

	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 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 operate objectives of government - to create conditions for growth and employment
- 3 scope of CG (see principles of corporate governance 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-executives
- should ensure that non-executive directors (NEDs)
- no one person or group should be able to do everything
- should be of appropriate size, right balance of skills
- at least half of the board should be made up of independent non-executives

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 long time
- 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 relations
- facilitate compromise

disadvantages

- this will create costs and reduce profitability
- NEDs do not work full time
- some NEDs are too willful

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 should be based on company performance
- 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 shareholder  
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 stakeholders

committees - report to the board

they allow the board to offload responsibility for a particular

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

they should provide an expertise in the given area of operation

they should provide disclosure to shareholders

they provide assurance to shareholders

types of committees:

audit committee

organization:

should consist of at least

at least 1 member should

responsibilities

make recommendations

review and monitor external

review and monitor internal

review of company's internal

review and monitor effectiveness

provide advice on when

to review cases of which

benefits of audit committee

it assists to external audit

it increases confidence

it follows up external audit

limitations of audit committee

it imposes additional costs

difficulty in finding members

audit committee and internal audit

AC should ensure that

review and assess IAD

receive periodic report

review and monitor management

meet with head of IAD

risk management committee

responsibilities

advise the board on risk

monitor company to ensure

help to identify major risks

- receive reports from h
- receive report from IAI
- ensure all risk-related i
- benefits of risk committee
  - independence in decis
  - support for board of d
  - if committee works eff
    - more pred
    - impact of d
    - greater cor
- phases of risk management
  - identify risks. risks may
    - impact of n
    - fraud
    - regulations
  - estimate impact and p
  - develop solutions
  - implement risk strateg
  - review, adapt and disc
- nomination committee
- remuneration committee

#### 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 intentiona
- 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
<b>Order received</b>	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 a production



<b>Stage</b>	<b>Risks</b>	<b>Control pr</b>
<b>Goods despatched</b>	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 ( <ul style="list-style-type: none"> <li>Use seque numbered review freq incomplete and unmat items.</li> </ul>
<b>Invoice raised</b>	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.

<b>Stage</b>	<b>Risks</b>	<b>Control pro</b>
<b>Sale recorded</b>	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).
<b>Cash received</b>	Incorrect amounts received. Customer does not pay.	Agree cash back to the Review rece ledger for cr balances (c overpaid). Review age listing and i old balance Debt chasir procedures control.
<b>Cash recorded</b>	Cash incorrectly recorded or the wrong account	Monthly cus statements Bank reconc Regular

	Cash stolen	banking/physical security over (i.e. a safe).
		Reconciliation of banking to cash receipts received.
		Segregation of duties.

purchases cycle

Stage	Risks	Control procedures
<b>Requisition raised</b>	Unauthorised purchases made.	All requisitions authorised by manager.  Central purchasing dept.  Check inventory levels first.
<b>Order placed</b>	Invalid or incorrect orders made or recorded  The most favourable terms not obtained	Sequentially numbered purchase pads, copies numerically with copy of order stapled to it.  Request order confirmation in writing.  Preferred supplier at agreed price.  Check quotation against supplier list.
<b>Goods received</b>	Goods stolen.  Goods may be accepted that	One secure storage area.  Inventory re

accepted that have not been ordered or are of wrong quantity or inferior quality.

Inventory is updated on basis.

Goods inwa inspected for condition and quantity & agreed to on goods receipt (GRN).

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

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

Stage	Risks	Control pro
<b>Invoice received</b>	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 (authori
	Invoices may contain errors.	mentioned a
<b>Purchase recorded</b>	Purchases missed or recorded incorrectly.	Batch control input.
		Stamp the invoices to indicate receipt check all file invoices are stamped.
		Suppliers are

Suppliers see monthly statements reconcile the suppliers ledger account.

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

payroll cycle

Stage	Risks	Control pro
<b>Timesheets submitted</b>	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.
<b>Standing data input</b>	Standing data could be changed without authorisation. Unprocessed updates may	Monthly print changes to general ledger for senior manager for review and signature. Standing data

mean employees regularly printed and sent to department managers for confirm.

Restriction to standing data e.g. passwords

Managers should complete a leavers/joiner noting date of departure/arrival send promptly payroll dept.

Stage	Risks	Control procedures
<b>Processing of data</b>	Inaccurate processing of data could lead to wages and taxes being incorrectly calculated.	<p>Sample of wages recalculated manually.</p> <p>Exception reports produced automatically anyone paid over \$xxx, or paid \$yyy.</p> <p>Sample of deductions (PAYE, NIC) recalculated.</p> <p>Managerial review of weekly payroll summaries.</p>
<b>Recording of payroll</b>	Recorded payroll may not match actual payroll.	<p>Nominal ledger signs payroll to confirm entries double-checked print.</p> <p>Senior manager review wages and expenses for reasonableness.</p>
<b>Staff paid</b>	Staff may not be paid.	Have two people present when

Bogus staff  
could be paid.

wages are pa

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

ed to those charged with gov-nc so that to contribute to creating long-term sharehol  
t objectives. Corporate governance is a glue that keeps objectives of these three part  
plement best practices in managing of entrusted resources, to attract investments  
can invest with min risk  
loyment, to attract global invetsments  
from OECD)

ive directors (NED) meet without executives to consider their performance  
VED) meet without chairman to consider the perfoamnnc of chairman  
minate the board  
f skills and experience. This includes diversity, including gender.  
p of NEDs

it 3 years  
luties - no profit share or share options

er than 9 years is assumed to no longer be independent and should be re-appointed  
s in the board

curb excessive behavior of executives  
sions are made in shareholder's best interests  
representation on the board  
and create balance on the board

nd may slow down decision-making  
time for the company. It is debatable how much they actually know about the compa  
ling to accept what executives tell them.

;  
; should have performance appraisal at least annually  
ears (for FTSE-350 companies re-election should be every year).  
actors should be performance-based



is, the effectiveness of which should be reviewed every year as part of annual report.  
It should be made up of at least 3 NEDs. Main role of such committee is to liaise with shareholders and encourage debate through AGM (annual general meetings)

Executive directors

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

Regular activity  
Tasks  
Information

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

Reports to the board in relation to appointment, re-appointment and removal of external auditor;  
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  
Whistleblowing

Directors => better communication between external auditor and the board  
Focus on 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  
Internal audit department  
IAD has direct access to the chairman and that it is accountable to IA  
Internal audit workplan  
Reports on the results of IAD work  
Management responsiveness to IAD's findings and recommendations  
Reports at least once a year without presence of management

Review appropriate risk strategy for the company  
Ensure the risk strategy is embedded and strategy not being ignored by certain departments  
Identify risks, suggest solutions

heads of other departments on their specific risk issues  
D and assess their recommendations  
disclosures are in Annual report

ion-making  
irectors and for AC  
ffectively, then:  
ictable cash flows are produced  
listater is limited  
ifidence among investors, employees, customers, suppliers and partners

y arise from many sources:  
ew technology or changing competition

;  
riority in their tackling

;y  
lose

nted by a company to ensure the integrity of financial and accounting information, p  
o identified internal and external risks and volnurabilities and which are reviewed re

auditors can rely on these controls and reduce the amount of detailed (substantive) t  
auditors cannot rely on these controls and they must increase the amount of detailec

il)

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 v  
 example:

control procedures to minimize the existing and potential risks

Tests used by auditors during planning stage to assess effectiveness



<b>Procedures</b>	<b>Example tests of controls</b>
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 orders.	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 senior managers.	Inspect a sample of sales orders for approval by an appropriate senior member of staff.

---

**Procedures**

Order sent to customer.  
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.

Order check sequence file (i.e. none)

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

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

Inspects a GDN and reconfirm goods.  
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 and  
copy of

Inspect GDNs to  
daily

Invoice signed to original  
↓, 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

Recalculate sample of invoices to confirm arithmetical accuracy.

and  
by

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  
stomers  
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.

id debt  
nvestigate  
is.

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

ng  
/credit

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

stomer  
sent out.

Select a sample of customers with outstanding debts and ensure

nciliation.

Reperform bank reconciliation.

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

<b>Procedures</b>	<b>Example tests of control</b>
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 it.	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.

<b>Procedures</b>	<b>Example tests of control</b>
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.

urchase  
sent to  
Inspect sample of GRNs for  
evidence of signature confirming  
checks.

/  
filed,  
GRN.  
Inspect sample of POs and ensure  
GRN raised and filed with, and  
enquire about action taken re.  
outstanding POs.

and grid  
ned 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  
**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.

ask  
proof of  
match to  
sed as  
above).  
Inspect sample of invoices to  
ensure signed as agreed to PO,  
GRN and supplier's price list.

ols on  
Inspect sample of invoices and  
match to PO, GRN and supplier's  
price list.

invoice to  
orded,  
ed  
Inspect batch control sheets for  
evidence of performance of batch  
controls.

Invoice to  
orded,  
ed  
Inspect sample of invoices for  
record stamp.

nd 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  
horising

Inspect evidence of cheque  
signatory reviewing invoices before  
payment.

rised  
atories.

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

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

o  
a files,  
ds.

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

ould

ts form  
if  
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.

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.

eductions

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.

gement

Inspect evidence of managerial review of wages expenses.

ss.

ople  
re cash

Observe procedures in place for

aid. payment of cash wages.

ould  
ACS  
tary prior  
ff – sign  
viewed.  
Inspect BACS payroll summary for  
signature of responsible individual.

der value.  
is together.

annually after this

any and how much they can add value

ial (i.e. internal audit department) and external auditors on all matters

nd board represensts the management tier

uditor

lable and provides the information necessary for shareholders to assess the company's

ments/staf

romote accountability, and prevent fraud.  
gularly by internal audit department and which are tested by external auditors during s  
esting that they do  
l (substantive) testing that they do. Audit statistics indicate that sample sizes needed s




Premise-based ERP

SAP IS retail

find some old version of Or.

Aptos

ROI

NPV

Payback period based on discounted CF

Payback period based on not-discounted CF

















performance and strategy

statutory audit.

ould be tripled to compensate for poor internal control






Cloud-based	Hybrid
SAP 4 Hana	...
Hyperion	...
	..















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) &

 Corporate-Governance-Principles-ENG.pdf

 Excel\_Shortcuts.pdf


























chairman  
and CEO  
ves

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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 prepared in all material aspects

elements of audit engagement

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

statements) - 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

entity

must not be a business partner of director or employee of

ethical requirements

professional scepticism - auditor should have open and

independent mind

professional judgement - auditor should exercise professional

judgement

audit risk - auditor should evaluate audit risk throughout the

audit process

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  
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 objective
- it reduces management time
- it reduces training cost

### disadvantages of outsourcing:

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

### limitations of IA department

independence - reporting to finance 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 experienced

### 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, 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 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

to assign different audit teams headed by different auditors

procedures to monitor confidentiality should be implemented

if consent is not received, auditors should decline an appointment

Investors 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

Must be an independent company  
not part of the client or its associated company

Professional scepticism  
Professional judgement in planning and performing audit  
Professional judgement at all stages of audit

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

an opportunity to ask questions and a written explanation to shareholders about reasons of their resignation  
Auditors must explain their reasons of resignation

in the presence of a majority of shareholders.

(Resignation)



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 workbe 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  
direction 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 familirity threat.

What does

From the ri  
organizatio

**overall qu**  
**partners a**

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  
must be put in place (e.g, assign independent partner to oversee if it is fulfilled)  
appointment

1
2
3
4
5
6

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

Why:

done incorrectly, can use not representative samples, can be done by not qualified e

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)

as a quality review partner do? ^

From a risk management point of view, engagement quality review partners are a critical operational 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) .

the 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

ncils conflicts of interest:

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

enough employees, tests can have bad timing

.  
analytical 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.






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↑ 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 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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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

detailed 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 include fraud

types of fraud

misstatement (i.e. fraudulent financial reporting)

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

responsibilities of management and auditors

management - has primary responsibility for the preparation of financial statements

auditors - should consider the risk of material misstatement

any audit evidence that indicates a

economic downturn puts the company at risk

impact of fraud on audit strategy

reduction in materiality level

increased level of testing in areas where the risk is high

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 client  
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  
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  
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 i  
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 i  
types of work the external auditor  
tests of effectiveness o  
fraud investigations  
observation of invento  
compliance with laws a  
substantive procedure:  
tracing transactions thi  
see also: assignments for IA  
pre-conditions which should be m  
IA's work is properly su  
persons from IA depart  
sufficient and appropri  
conclusions drawn are  
recommendations mac  
see also: pre-requisit

Note! External auditor cannot devolve respon  
If external auditors plan to use help from IA de  
management must agree in writing  
internal auditors must provide wri  
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

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

---

necessary to perform the engagement

control systems

in the draft of financial statements

statements

of these to be dealt with

procedures will be needed)

more individuals among management, those charged with governance, employees or 3rd parties to obtain evidence. This may 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 if 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 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 the financial statements

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 errors and 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 errors will be detected when final draft of financial statements becomes available for auditors. Also materiality must be constantly re-evaluated and should be categorized into

17 errors

18 errors - all are required to be corrected by management

19 errors - management cannot refuse to correct such misstatements if they are discovered. Refusal to correct then

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

21 errors - when performing analytical procedures auditors compare numbers, ratios or even non-financial information in order to identify errors out the audit.

22 errors - they help to identify risk. Large changes are suspect and might point to errors unless a good explanation is

23 errors - they help to substantiate balances. If balances are roughly in line with last year's then that is some evidence

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

25 errors

26 errors (profitability, efficiency, liquidity, return etc)

27 errors - when expectations of what they think the figure should be

28 errors - comparisons 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 contr  
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:

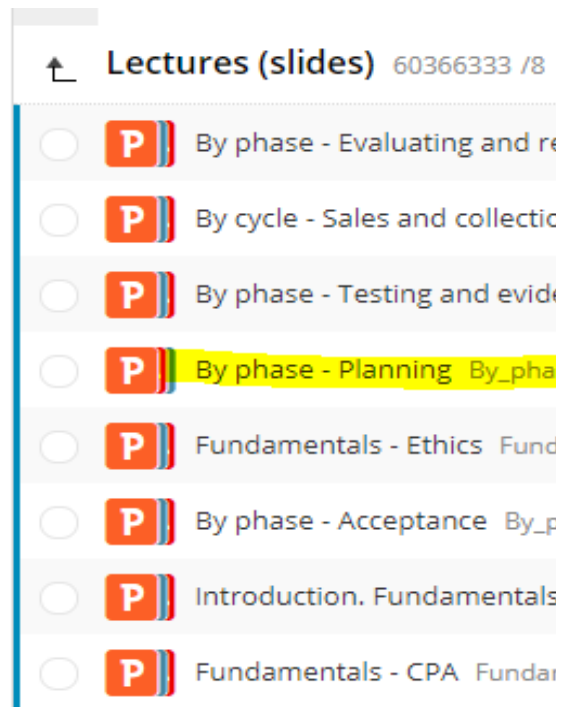
g that IA department can provide such assistance and that they will not intervene in that work

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 red 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

t fin statements (particularly money laundering)

o basis of fin statements

tner.

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

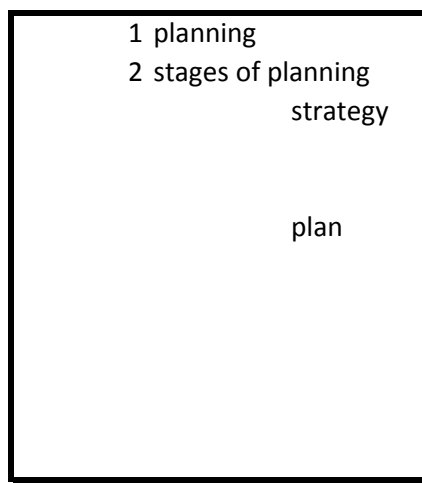
reorganizin  
performing  
verifying th  
reperforma  
sequence c  
choosing ra

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  
statements, either individual or in aggregate. It can happen due to choosing an unrepresentative sample to

(cont.)  
Risk areas

re 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

i.

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

costs of data and storing them off-site  
and IT training for staff  
; keeping computers in locked rooms  
recovery plan  
in codes  
and firewalls  
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)  
business 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)  
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>

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

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.

for'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

ysical 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 period and check to ensure that they are supported by valid 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

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

## 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

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 estimat  
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  
tests 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 tested 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

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More:  
<https://www.accaglob>  
<https://www.accaglob>

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tests of controls and substantive tests

When tested 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 tested 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

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.  
recorded in the financial statements.

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

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

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

shown 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<sup>®</sup> 38 In  
or this, the disclosures should use simple language and state matters clearly and concisely.  
disclosures should cover all items (transactions, assets, liabilities and equity interests) and would include for example co

impairment and devaluation 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 provisions

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



# ESF:MPF\_AAUD Audi

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Icons for file operations: Home, Edit, Add, Lock, ZIP, Cloud, and a partial URL box containing "http".

✓	NÁZEV
↑	<b>Lectures (slides)</b> 60366333 /8
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<input type="radio"/>	<b>P</b> By phase - Acceptance By_phase_-_A
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<input type="radio"/>	<b>P</b> Fundamentals - CPA Fundamentals_

, 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/



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	Lemeshko, O.	28. 11. 2015	
By_phase_-_Reporting.pptx	Lemeshko, O.	21. 11. 2015	
de_-_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	
cceptance.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 of 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 cencern 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

Auditors must express an opinion 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 t

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 auditor  
resign - where the auditor has reason to doubt

### 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

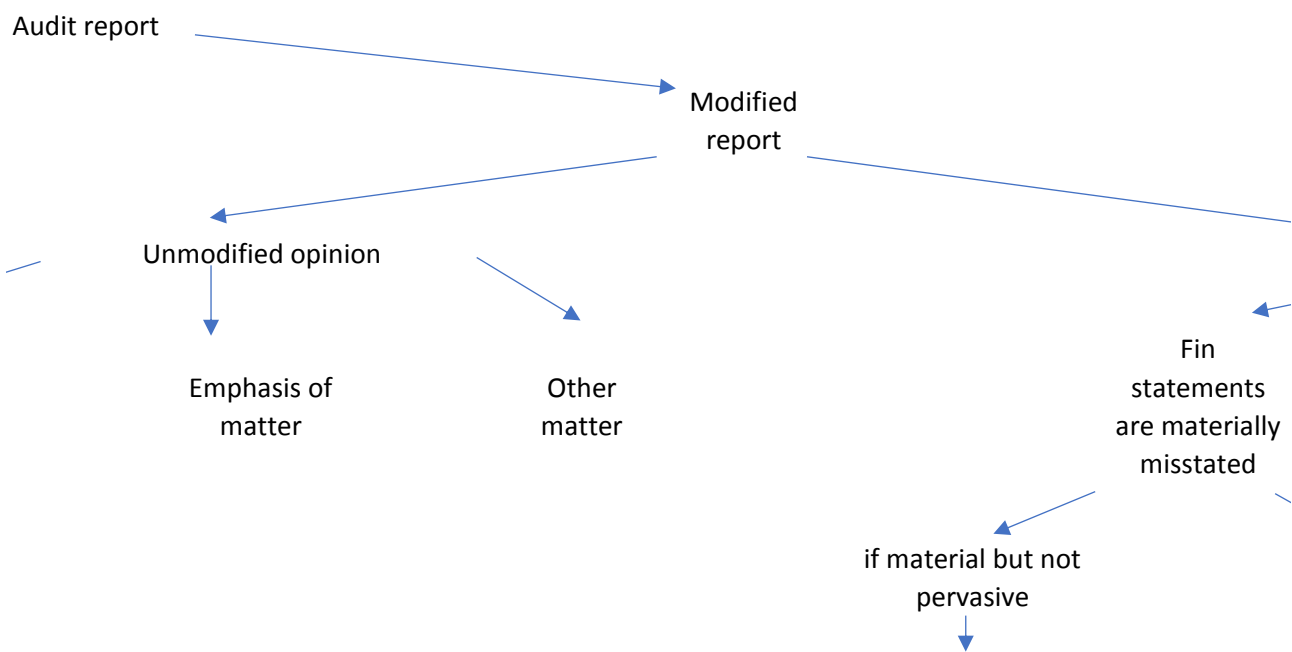
en considered

ppriate evidence  
ldege 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 potencia error in population as a whole can be estimated. If such errors reveal a potentially mat  
gement and those charged with governance that they believ the effect of uncorrected misstatements is imm  
often proide 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

Other matter is not KAM

Other matter is not presented and disclosed in financial statements

Effects 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

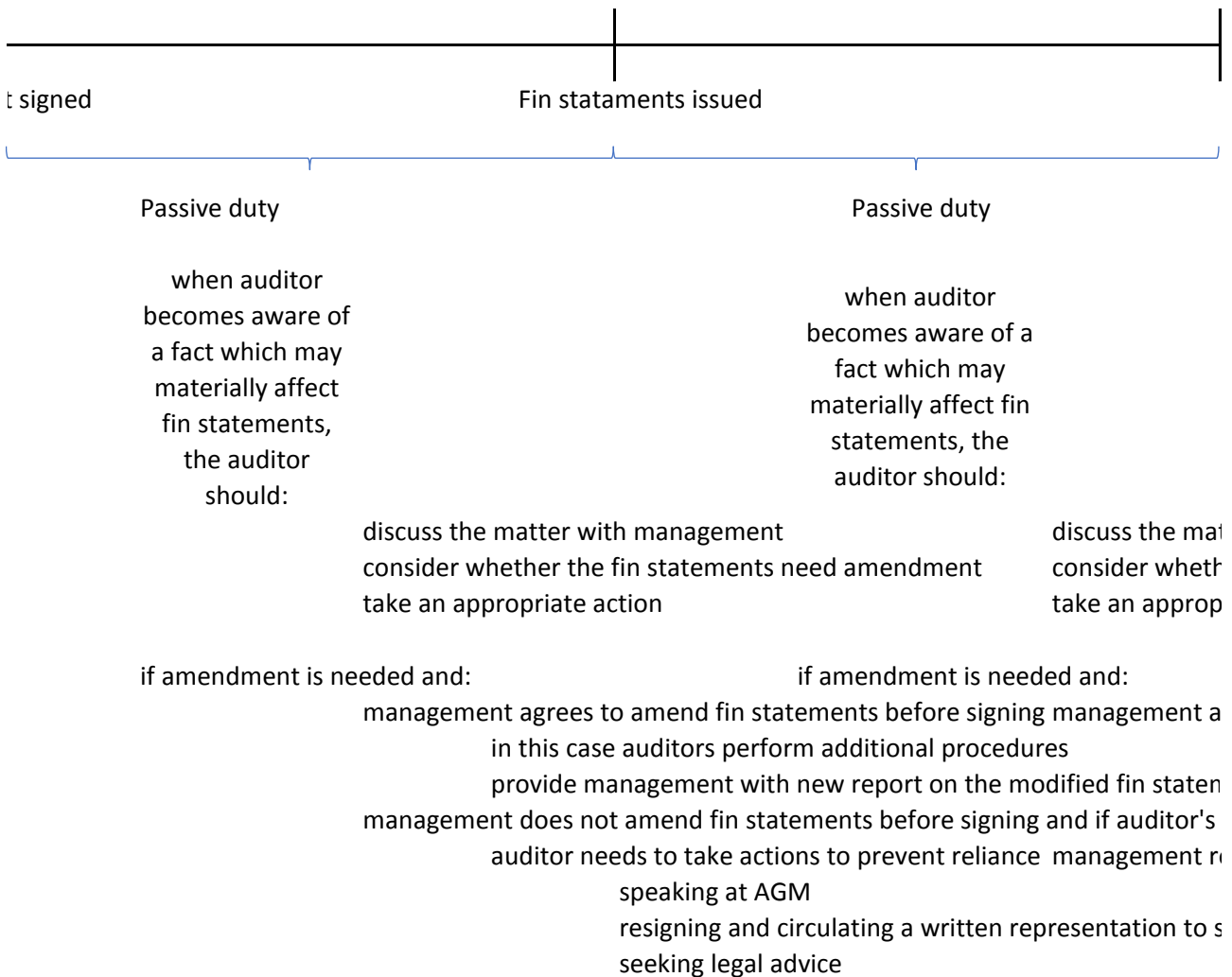
Directors have legal responsibility to prepare the financial statements to show true and fair view, the number of directors will be taken

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.

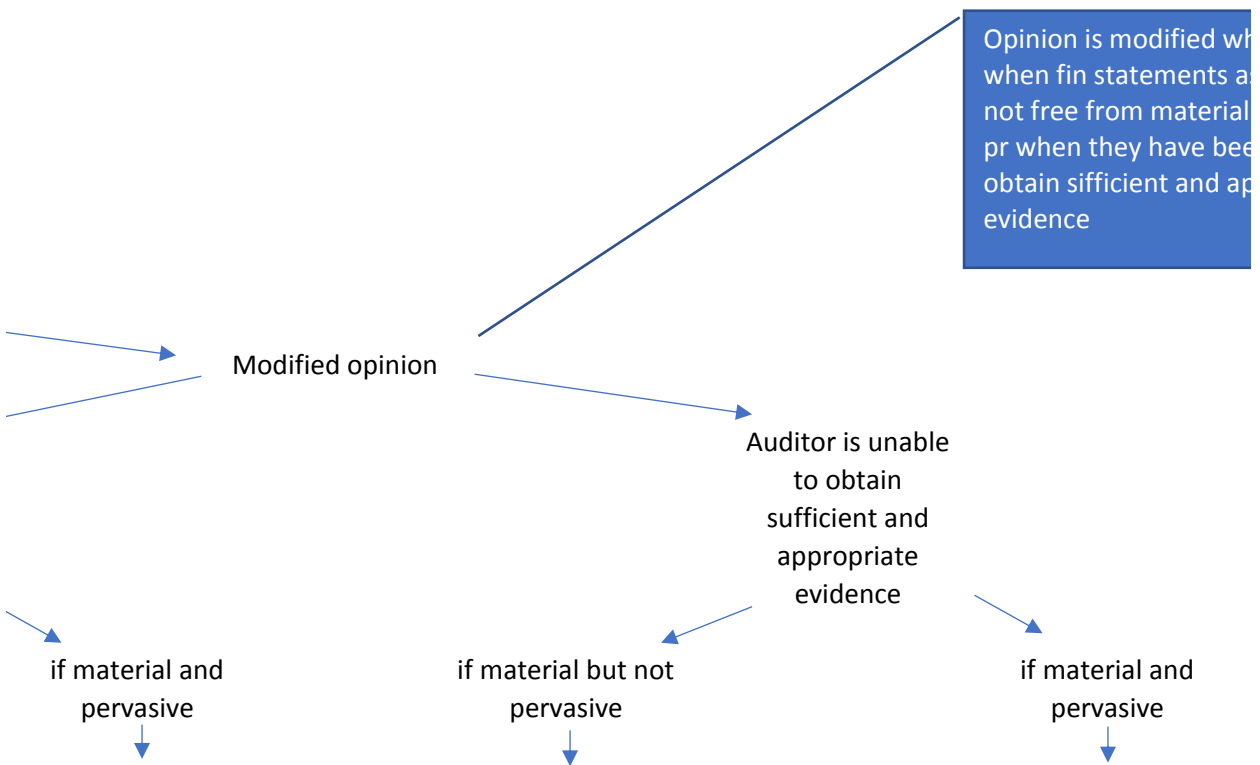
From the date that financial statements are authorized for issue (i.e. signed by the directors) that may affect the numbers.

Adjustments 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.