) - for this it may be needed to obtain an independent expert opinion
e is a pending legal case with the legal provision in the balance sheet as per the year-end, the case ma

tems within an account balance or population such that all items have a chance of selection
nclusions
ine all transactions and ti inspect every asset.

ative: if auditor would test the whole population, the result would be different.
self e.g. human error or inexperience from side of audit team

as an equal chance of selection in the sample

into sample are based on professional judgement of auditor e.g.

technique used to approximate random sampling by selecting sample items without any conscious bias
in which the sample members are chosen only on the basis of the researcher's knowledge and judgement.

performed in order to test financial statement assertions. Therefore, the
an audit procedure is to **identify the assertion that needs to be tested.**

as per: <https://www.accaglobal.com/in/en/student/exam-support-r>

and customer orders.
and in the financial statements.

'.
and, not inventory.
before the year end are recorded in purchases at the year end and that goods dispatched are recorded in

ers. For this, the disclosures should use simple language and state matters clearly and concisely.
ion costs, social security contributions and taxes, etc.

it assets. Reconciliation of payables ledger balances to suppliers' statements is primarily designed to co
e, any allocations or valuation adjustments required (like impairment) have been made and financial ar

own in the statement of financial position
cost. Long term liabilities such as loans can be agreed to the relevant loan agreement.

expenditure is only classified as development expenditure if it meets the criteria specified in IAS[®] 38 In
or this, the disclosures should use simple language and state matters clearly and concisely.
e cover all items (transactions, assets, liabilities and equity interests) and would include for example co

indervaluation of PPE

[al.com/in/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-art](https://www.accaglobal.com/in/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-art)
[al.com/in/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-art](https://www.accaglobal.com/in/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-art)

susceptible to logical, scientific evidence gathering techniques as other amounts such as value of sales a

for e.g. correspondence with lawyers regarding a legal provision or surveyor's report for evidence of an environment
that have been settled by the time of the audit and therefore will provide evidence as to whether the provision

is and without any specific reason for including or excluding items
gment

[resources/fundamentals-exams-study-resources/f8/technical-articles/assertions.html](#)

sales.

confirm completeness although it also gives assurance about existence.
and other information is disclosed fairly and at appropriate amounts.

Intangible Assets.

confirming that disclosures relating to non-current assets include cost, additions, disposals, depreciation

[articles/audit-procedures.html](#)

[articles/ISA330-responses-assessed-risks.html](#)

and electricity costs in fin statements.. Accounting estimates are threfore easy to manipulate and may l

ironment provision

ision was reasonably stated. Also accrual can be compared with actual amount of invoice received afte

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<input type="checkbox"/>	<input type="checkbox"/> P By phase - Planning By_phase_-_Plan
<input type="checkbox"/>	<input type="checkbox"/> P Fundamentals - Ethics Fundamentals
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, etc.

be subject to significant management bias.

r year-end by the client by the time of the audit.

iting



ŘEDNÍ DESKA

STUDIJNÍ MATERIÁLY

MŮJ WEB

ÚSCHOVNA

POPEL

os://is.muni.cz/auth/el/econ/podzim2020/MPF_AAUD/um/60366333/



	VLOŽIL	VLOŽENO ▾	PRÁVA
	Lemeshko, O.	28. 11. 2015	
By_phase_-_Reporting.pptx	Lemeshko, O.	21. 11. 2015	
cle_-_Sales_and_collection.pptx	Lemeshko, O.	15. 11. 2015	
phase_-_Testing.pptx	Lemeshko, O.	7. 11. 2015	
ning.pptx	Lemeshko, O.	26. 10. 2015	
s_-_Ethics.pptx	Lemeshko, O.	11. 10. 2015	
ccceptance.pptx	Lemeshko, O.	11. 10. 2015	
market Introduction_Fundamentals_-_a...	Lemeshko, O.	5. 10. 2015	
_CPA.pptx	Lemeshko, O.	5. 10. 2015	



Final review

it is crucial that auditors carry out a final review of the audit work before

Engagement Partner Review - It is a review of the audit work

Quality Control Review - Carried out by a senior NOT involving

Ensure opinion is based on evidence obtained

Ensure independence of team

Ensure documentation reflects the work performed

Documentation Review

Evidence that independence issues have been resolved

Quality Control Review

Audit Evidence Review - Ensure there is sufficient and appropriate

are fin statements consistent with our knowledge

have fin statements been prepared in line with requirements

do fin statements give a true and fair view

have significant issues such as misstatements

have there been any events occurring after the reporting period

evaluation of misstatements

all misstatements should be communicated to management

management should be asked to correct all misstatements

auditor should determine whether the accumulated misstatements

errors identified through sampling need to be extrapolated

auditor should obtain a written representation from management

consideration of errors identified in course of the audit will

Audit report

Auditor's opinion about fin statements under statutory audit is expressed

A true and fair opinion with no other issues will lead to an unmodified

There are some situations when auditors may have to modify their report

Unmodified
report

Fin statements need to be prepared on going concern basis unless it is inappropriate to do so (e.g. company is being liquidated, company has ceased trading, directors have no realistic plans/budgets for next reporting period).
Going concern is assumption that company will continue in operational existence for the foreseeable future (a period of 12 months from the date of approval of fin statements).
Alternative to going concern basis is break-up basis.
Indicators of GC problems:

- net current liabilities
- operating losses
- borrowing facilities not agreed or close to expiry of

Material
uncertainty
related to
going concern

borrowing facilities not agreed or close to expire or current agreement

- major debt repayment due etc.

includes*:
 opinion
 basis for opinion
 KAM**

includes:
 opinion
 basis for opinion
 KAM
 material uncert

*regardless of t

Audit procedures to assess ability to continue as GC:

- review and discussion about cash-flow forecasts to ensure company has enough cash to continue in operation for the next year
- review budgets and interim fin statements to assess orijected results over the next year and identify any concern over profitability
- inspect correspondence with company bankers to assess the availability of financing such as overdrafts and loans
- inspect business plans to assess company's efforts to expend into new areas to replace

**KAM (Key Au

***emphasis of

****other matt

on two matters:

if fin statements give true and fair view in all material respe
 information presented in fin statements is r
 fin statements adequatly disclose accountin
 accounting estimates and judgements made
 disclosures to fin stataments enable users to

if fin stataments are prepared in accordance with relevant r

Advantages and disadvantages of standardized format of audit report
 advantages

comparability between companies
 guarantee of a min level of content

disadvantages

technical language
 auditors are restricted in terms of what they

Actions when the report is to be modified

modification of report is always final course of the action. A
 if auditor expects to modify the report the following action:

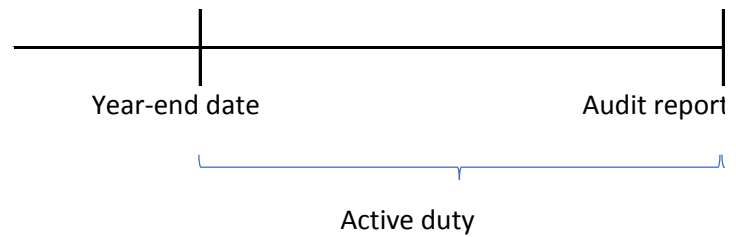
discuss the matter with those charged with
consider management integrity - it is general
seek external advice - before resigning the
resign - where the auditor has reason to do

Subsequent events

these are those events occurring between the year-end and
types of events

adjusting - events providing additional evidence

non-adjusting - events concerning conditions



to fulfill this
duty auditors
must perform
review of all
supporting
evidence
collected

re finalization and forming the audit opinion. This ensures the audit was effective and to a quality standard
k - not the evidence - so just ensuring proper standards and procedures followed
ed in the audit
ed

rformed

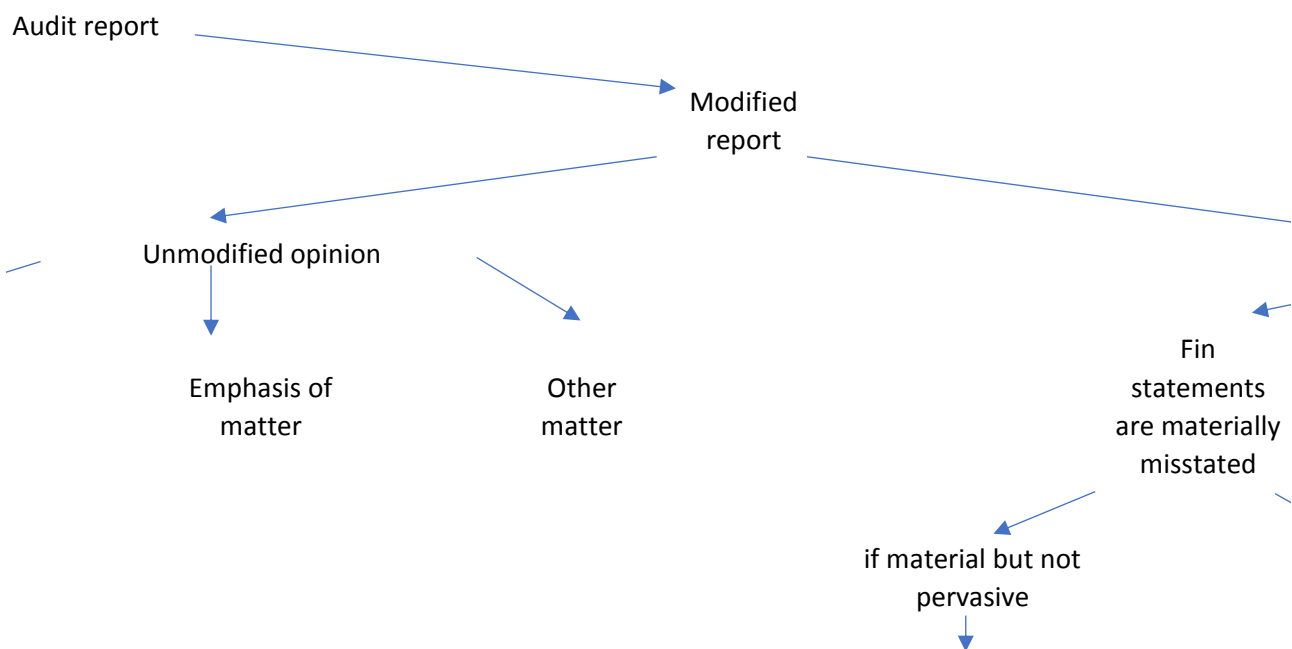
en considered

ppriate evidence
lledge of the business
with relevant accounting and legal requirements

ts been resolved
he period end which need to be taken into account

it on timely basis unless they are clearly trivial
identified during the audit. Auditors should try to obtain understanding of management's reasons for refusin,
tements imply that the audit strategy needs to be modified
so that the potencil error in population as a whole can be estimated. If such errors reveal a potentially mat
gement and those charged with governance that they believe the effect of uncorrected misstatements is imm
often provide useful input to the planning process for the following year's audit.

ed in audit report.
report.
ort or opinion.



qualified opinion

	includes: opinion	includes: opinion	report will contain modification called
n	basis for opinion	basis for opinion	'qualified with except
	KAM	KAM	for': e.g. fin
ainty about emphasis of matter***		other matter****	statements are true and fair except for receivables

type of audit opinion and apart from above mentioned parts all audit reports contain also the following part:

title

addresses

responsibilities of management

responsibilities of auditors

other reporting responsibilities

name of the engagement partner

signature and address of the auditors and date that the report was signed

Audit Matter) - a summary of matters that a auditor considered to be the most significant to the audit. This section

risky areas

estimates and judgements (e.g. impairment testing of goodwill, effects of new IFRS, valuation of financial instruments)

significant events and transactions

Key matter

Key matter is not KAM

Key matter is presented and disclosed in financial statements

Other matter

Other matter is not KAM

Other matter is not presented and disclosed in financial statements

Requirements such as:

relevant, reliable, comparable and understandable

Accounting policies used and they are applied consistently and appropriately

Estimates are reasonable

Ability to understand the effects of material transactions and events

Reporting framework

Directors can actually say

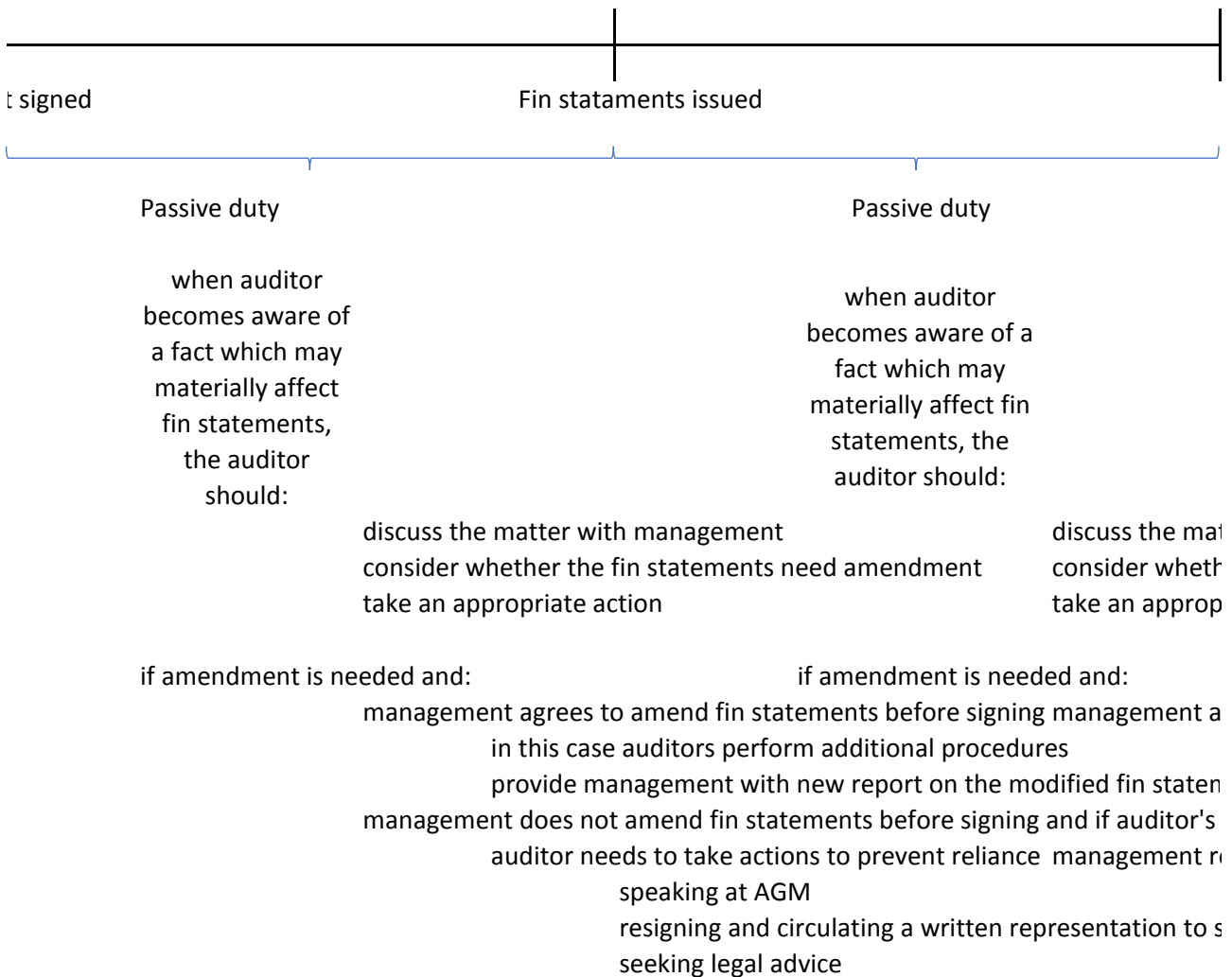
Directors have legal responsibility to prepare the financial statements to show true and fair view, the number of directors will be taken

governance - this may lead to the matter being resolved as the client may decide to amend the financial statements. It is generally expected that the client would want to avoid a modified opinion therefore if the issue cannot be resolved the auditor may decide to seek legal advice.

about management integrity or where the auditor expects in future that there will be a need in an issue a disclosure

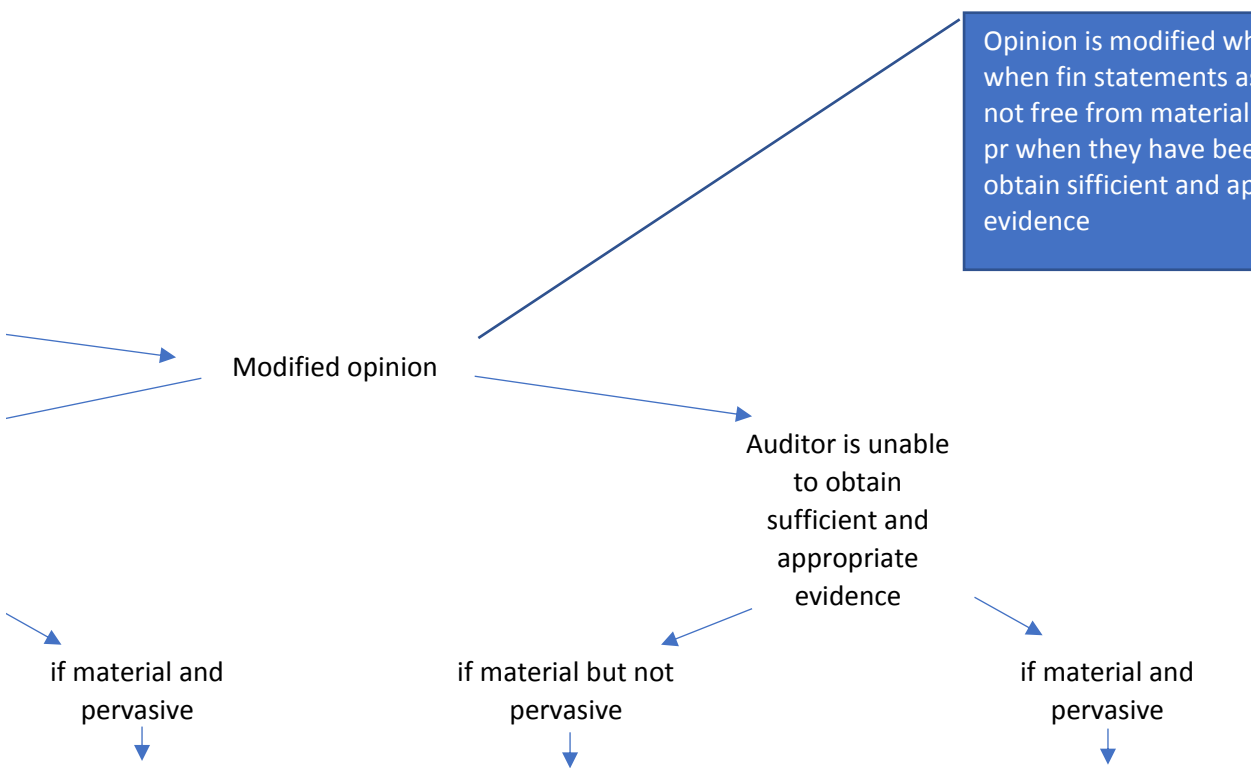
from the date that financial statements are authorized for issue (i.e. signed by the directors) that may affect the number

of shares relating to conditions existing at the end of the reporting period. Thus they require adjustments in financial statements which arose after the reporting period but which may be of such materiality that their disclosure is required



g to adjust any of the misstatements

erial adjustment the audit team should have carried out additional work to determine whether or not th
aterial individually and in aggregate and a list of uncorrected misstatements should be a part of represe



adverse opinion

qualified opinion

disclaimer of opinion

report will contain modification called 'adverse' and saying that fin statements are not true and fair

report will contain modification called 'qualified with except for':
e.g. fin statements are true and fair except for inventories

report will contain modification called 'disclaimer' and saying that auditor is not able to provide an opinion.
KAM will not be included

S:

tion should contain explanation why some matter was considered significant and how it was addressed

ments at FV)

modified opinion is in real life very low.

statements or the auditor may be provided with further evidence to suggest that a modification is not needed satisfactorily it casts doubt over management integrity. This will mean that any management representation

timer, resignation might be considered.

ers or disclosures in the year-end financial statements.

statements.

l to ensure that the financial statements are not misleading.

AGM

letter with management

if the financial statements need revision

appropriate action

agrees to amend financial statements before signing

in this case auditors perform additional procedures

provide management with new report which will include an emphasis of a matter paragraph referring to

new audit report should be dated not earlier than the date of approval of revised financial statements

refuses to revise financial statements before signing

auditor needs to take actions to prevent reliance on its report

shareholders

ie error actually is material before the assignment reaches the final stage.
ntation letter

hen auditors
s a whole are
misstatement
en unable to
ppropriate

I in the audit. Auditors must determine key matters and communicate those matters in their reports if

ssary.

tations may not be reliable. If management representations cannot be relied on, this would lead to a di

) a note that discusses the reason for the revision of previously issued fin statements and audit report

their client is listed company. For non-listed companies auditors may voluntarily do this or on request

isclaimer of opinion.

from management. If KAM identified are reasons for qualifying an opinion, in such case they shouldn't

be presented in this section.

Audit documentation