MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE

O. M. BEKETOV NATIONAL UNIVERSITY
of URBAN ECONOMY in KHARKIV

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LECTURE NOTES

on the subject

"AUDIT ORGANIZATION AND METHODS OF AUDITING "

(for 4-year full-time students
direction of studies 6.030509 "Accounting and Audit")

Kharkiv – KNUME – 2014

Mizik Iuliia I. Lecture Notes on the Subject “Audit Organization and Methods of Auditing ” (for 4-year full-time students direction of studies 6.030509 "Accounting and Audit") / O. M. Beкetov National University of Urban Economy in Kharkiv; com.: Iuliia I. Mizik. – K. : O. M. Beketov NUUE, 2014 – 94 p.

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Recommended by the department of financial and economic security, accounting and audit, record № 9 in 22. 04. 2013

The Contents

Introduction

The purpose of studying the discipline – forming at future specialists on accounting and audit of systems knowledge in the field of audit companies creation, organization of their activities and methods of audit realization.

The subject of the discipline – audit methodology and techniques.

The discipline Tasks – studying of auditing organizational principles, mastering of laws, regulatory guidance documents, international standards on auditing, the Code of Professional Ethics of auditors, finding of practical skills of the organization and audit planning, accomplishment of a complex of separate audit procedures, registrations of the auditor’s work and resulting documents.

The interdisciplinary communication: "Accounting", "Financial Accounting 1", "Financial Accounting 2" precedes studying "Audit of Financial Statements" after studying.

The maintenance and structure: the course consists of two content modules covering 10 topics:

Content Module 1. The Organizational and Methodological Principles of Audit.

Theme 1. Introduction to Audit.

Theme 2. Regulation and Information Support of Audit.

Theme 3. Audit Planning.

Theme 4. Audit Evidence and Audit Documentation.

Theme 5. Audit procedures for Obtaining Audit Evidence.

Theme 6. Audit Conclusions and Reporting.

Content Module 2. The Methods of Auditing on Objects.

Theme 7. Audit of The Company's Assets.

Theme 8. Audit of Transactions with Equity. Audit of Long-and Short-Term Liabilities.

Theme 9. Audit of Costs, Revenues and Financial Results.

Content Module 1. The Organizational and Methodological Principles of Audit

Lecture 1. Introduction to audit

Plan

1.1. Emergence and Development of Audit.

1.2. The Audit Theories of its Origin.

1.3. Assumptions and Factors Appearance Audit in the Market Economy.

1.4. Audit at the Present Stage of Development.

Keywords: auditor, engagement team, audit firm, financial statements, historical financial information, accounting records, assertions, misstatement, error, fraud, reasonable assurance.

The origin of auditing goes back to times scarcely less remote than that of accounting. "Audit" is a Latin word that means "he hears". In ancient times auditing was the process whereby the owner heard the account given by his steward of the use of the owner's resources. As a rule, the steward used to render an account to the owner, who might be illiterate and had to hear it ("audit" – "he hears").

The ancient Egyptians imposed such a check by arranging that the fiscal receipts should be recorded separately by two officials. In later times, the Greeks instituted a system of checking public accounts by means of checking-clerks, every public official having his accounts scrutinized at the expiry of his term of office. The Romans too, as early as the time of the Republic, recognized the salutary distinction between the official who authorizes or orders revenue and expenditure and the official who has the duty of handling cash. In Italy in the Middle Ages the transactions of a cashier appear to have been checked by means of a separate record of them kept by a notary.

The thirteenth century supplies us with references to auditors and auditing both in Italy and in England. Audit becomes public recognition, as evidenced by the publication in 1285 the world's first legislative act to regulate auditing. Since that time the establishment of an independent audit in its modern sense, which is based on precautionary, integrity and competence.

The evolution of auditing is a complicated history that always changed through historical events. Auditing always changed to meet the needs of the business environment of that day. Auditing has been around since the beginning of human civilization, focusing mainly, at first, on finding fraud. As the United States grew and the business world grew, auditing began to play more important roles. In

the late 1800's and early 1900's, people began to invest money into large corporations. The Stock Market crash of 1929 and various scandals made auditors realize that their roles in society were of great importance. The auditors' job of certifying and testing companies' financial statements is the backbone of the business world.

As you can see from the table 1.1, gradually, goals and objectives of the audit were changing with the auditing development.

Table 1.1 – Goals and objectives of the audit in accordance with the historical periods

The Historical Periods	Goals and Objectives of the Audit
Antiquity	Control and accounting in the realm of finding errors in the accounts
Middle times	Verifying the accounting (economic control) and control over the payment of taxes and public spending (government control)
The Renaissance	Since that time the establishment of an independent audit in its modern sense, which is based on precautionary, integrity and competence
Early modern period	Exposing fraud and detection of errors in accounts
Modern Era	Confirming the completeness, accuracy and legality of financial statements
Present	Enhancing the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Much attention is paid to testing the effectiveness of internal control

There are three audit theories of its origin. The theories have different backgrounds, but pursuing the goal to increase confidence in financial reporting, reduce the risk of errors and fraud (The figure 1.1).

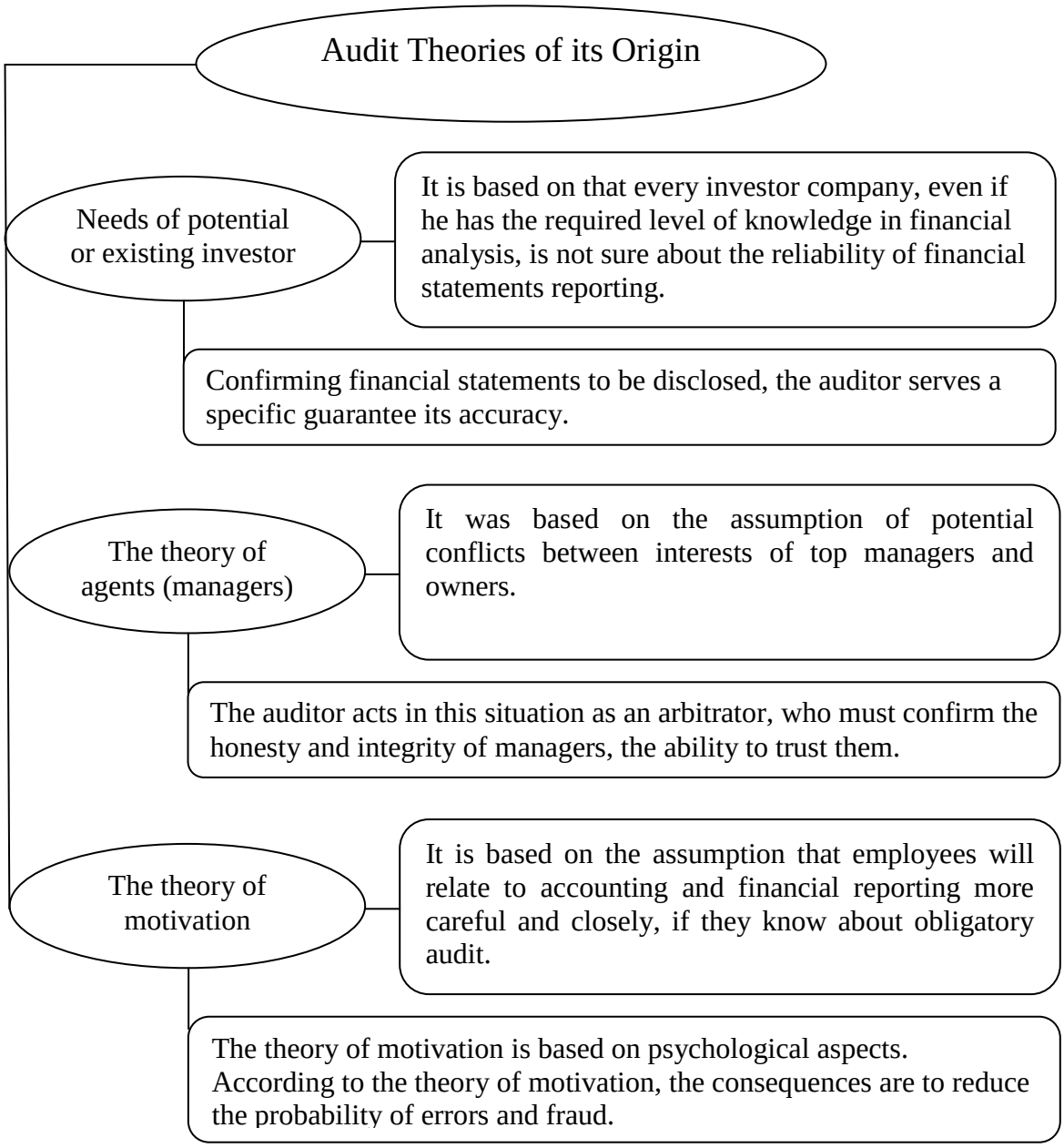

Figure 1.1 – Audit theories of its origin

The first theory names “needs of potential or existing investor”. The theory is based on that every investor company, even if he has the required level of knowledge in financial analysis, is not sure about the reliability of financial statements reporting. Confirming financial statements to be disclosed, the auditor serves a specific guarantee its accuracy.

The second theory, named the theory of agents (or managers), was based on the assumption of potential conflicts between interests of top managers and owners. The auditor acts in this situation as an arbitrator, who must confirm the honesty and integrity of managers, the ability to trust them.

The last theory is theory of motivation. The previous theories have the financial background. By contrast, the theory of motivation is based on

psychological aspects. It is based on the assumption that employees will relate to accounting and financial reporting more careful and closely, if they know about obligatory audit. According to the theory of motivation, the consequences are to reduce the probability of errors and fraud. It enhances the confidence of users to financial statements.

In its modern sense, auditing is an evaluation of accounting records and financial statements for the purpose of expressing an independent auditor's opinion on its accuracy in all material respects and compliance with laws, standards in accordance with the requirements of users. There are several assumptions and factors of the audit in a market economy, which are presented in the figure 1.2.

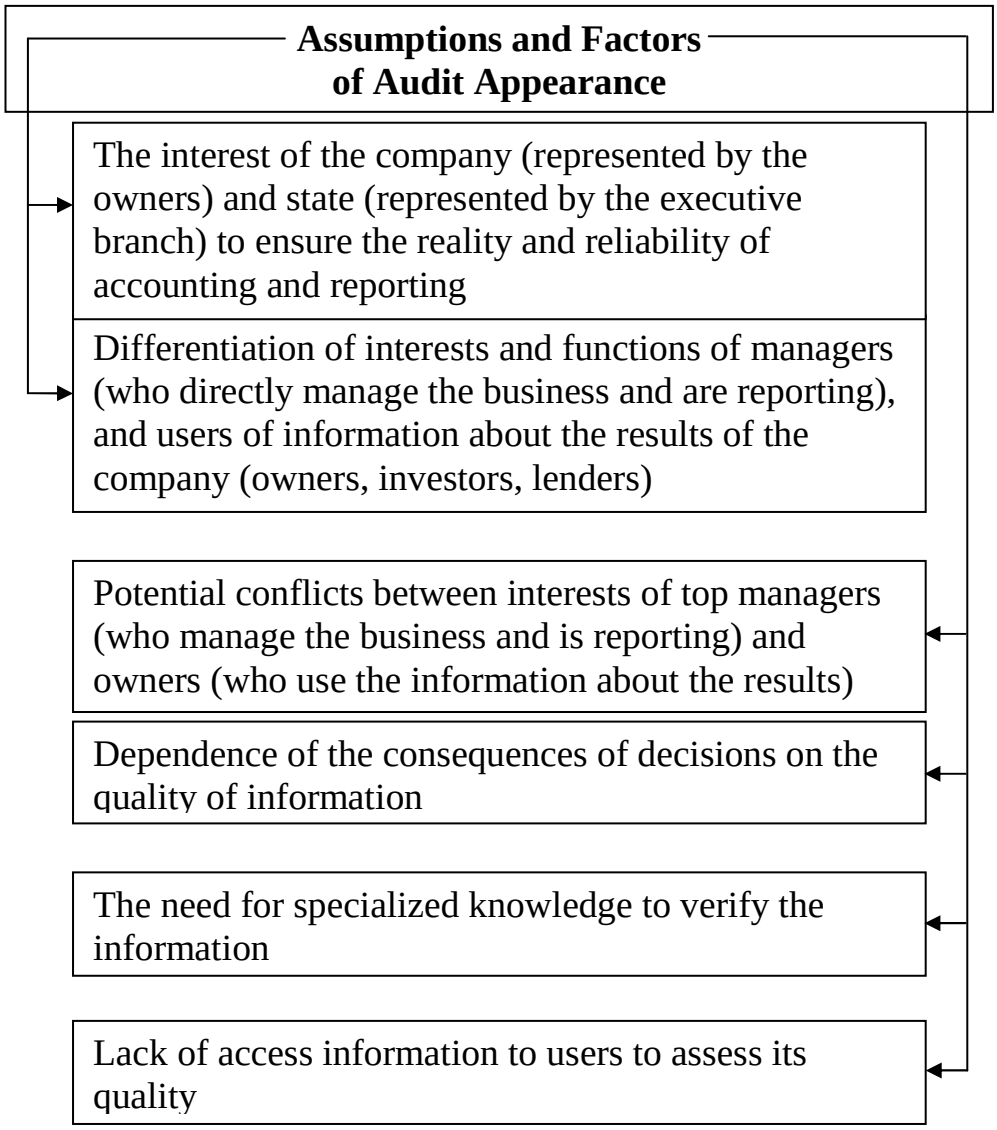

Figure 1.2 – The assumptions and factors of the audit appearance in a market economy

A financial audit, or more accurately, an audit of financial statements, is the verification of the financial statements of a legal entity, with a view to express an audit opinion. The audit opinion is intended to provide reasonable assurance that

the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.

Financial audits exist to add credibility to the implied assertion by an organization's management that its financial statements fairly represent the organization's position and performance to the firm's stakeholders. The principal stakeholders of a company are typically its shareholders, but other parties such as tax authorities, banks, regulators, suppliers, customers and employees may also have an interest in ensuring that the financial statements are accurate. The audit is designed to increase the possibility that a material misstatement is detected by audit procedures. A misstatement is defined as false or missing information, whether caused by fraud (including deliberate misstatement) or error. "Material" is very broadly defined as being large enough or important enough to cause stakeholders to alter their decisions. Audits exist because they add value through easing the cost of information asymmetry, not because they are required by law (note: audits are obligatory in many EU-member states).

Financial audits are typically performed by firms of practising accountants who are experts in financial reporting. The financial audit is one of many assurance functions provided by accounting firms. Many organizations separately employ or hire internal auditors, who do not attest to financial reports but focus mainly on the internal controls of the organization.

Auditors of financial statements can be classified into two categories:

External auditor / Statutory auditor is an independent Public accounting firm engaged by the client subject to the audit, to express an opinion on whether the company's financial statements are free of material misstatements, whether due to fraud or error. For publicly-traded companies, external auditors may also be required to express an opinion over the effectiveness of internal controls over financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements. Most importantly, external auditors, though engaged and paid by the company being audited, are regarded as independent auditors.

An external auditor is an audit professional who performs an audit in accordance with specific laws or rules on the financial statements of a company, government entity, other legal entity or organization, and who is independent of the entity being audited. Users of these entities' financial information, such as investors, government agencies, and the general public, rely on the external auditor to present an unbiased and independent audit report. External auditors normally address their reports to the shareholders of a corporation.

The most used external audit standards are the US GAAS of the American Institute of Certified Public Accountants; and the ISA International Standards on Auditing developed by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

Internal auditors are employed by the organization they audit. They perform various audit procedures, primarily related to procedures over the effectiveness of the company's internal controls over financial reporting.

Internationally, the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) is considered as the benchmark for audit process. Almost all jurisdictions require auditors to follow the ISA or a local variation of the ISA.

In the wake of industry concentration and individual firm failure, the issue of a credible alternative industry structure has been raised. The limiting factor on the growth of additional firms is that although some of the firms in the next tier have become quite substantial, and have formed international networks, effectively all very large public companies insist on having a "Big Four" audit, so the smaller firms have no way to grow into the top end of the market.

The “Big Four” are the four largest international accountancy and professional services firms, which handle the vast majority of audits for publicly traded companies as well as many private companies, creating an oligopoly in auditing large companies. The Big Four firms are shown below, with their latest publicly available data (the table 1.2).

Table 1.2 – The characteristics of The Big Four firms

Firms	Revenues	Employees	Headquarters	Website
Deloitte Touche Tohmatsu	$28.8bn	182,000	United States	www.deloitte.com
PwC (officially PricewaterhouseCoopers)	$29.2bn	169,000	United Kingdom	www.pwc.com
Ernst & Young	$22.9bn	152,000	United Kingdom	www.ey.com
KPMG	$20.6bn	138,000	The Netherlands	www.kpmg.com

This group was once known as the "Big Eight", and was reduced to the "Big Five" by a series of mergers. The Big Five became the Big Four after the demise of Arthur Andersen in 2002, following its involvement in the Enron scandal. The Enron collapse and ensuing investigation prompted scrutiny of their financial reporting, which was audited by Arthur Andersen, which eventually was indicted

for obstruction of justice for shredding documents related to the audit in the 2001 Enron scandal. The resulting conviction, since overturned, still effectively meant the end for Arthur Andersen. Most of its country practices around the world have been sold to members of what is now the Big Four, notably Ernst & Young globally, Deloitte & Touche in the UK, Canada, Spain and Brazil, and PricewaterhouseCoopers (now known as PwC) in China and Hong Kong.

The Big 4 are sometimes referred to as the "Final Four" due to the widely held perception that competition regulators are unlikely to allow further concentration of the accounting industry and that other firms will never be able to compete with the Big 4 for top-end work, as there is a market perception that they are not credible as auditors or advisors to the largest corporations.

Answer the following questions:

1. How may auditing be defined?
2. What is the main objective of auditing?
3. How were goals and objectives of the audit changing with the auditing development?
4. What do you know about the theories of audit origin?
5. What do you know about the assumptions and factors of the audit appearance in a market economy?
6. How can auditors of financial statements be classified?
7. What is the difference between an external auditor and an internal auditor?
8. What is always expected from auditors?
9. What do you know about the “Big Four”?

Lecture 2. Regulation and information support of the audit

Plan

2.1. The Certification of Auditors.

2.2. The International Experience in the Regulation of Audit.

2.3. The Fundamental Principles of Audit.

2.4. International Standards on Auditing.

Keywords: applicable financial reporting framework, independence, professional accountant, professional accountant in public practice, professional judgment, professional standards, reasonable assurance, relevant ethical requirements.

The manner of appointment, the qualifications and the format of reporting by an external auditor is defined by statute which varies according to jurisdiction of different countries. In some countries, audit firms may be organized as LLCs or corporate entities. The organization of audit firms has been a subject of debate in recent years on account of liability issues. For example, there are rules in EU member states that more than 75% of the members of an audit firm must be qualified auditors. External auditors must be a member of one of the recognised professional accountancy bodies.

In most countries a particular group of accountants is legally sanctioned to conduct financial statement audits. In the US, for example, it is the certified public accountants (CPA). In the United Kingdom it is the chartered accountants, in the Netherlands, the register accountant etc. There are several related professional qualifications in the field of financial audit including Certified General Accountant, Chartered Certified Accountant, Chartered Accountant and Certified Public Accountant.

Certified Public Accountant (CPA) is the statutory title of qualified accountants in the United States who have passed the Uniform Certified Public Accountant Examination and have met additional state education and experience requirements for certification as a CPA. The primary functions CPA fulfil relate to assurance services, or public accounting. In assurance services, also known as financial audit services, CPAs attest to the reasonableness of disclosures, the freedom from material misstatement, and the adherence to the applicable generally accepted accounting principles (GAAP) in financial statements.

In order to become a CPA in the United States, the candidate must pass the Uniform Certified Public Accountant Examination (Uniform CPA Exam), which is set by the American Institute of Certified Public Accountants (AICPA) and administered by the National Association of State Boards of Accountancy (NASBA).

Here is a summary of the topics which are tested in each section of the examination to become a CPA:

Auditing and Attestation (4.0 hours): (AUD) – This section covers knowledge of planning the engagement, internal controls, obtaining and documenting information, reviewing engagements and evaluating information, and preparing communications.

Financial Accounting and Reporting (4.0 hours): (FAR) – This section covers knowledge of concepts and standards for financial statements, typical items in financial statements, specific types of transactions and events, accounting and reporting for governmental agencies, and accounting and reporting for non-governmental and not-for-profit organizations.

Regulation (3.0 hours): (REG) – This section covers knowledge of ethics and professional responsibility, business law, Federal tax procedures and accounting issues, Federal taxation of property transactions, Federal taxation – individuals, and Federal taxation – entities.

Business Environment and Concepts (3.0 hours): (BEC) – This section covers knowledge of business structures, economic concepts, financial management, information technology, and planning and measurement.

The score represents the candidate's overall performance on the identified examination section. Scores are reported on a numeric scale of 0 to 99, with 75 as the passing score. The scale does not represent "percent correct." A score of 75 indicates examination performance that hypothetically reflects a level of knowledge and skill required for the protection of the public. Per NASBA's website, completed tests are sent to the AICPA for scoring. The Examination Section ID only is used for identification. When the candidate’s performance has been scored NASBA receives the scores for processing.

Financial auditors have expertise in their knowledge of accounting financial reporting and auditing (such as in generally Accepted Accounting principles (GAAP), International Financial Reporting Standards (IFRS), Code of Ethics for Professional Accountants, International Standards on Auditing, Review, Other Assurance, and Related Services (ISA)).

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. Founded in 1977, its mission is to serve the public interest by continuing to strengthen the worldwide accountancy profession and contributing to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

IFAC is comprised of 159 members and associates in 124 countries worldwide, representing approximately 2.5 million accountants in public practice, industry and commerce, the public sector, and education. No other accountancy body in the world and few other professional organizations have the broad-based international support that characterizes IFAC.

IFAC's governing bodies, staff and volunteers are committed to the values of integrity, transparency and expertise. IFAC also seeks to reinforce professional accountants' adherence to these values through the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

IFAC has long recognized that a fundamental way to protect the public interest is to develop, promote, and enforce internationally recognized standards as

a means of ensuring the credibility of information upon which investors and other stakeholders depend.

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards. In doing so, the IAASB enhances the quality and uniformity of practice throughout the world and strengthens public confidence in the global auditing and assurance profession.

The International Auditing and Assurance Standards Board (IAASB) was founded in March 1978. It was previously known as the International Auditing Practices Committee (IAPC). The IAPC's initial work focused on three areas: object and scope of audits of financial statements, engagement letters, and general auditing guidelines. In 1991, the IAPC's guidelines were recodified as International Standards on Auditing (ISAs).

In 2001, a comprehensive review of the IAPC was undertaken, and in 2002, the IAPC was reconstituted as the International Auditing and Assurance Standards Board (IAASB). In 2003, IFAC approved a series of reforms designed, among other things, to further strengthen its standard-setting processes, including those of the IAASB, so that they are responsive to the public interest.

In 2004, the IAASB began the Clarity Project, a comprehensive program to enhance the clarity of its ISAs. This program involved the application of new conventions to all ISAs, either as part of a substantive revision or through a limited redrafting to reflect the new conventions and matters of clarity generally.

The IAASB's Strategy and Work Program, 2012-2014 sets the direction and priorities for its activities. The IAASB's current efforts are focused on:

- Developing standards for audit, quality control , review, other assurance, and related services engagements;
- Monitoring and facilitating adoption and implementation of those standards; this includes a series of ISA Modules, each of which consists of a short video and slides that explain the key principles of, and major changes in, some of the new and more significantly revised ISAs; and
- Responding to concerns about the implementation of the standards by conducting activities designed to improve the consistency with which they are applied in practice.

The IAASB follows a rigorous due process in developing its pronouncements. Input is obtained from a wide range of stakeholders including the IAASB's Consultative Advisory Group national auditing standard setters, IFAC

member bodies and their members, regulatory and oversight bodies, firms, governmental agencies, investors, preparers, and the general public. Exposure drafts of proposed pronouncements are posted on the website and comments are invited; final pronouncements are accompanied by a basis of conclusions with respect to comments received. The Public Interest Oversight Board (PIOB) oversees the work of the IAASB and its CAG to ensure that the activities of the IAASB follow due process and are responsive to the public interest.

The IAASB is dedicated to operating as transparently as possible. IAASB meetings are open to the public and meeting agendas, agenda papers, and meeting highlights are posted on the website. In addition, the website includes project histories, audio recordings of the IAASB meetings, IAASB exposure drafts and all comments made on those drafts by stakeholders.

The International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board (IPSASB) follow a rigorous due process that supports the development of high-quality standards in the public interest in a transparent, efficient, and effective manner. These independent standard-setting boards all have Consultative Advisory Groups, which provide public interest perspectives, and include public members. These boards issue the following pronouncements:

• Code of Ethics for Professional Accountants

• International Standards on Auditing, Review, Other Assurance, and Related Services

• International Standard on Quality Control

• International Education Standards

• International Public Sector Accounting Standards

The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.

Part A of the IESBA Code establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles.

The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.

Independence – Comprises:

(a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

The fundamental principles with which the auditor is required to comply by the IESBA Code are: integrity; objectivity; professional competence and due care; confidentiality; professional behavior (The table 2.1).

Table 2.1 – The description of audit principles

The principles	**The description of audit principles**
Integrity	The auditor should be direct and honest in all professional and business relationships.
Objectivity	The auditor should not allow bias, conflict of interest or an independent influence his professional opinion.
Professional competence and due care	The auditor should always maintain professional knowledge and skills at a level needed to provide competent professional service, which are based on current trends of technologies and law practice.
Confidentiality	The auditor must not divulge to third parties or use for personal purposes the information obtained as a result of business and professional judgments, if there are not legal or professional rights to disclosure.
Professional behavior	The auditor should comply with relevant laws and rules and to refrain from any actions which might discredit the profession.

Auditing standards are the rules governing how an audit is performed. An audit of financial statements is the technical process by which an independent person (the auditor) gathers evidence to form an opinion about the conformity of financial statements to applicable financial reporting framework. The figure 2.1 shows the structure and scope of International Standards on Auditing, Review, Other Assurance, Related Services, and Quality Control.

International Standard on Quality Control (ISQC) 1 deals with the firm's responsibilities to establish and maintain its system of quality control for audit engagements. ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.

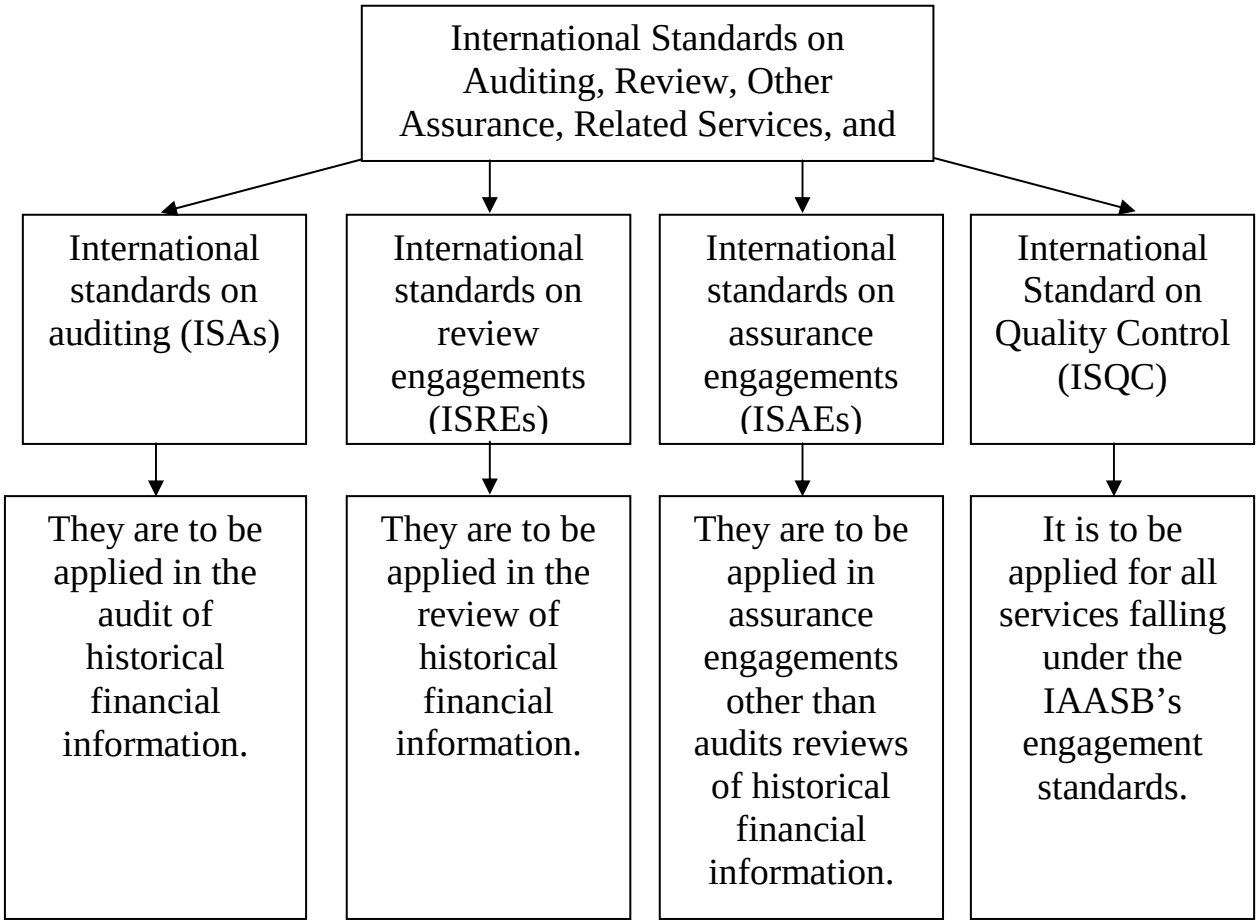

Figure 2.1 – The assumptions and factors of the audit appearance in a market economy

ISA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include remaining alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement. ISA 220 recognizes that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the

individual audit engagement, unless information provided by the firm or other parties suggests otherwise.

Each standard has a similar structure, which is presented in the table 2.2.

Table 2.2 – The model of ISAs

Components	Characterization
Introduction	The explanation of organizational issues, scope effective date.
Objective	The rationale for objective standard.
Definition	The definition of key terms used in the standard.
Requirements	This part of the standard consists of basic questions, procedure, categories and principles that the auditor should use for providing audit.
Application and other explanatory material	It contains the specific aspects, examples and comments.

International standards on auditing (ISAs) are to be applied in the audits of historical financial information. The table 2.3 shows the maintenance and characteristics of ISAs.

Table 2.3 – The characteristics of ISAs

Group	ISAs
1	2
200-299 General Principles And Responsibilities	ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing ISA 210, Agreeing the Terms of Audit Engagements ISA 220, Quality Control for an Audit of Financial Statements ISA 230, Audit Documentation ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements ISA 260, Communication with Those Charged with Governance ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

The continuation of the table 2.3

1	2
300-499 Risk Assessment and Response to Assessed Risks	ISA 300, Planning an Audit of Financial Statements ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment ISA 320, Materiality in Planning and Performing an Audit ISA 330, The Auditor's Responses to Assessed Risks ISA 402, Audit Considerations Relating to an Entity Using a Service Organization ISA 450, Evaluation of Misstatements Identified during the Audit
500-599 Audit Evidence	ISA 500, Audit Evidence ISA 501, Audit Evidence—Specific Considerations for Selected Items ISA 505, External Confirmations ISA 510, Initial Audit Engagements—Opening Balances ISA 520, Analytical Procedures ISA 530, Audit Sampling ISA 540, Auditing Accounting Estimates, Including Fair Value. Accounting Estimates, and Related Disclosures ISA 550, Related Parties ISA 560, Subsequent Events ISA 570, Going Concern ISA 580, Written Representations
600-699 Using the Work of Others	ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) ISA 610, Using the Work of Internal Auditors ISA 620, Using the Work of an Auditor's Expert
700-799 Audit Conclusions and Reporting	ISA 700, Forming an Opinion and Reporting on Financial Statements ISA 705, Modifications to the Opinion in the Independent Auditor's Report ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements
800-899 Specialized Areas	ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement ISA 810, Engagements to Report on Summary Financial Statements

The existence of different accounting and auditing standards affects the decisions of users to the extent that they fail to understand or trust the messages communicated by financial statements. A number of international and regional organizations recognize this problem and are trying to harmonize accounting and auditing standards to the greatest extent possible.

Answer the following questions:

1. What is the certification of auditors?
2. What related professional qualifications do you know in the field of financial audit?
3. What do you know about the Uniform CPA Exam?
4. What is the purpose and powers of The International Federation of Accountants (IFAC)?
5. Describe the activity of International Auditing and Assurance Standards Board (IAASB) as an independent standard-setting body in The International IFAC.
6. What is the independence of auditors?
7. What fundamental principles of audit do you know?
8. What are the standards and standardization of audit?
9. Describe the legal status and scope of International standards on auditing.

Lecture 3. Audit planning

Plan

3.1. The Stages of an Audit.
3.2. Documentation in Audit Planning.
3.3. Audit Risk.
3.4. Materiality in Planning and Performing an Audit.

Keywords: to assess, audit documentation, audit risk, control risk, detection risk, inherent risk, to evaluate, management, overall audit strategy, risk of material misstatement, substantive procedure.

The stages of a typical audit are the following:

1. Planning and risk assessment

The purpose of the stage is to understand the business of the company and the environment in which it operates.

At this stage auditors should understand:

- The relevant industry, regulatory, and other external factors including the applicable financial reporting framework

- The nature of the entity
- The entity’s selection and application of accounting policies
- The entity’s objectives and strategies, and the related business risks that may result in material misstatement of the financial statements
- The measurement and review of the entity’s financial performance
- Internal control relevant to the audit
- To determine the major audit risks (i.e. the chance that the auditor will issue the wrong opinion). For example, if sales representatives stand to gain bonuses based on their sales, and they account for the sales they generate, they have both the incentive and the ability to overstate their sales figures, thus leading to overstated revenue. In response, the auditor would typically plan to increase the rigour of their procedures for checking the sales figures.

2. Internal controls testing

The purpose of the stage is to assess the operating effectiveness of internal controls (e.g. authorisation of transactions, account reconciliations, segregation of duties). If internal controls are assessed as effective, this will reduce (but not entirely eliminate) the amount of 'substantive' work the auditor needs to do (see below).

In some cases an auditor may not perform any internal controls testing, because he/she does not expect internal controls to be reliable. When no internal controls testing is performed, the audit is said to follow a substantive approach.

This test determines the amount of work to be performed i.e. substantive testing or test of details.

The analytical procedures had to be applied as risk assessment procedures. They include the following procedures:

- Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- The determination of materiality.
- The involvement of experts.
- The performance of other risk assessment procedures.

The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel).

3. Substantive procedures

The purpose of the stage is to collect audit evidence that the management assertions (actual figures and disclosures) made in the Financial Statements are reliable and in accordance with required standards and legislation.

Auditors can use the following methods:

- where internal controls are strong, auditors typically rely more on Substantive Analytical Procedures (the comparison of sets of financial information, and financial with non-financial information, to see if the numbers 'make sense' and that unexpected movements can be explained);
- where internal controls are weak, auditors typically rely more on Substantive Tests of Detail (selecting a sample of items from the major account balances, and finding hard evidence (e.g. invoices, bank statements) for those items).

4. Finalization

The purposes of the stage are:

- To compile a report to management regarding any important matters that came to the auditor's attention during performance of the audit;
- To evaluate and review the audit evidence obtained, ensuring sufficient appropriate evidence was obtained for every material assertion;
- To consider the type of audit opinion that should be reported based on the audit evidence obtained.

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by auditors of components and experts.

The auditor shall draw up include in the audit documentation:

- The overall audit strategy;
- The audit plan;
- Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

In establishing the overall audit strategy, the auditor shall:

- Identify the characteristics of the engagement that define its scope;
- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
- Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- Ascertain the nature, timing and extent of resources necessary to perform the engagement.

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:

- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates;
- How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.

Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and

the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

The auditor shall develop an audit plan that shall include a description of:

- The nature, timing and extent of planned risk assessment procedures.
- The nature, timing and extent of planned further audit procedures at the assertion level.
- Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs.

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, audit evidence obtained

through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- The size and complexity of the entity.
- The area of the audit.
- The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).

Auditing is always accompanied by some risk. The relevance of audit risk assessment indicates that this issue is given attention in at least six currently operating international auditing standards.

Audit risk – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk (The figure 3.1).

Detection risk – The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(a) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

During the planning an audit of financial statements the auditor always faces the problem of determining the level of audit risk and finds ways to reduce it. An important issue for the auditor's methodology is the determination of audit risk.

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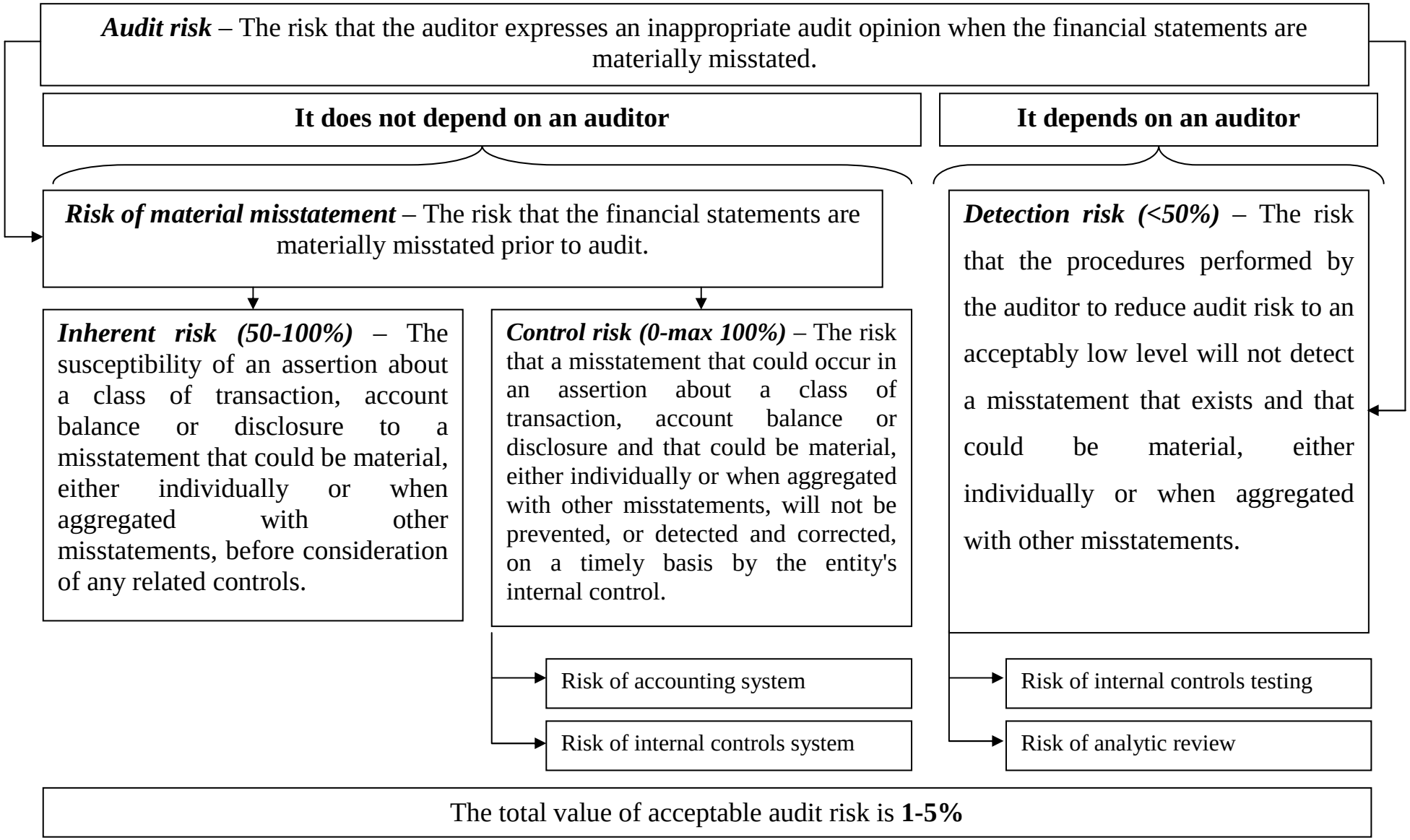

Figure 3.1 – The relationship and value of components of the audit risk

Note that there is no single methodology. It is usually developed by each audit firm or individual auditor under the terms of a specific check.

According to overseas experience, the total value of acceptable audit risk is 1-5% (0,01-0,05). Choosing a method for determining audit risk and its permissible value must take into account the specific conditions of test, its terms, the nature of the client's competence and qualifications of the auditor, his previous experience in auditing and a lot of other factors. However, based on a special study of foreign literature (R. Dodge, J. Robertson), the most common method (model) calculation of audit risk is submit and can be expressed by the following formula:

$$AR=IR*CR*DR,$$

AR – audit risk;

IR – Inherent risk;

CR – Control risk;

DR – Detection risk

J. Robertson revealed the most complete method of audit risk calculation, and called a number of important points:

- The auditor cannot fully trust accounting system and internal control of the enterprise client. In this case, the risk of accounting or internal control is reduced to zero (IR = 0, CR = 0), and this means that the audit risk, based on a formula equal to zero, which cannot be, as each audit is accompanied by certain risk;

- The auditor cannot afford to set a high detection risk (more than 50%) at high inherent and control risks. As in this case, the audit risk will be very high (more than 5%);

- The audit is considered to be conducted at the appropriate level, if the auditor establishes a low detection risk (0,01) in complete distrust of accounting systems and internal control client.

Defining risk in the audit is closely linked with the level of materiality. Between materiality and audit risk is feedback, that is: the higher the materiality level, the lower the audit risk. The auditor takes into account the feedback between materiality and audit risk in determining the nature, timing and extent of audit procedures. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

In accordance to ISA 320: Information is considered to be material if misstatements, including omissions, individually or in the aggregate, could reasonably influence the economic decisions of users taken on the basis of the financial statements.

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement;
- Determining the nature, timing and extent of further audit procedures.

Audit practice shows there is no single approach to determining the materiality of misstatements and omissions identified in audit of financial statements. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements.

Audit practice generally accepted that the level of materiality was different for groups of assets, equity, liabilities and financial results:

- 5% of net profit,
- 2% of sale volume,
- 2% of balance sheet,
- 10% of equity,
- 2% of total costs.

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

Answer the following questions:

1. What are the stages of a typical audit? Describe each of them.
2. What shall auditors include in audit planning documentation?
3. What is the overall audit strategy?
4. What is the audit plan?
5. What is the audit risk? What components does the audit risk consist of? How can you assess the audit risk?
6. What is the materiality in planning and performing an audit? What is the relationship between the audit risk and the materiality?

Lecture 4. Audit Evidence and Audit Documentation

Plan

4.1. The Essence and the Measure of Audit Evidence.
4.2. Relevance and Reliability of Audit Evidence.
4.3. Sources of Audit Evidence.
4.4. Audit Documentation.

Keywords: audit evidence, appropriateness and sufficiency (of audit evidence), audit documentation, audit file, engagement documentation, engagement letter.

Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

As explained in ISA 200, reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

ISA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

Some audit evidence is obtained by performing audit procedures to test the accounting records, for example, through analysis and review, re-performing procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.

More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation.

Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, analysts' reports, and comparable data about competitors (benchmarking data).

While audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other

sources such as, for example, previous audits, in certain circumstances, and a firm's quality control procedures for client acceptance and continuance. The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure. On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.

A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff. Similarly, obtaining audit evidence regarding a particular assertion, for example, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, for example, the valuation of that inventory. On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.

Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.

Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalizations about the

reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

In order for the auditor to obtain reliable audit evidence, information produced by the entity that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.

Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls

over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as internal auditor's reports. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

The figure 4.1 shows the information about audit evidence by evidence importance.

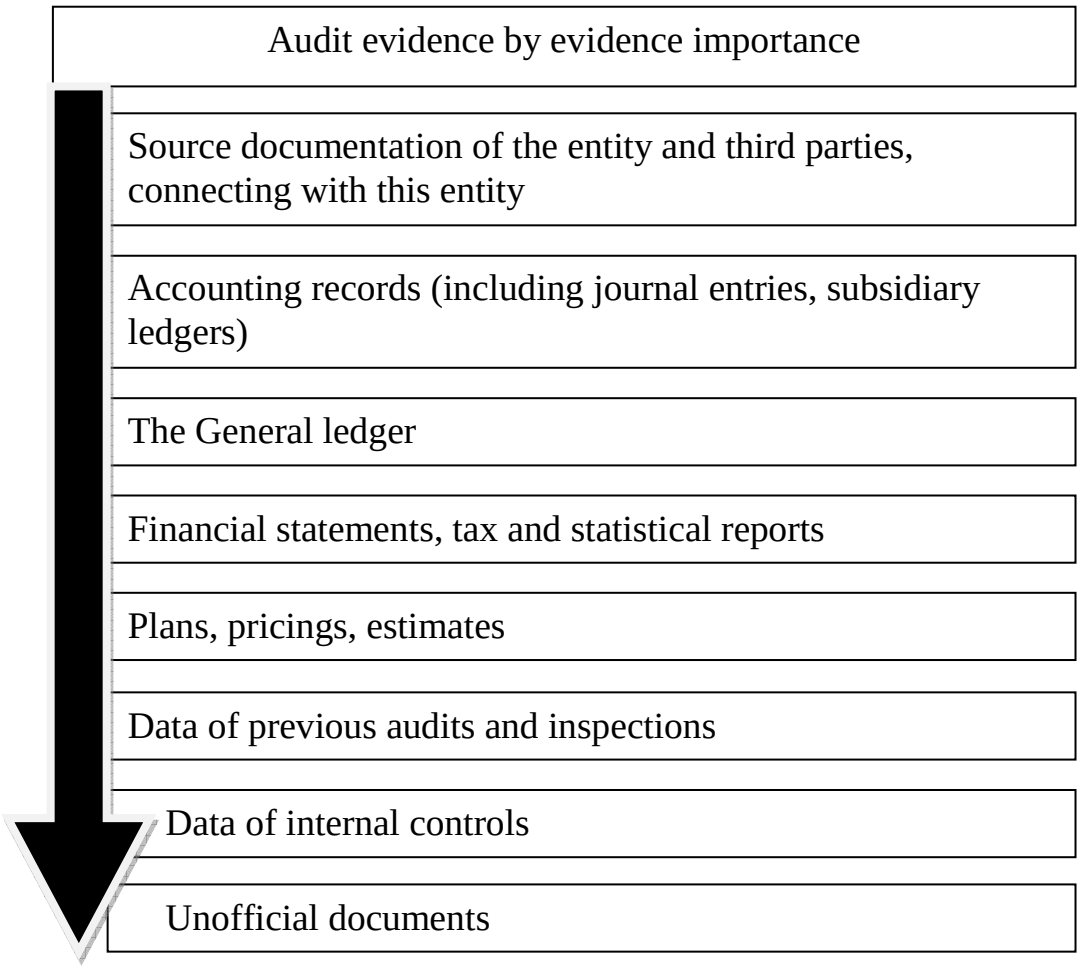

Figure 4.1 – Audit evidence by evidence importance

Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).

Audit documentation provides:

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA 220.
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of quality control reviews and inspections in accordance with ISQC 1 or national requirements that are at least as demanding.
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

The form, content and extent of audit documentation depend on factors such as:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:

- Audit programs.
- Analyses.
- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.

The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation, however, is not a substitute for the entity's accounting records.

Audit file – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

The composition of the audit file:

- Permanent file and appendix;
- Report file;
- Organizing file;
- Working papers of all the members of the engagement team;
- File “Inventory taking” and file “Supervision of inventory taking;
- Written information for the management of the audited entity;
- Audit report;
- The original of contract for audit;
- Signed by the acts of acceptance.

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment.

Answer the following questions:

1. What is audit evidence?
2. What measures of audit evidence do you know?
3. What do you know about relevance and reliability of audit evidence?
4. What is the reliability of audit evidence influenced by?
5. What sources of audit evidence do you know?
6. How do audit evidence rank by the evidence importance?
7. What is audit documentation?
8. What does audit documentation provide?
9. What is audit file? What does audit file consist of?
10. What factors do the form, content and extent of audit documentation depend on?
11. What examples of audit documentation do you know?

Lecture 5. Audit Procedures for Obtaining Audit Evidence

Plan:

5.1. The Types of Audit Procedures.
5.2. Selecting Items for Testing to Obtain Audit Evidence.
5.3. Audit Sampling.

Keywords: audit evidence, analytical procedures, auditor’s expert, audit sampling, external confirmation, to evaluate, inquiry, inspection, population, recalculation, reperformance, sampling unit, stratification, substantive procedure, tests of controls.

As required by, and explained further in, ISA 315 and ISA 330, audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

(a) Risk assessment procedures; and

(b) Further audit procedures, which comprise:

(i) Tests of controls, when required by the ISAs or when the auditor has chosen to do so; and

(ii) Substantive procedures, including tests of details and substantive analytical procedures.

The audit procedures, which may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor. As explained in ISA 330, audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance.

The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.

Certain electronic information may not be retrievable after a specified period of time, for example, if files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a "side agreement" that may influence revenue recognition.

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:

- Comparable information for prior periods.
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
- Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

The auditor's substantive procedures at the assertion level may be tests of details, substantive analytical procedures, or a combination of both. The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.

The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the entity. It may be effective to use analytical data prepared by management, provided the auditor is satisfied that such data is properly prepared.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

Different types of analytical procedures provide different levels of assurance. Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified. In contrast, calculation and comparison of gross margin percentages as a means of confirming a revenue

figure may provide less persuasive evidence, but may provide useful corroboration if used in combination with other audit procedures.

The determination of the suitability of particular substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the risk of material misstatement. For example, if controls over sales order processing are deficient, the auditor may place more reliance on tests of details rather than on substantive analytical procedures for assertions related to receivables.

Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion. For example, when obtaining audit evidence regarding the valuation assertion for accounts receivable balances, the auditor may apply analytical procedures to an aging of customers' accounts in addition to performing tests of details on subsequent cash receipts to determine the collectability of the receivables.

The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

(a) Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;

(b) Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;

(c) Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and

(d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

The conclusions drawn from the results of analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.

Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with information not previously possessed or

with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, where appropriate, those charged with governance to confirm responses to oral inquiries.

An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purposes. In selecting items for testing, the auditor must determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for testing are:

(a) Selecting all items (100% examination);

(b) Selecting specific items; and

(c) Audit sampling.

The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.

The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- High value or key items. The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- All items over a certain amount. The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- Items to obtain information. The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.

Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn.

Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it (the figure 5.1).

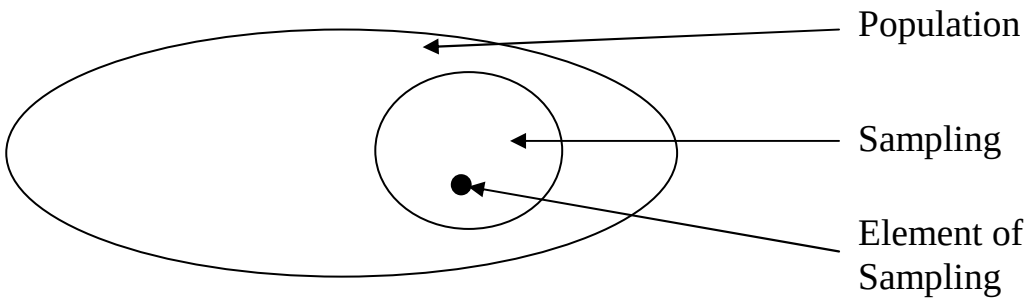

Figure 5.1 – Population and Sampling

Audit sampling (sampling) – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units

have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

Population – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

The sampling units might be physical items (for example, checks listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances) or monetary units.

Audit sampling can be applied using either non-statistical or statistical sampling approaches. The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgment; however, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment.

With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected. With non-statistical sampling, judgment is used to select sample items. Because the purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

There are many methods of selecting samples. The principal methods are as follows:

(a) Random selection (applied through random number generators, for example, random number tables).

(b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

(c) Monetary Unit Sampling is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.

(d) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.

(e) Block selection involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:

- Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or
- Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.

Answer the following questions:

1. What types of audit procedures do you know?
2. What is the inquiry as an audit procedure?
3. What are the inspection and observation as audit procedures?
4. What is the external confirmation as an audit procedure?
5. What are the recalculation and reperformance as audit procedures?
6. What are the analytical procedures as audit procedures?
7. What are the means available to the auditor for selecting items for testing to obtain audit evidence?
8. What is selecting all items?
9. What is selecting specific items?
10. What is audit sampling?
11. What approaches can audit sampling be applied?
12. What statistical methods of selecting samples can be applied in audit?

Lecture 6. Auditor’s Conclusions and Reporting

Plan

6.1. The Form and Content of Auditor’s reports.

6.2. Modifications to the Opinion in the Independent Auditor's Report.

6.3. Emphasis of Matter Paragraphs in the Independent Auditor's Report.

Keywords: audit documentation, audit evidence, applicable financial reporting framework , assertions, adverse opinion, disclaimer of opinion, emphasis of matter paragraph, modified opinion, unmodified opinion, qualified opinion, financial statements, professional judgment.

ISA 700 deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

The objectives of the auditor are:

(a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) To express clearly that opinion through a written report that also describes the basis for that opinion.

The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

(a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;

(b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate.

The auditor's report shall be in writing and contains the following elements (the table 6.1):

(a) A title;

(b) An addressee, as required by the circumstances of the engagement;

(c) An introductory paragraph that identifies the financial statements audited;

(d) A description of the responsibility of management (or other appropriate term, see paragraph 24) for the preparation of the financial statements;

(e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

- A reference to International Standards on Auditing and the law or regulation;
- A description of an audit in accordance with those standards;

(f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards);

(g) The auditor's signature;

(h) The date of the auditor's report; and

(i) The auditor's address.

Table 6.1 – Sections' Description of the auditor's report

Sections	**Description**
1	**2**
Title	The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. The name and essential elements should be given there.
Addressee	The auditor's report shall be addressed as required by the circumstances of the engagement (contract). Law or regulation often specifies to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited. It might be stockholders' meeting, board of directors, partners, owner, etc.
Introductory Paragraph	The introductory paragraph in the auditor's report shall: (a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement that comprises the financial statements; (d) Refer to the summary of significant accounting policies and other explanatory information; and (e) Specify the date or period covered by each financial statement comprising the financial statements.

The continuation of the table 6.1

1	2
Management's Responsibility for the Financial Statements	This section of the auditor's report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor's report shall include a section with the heading "Management's [or other appropriate term] Responsibility for the Financial Statements." The auditor's report shall describe management's responsibility for the preparation of the financial statements. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
Auditor's Responsibility	The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. The auditor's report shall state that the audit was conducted in accordance with International Standards on Auditing. The auditor's report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The auditor's report shall describe an audit by stating that: (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; (b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

The continuation of the table 6.1

1	2
Auditor's Opinion	When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent: (a) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or (b) The financial statements give a true and fair view of in accordance with [the applicable financial reporting framework]. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].
Other Reporting Responsibilities	If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."
Signature of the Auditor	The auditor's report shall be signed.

The continuation of the table 6.1

1	2
Date of the Auditor's Report	The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.
Auditor's Address	The auditor's report shall name the location in the jurisdiction where the auditor practices.

You can see an illustration of the auditor’s report below.

Auditor’s reports

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, (or *give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

The type of the auditor's opinion can be classified:

(a) an unmodified opinion;

(b) a modified opinion;

Circumstances in which an unmodified opinion can be expressed:

a) The financial statements adequately disclose the significant accounting policies, which were selected and applied;

b) The selected and applied accounting policies are consistent with the applicable financial reporting framework and are appropriate;

c) The accounting estimates made by management are reasonable;

d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;

e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

ISA 705 and ISA 706 deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report.

The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

A material misstatement of the financial statements may arise in relation to:

(a) The appropriateness of the selected accounting policies;

(b) The application of the selected accounting policies; or

(c) The appropriateness or adequacy of disclosures in the financial statements.

In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:

(a) The selected accounting policies are not consistent with the applicable financial reporting framework; or

(b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.

In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

(a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or

(b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

(a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;

(b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or

(c) The financial statements do not provide the disclosures necessary to achieve fair presentation.

The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

(a) Circumstances beyond the control of the entity;

(b) Circumstances relating to the nature or timing of the auditor's work; or

(c) Limitations imposed by management.

Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

The table 6.2 shows the type of modification to the auditor's opinion.

Table 6.2 – The type of modification to the auditor's opinion

Nature of Matter Giving Rise to the Modification	**Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements**	
	Material but Not Pervasive	**Material and Pervasive**
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

The figure 6.1 shows the algorithm for selecting the auditor's report on the facts and circumstances of the audit.

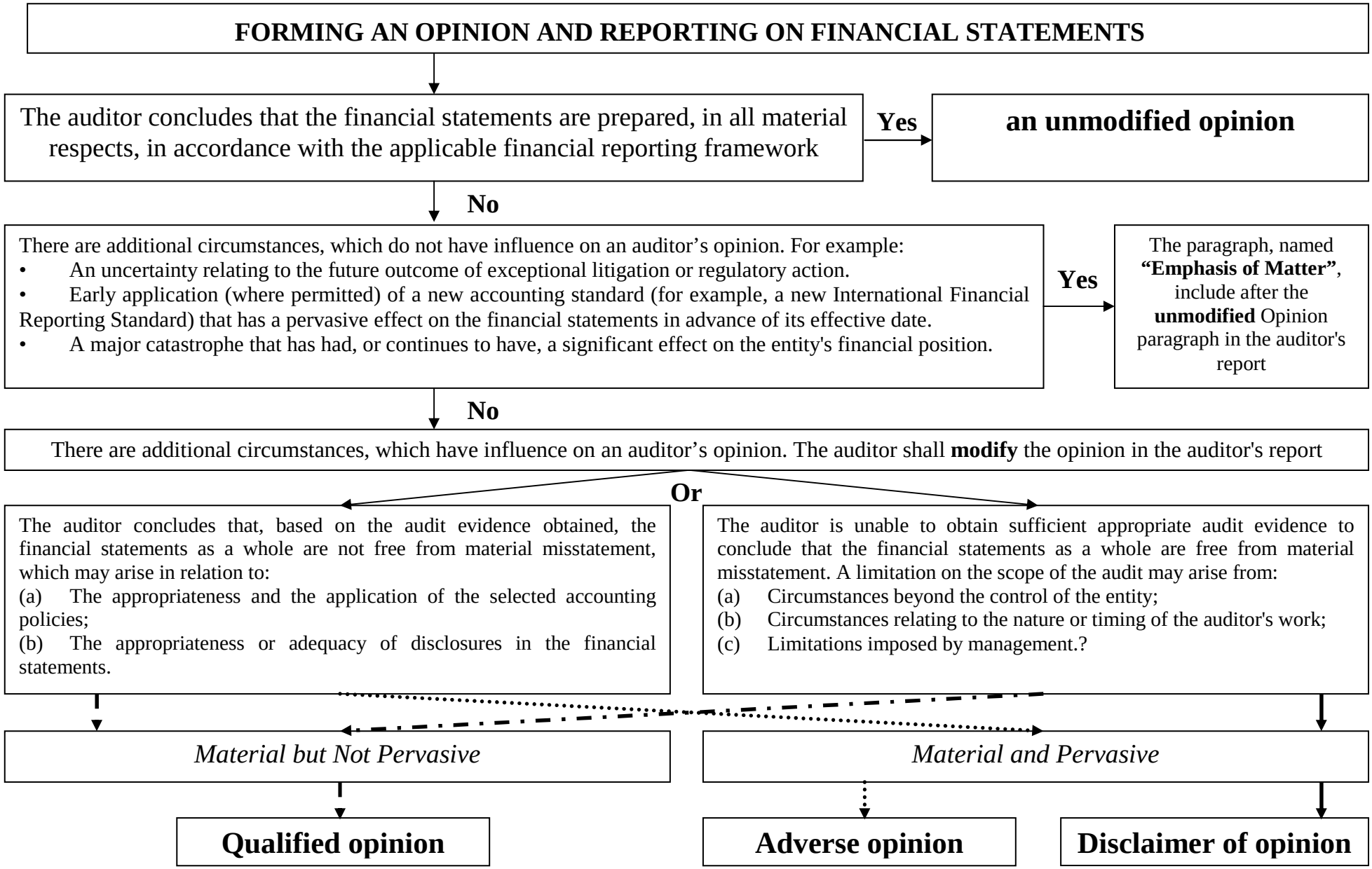

Figure 6.1 – The algorithm for selecting the auditor's report on the facts and circumstances of the audit

The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

You can see illustrations of the auditor’s report with modifications to the opinion below.

Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and

statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by

xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, (or *give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the financial statements.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management 's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor s *Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As explained in Note X, the company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under International Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements do not present fairly (or *do not give a true and fair view of)* the financial position of ABC Company and its subsidiaries as at December 31, 20X1, and (of) their financial

performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, (or *give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The company's investment in its joint venture XYZ (Country X) Company is carried at xxx on the company's statement of financial position, which represents over 90% of the company's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ, including XYZ's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the company's proportional share of XYZ's assets that it controls jointly, its proportional share of XYZ's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the statement of changes in equity and cash flow statement.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient

appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the

beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1 which are stated in the statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

ISA 706 deals with additional communication in the auditor's report when the auditor considers it necessary to:

(a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or

(b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

(a) Include it immediately after the Opinion paragraph in the auditor's report;

(b) Use the heading "Emphasis of Matter," or other appropriate heading;

(c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements; and

(d) The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion (The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement).

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

You can see an illustration of an auditor's report that includes an emphasis of matter paragraph.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical

requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The company's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from International Financial Reporting Standards. The company's records indicate that had management marked the marketable securities to market, the company would have recognized an unrealized loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or *give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note X to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the company by XYZ Company. Our opinion is not qualified in respect of this matter.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Answer the following questions:

1. What is the auditor’s report?
2. What elements should an auditor’s report contain? Describe the sections of an auditor’s report.
3. What types can an auditor's opinion be classified? In which circumstances can an unmodified opinion be expressed? In which circumstances can a modified opinion be expressed?
4. In relation to what circumstances may a material misstatement of the financial statements arise?
5. In relation to what circumstances may a limitation on the scope of the audit arise?
6. In which circumstances can a qualified opinion be expressed?
7. In which circumstances can an adverse opinion be expressed?
8. In which circumstances can an auditor disclaim an opinion?
9. When and in which circumstances should an auditor include the emphasis of matter paragraphs in the auditor's report?

Content Module 2. The Methods of Auditing on Objects

Lecture 7. Audit of The Company's Assets

Plan

7.1. The Classification of The Company's Assets.

7.2. The Audit of Fixed Assets.

7.3. The Audit of Inventories.

7.4. The Audit of Accountants Receivable and Cash Transactions.

Keywords: the company's assets, audit of fixed assets, the audit of inventories, the audit of accountants receivable and cash transactions.

Performing an audit is actually used in practice all the knowledge, which takes possession of the auditor, having studied the ISA rules, as well as all legal documents to guide the implementation of any economic activity.

For the audit firm it is desirable to have approved the audit methodology, which minimizes the risk of testing and reduces the term of an audit.

An object of audit is interrelated economic, organizational, informational, technological and other aspects of the system being studied, which can be evaluated quantitatively and qualitatively.

Objects of audit activities are divided into the following groups:

a) assets and resources;

b) business processes;

c) economic performance;

d) the organizational forms of governance;

e) methods of management;

f) management functions.

The figure 7.1 shows the classification of the company's assets.

The purpose of the audit of fixed assets is to confirm the information about the completeness, accuracy, legality and regularity of fixed assets accounting in accordance with the applicable financial reporting framework.

The main objectives of the audit of fixed assets include:

• establishing the correctness of documenting and timely reflected in the accounting of transactions with fixed assets, their income, internal displacement, and disposal;

• checking the accuracy of calculation, timely depreciation of fixed assets;

• testing the feasibility of fixed assets repair, control costs of repairs;

• checking the accuracy of recording financial results from the disposal of fixed assets;

• confirmation of the legality and correctness of accounting of transactions with fixed assets.

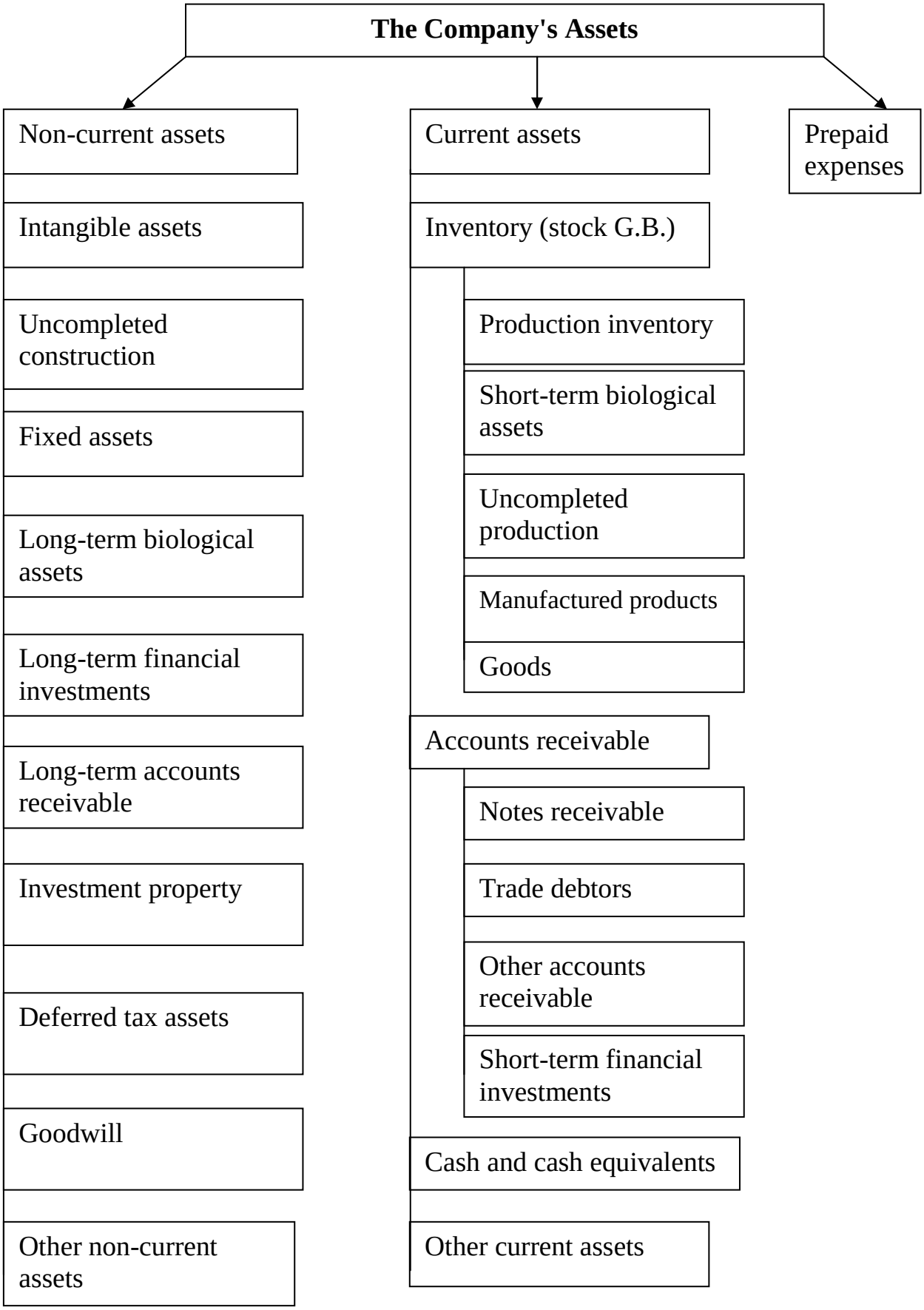

Figure 7.1 – The classification of the company's assets

The figure 7.2 shows audit procedures of fixed assets and other non-current assets in companies.

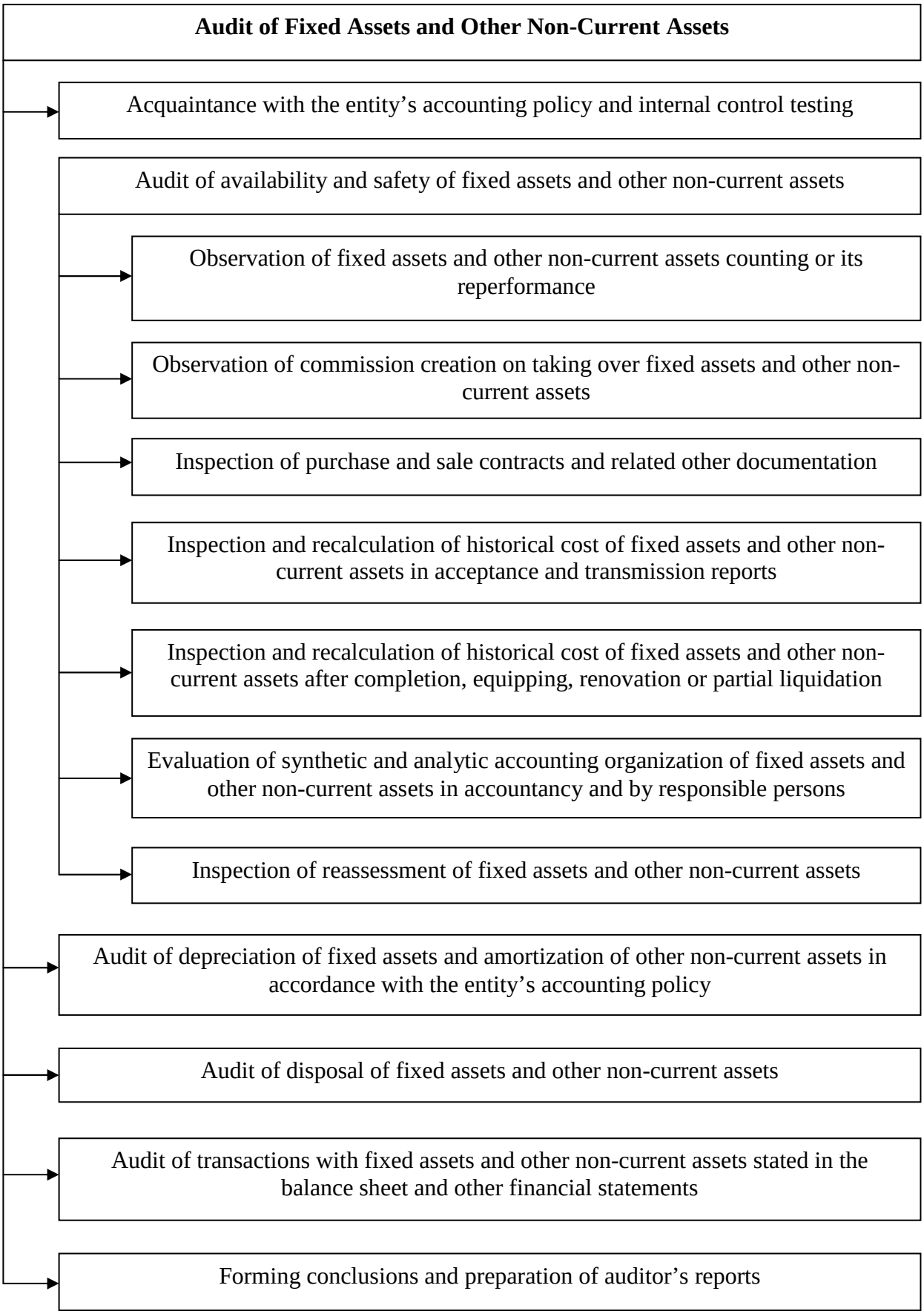

Figure 7.2 – Audit of fixed assets and other non-current assets

The purpose of the audit of inventories - to express the auditor's opinion about whether the financial information about the movement and inventory balances are sufficient and appropriate in all material respects according to the applicable financial reporting framework.

The main objectives of the audit of inventories include establishing:

- correct assignment of assets to stocks;
- inventory counting and control;
- completeness and accuracy of accounting receipts and disposal of stocks in their areas;
- feasibility of the method of writing off inventories to costs of the enterprise;
- accuracy of cost allocation used in the production and inventory of objects of calculation;
- legality and accuracy of recording receipts, transfer and disposal of inventories of low value.

The figure 7.3 shows audit procedures of inventories in companies.

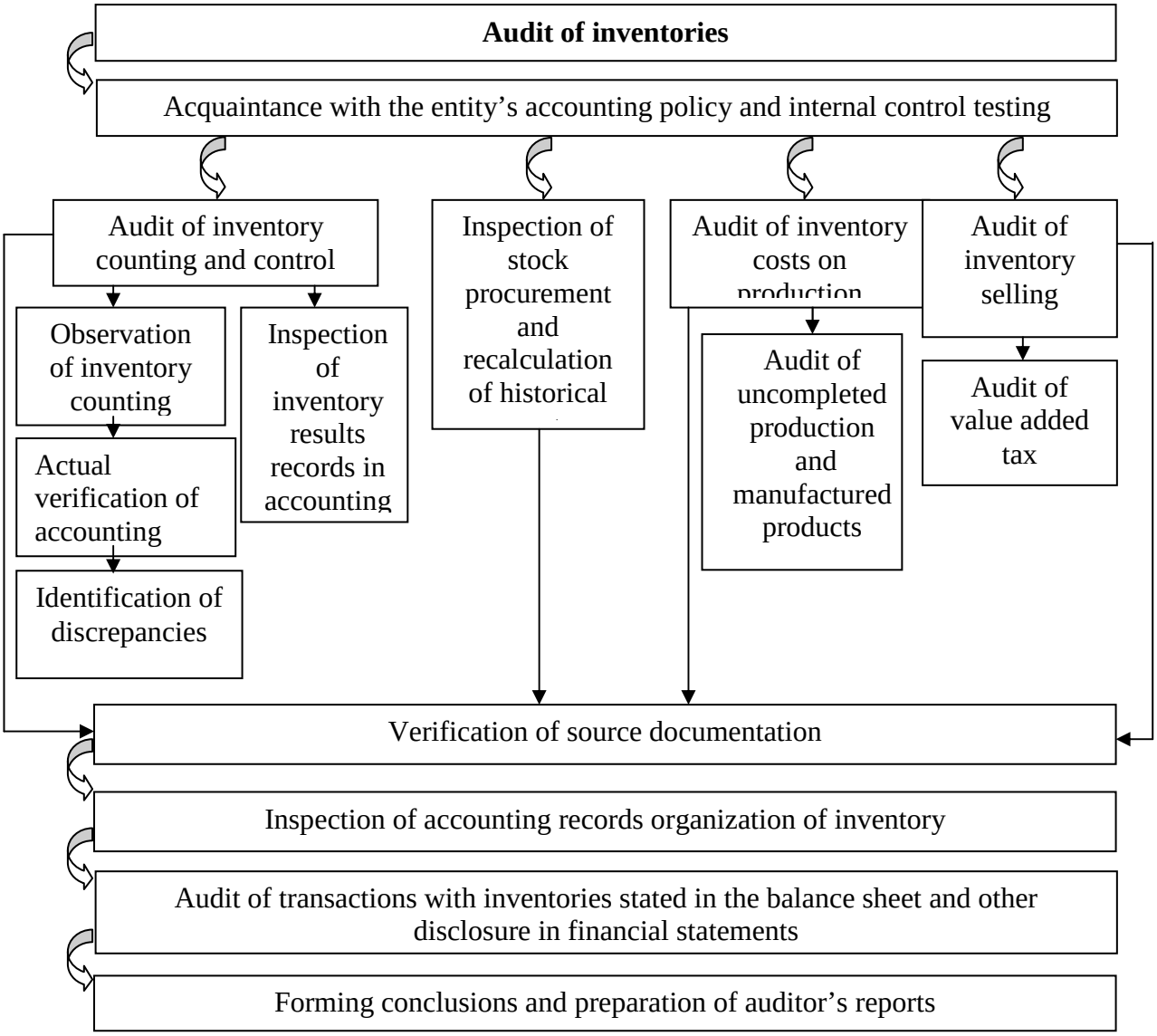

Figure 7.3 – Audit of inventories

The purpose of the audit of cash transactions is to confirm the information concerning their availability and cash flow, the correct accounting of cash transactions according to the applicable financial reporting framework.

The main objectives of the audit of cash transactions include:

• checking availability of cash and identify missing amounts or gluts;

• Checking the correct organization of the cash economy;

• Checking the timeliness and completeness of posting cash;

• testing the legality of spending money control of cash payments;

• evaluation of synthetic and analytical accounting of cash transactions and reporting in financial statements.

The figure 7.4 and shows audit procedures of cash transactions in companies.

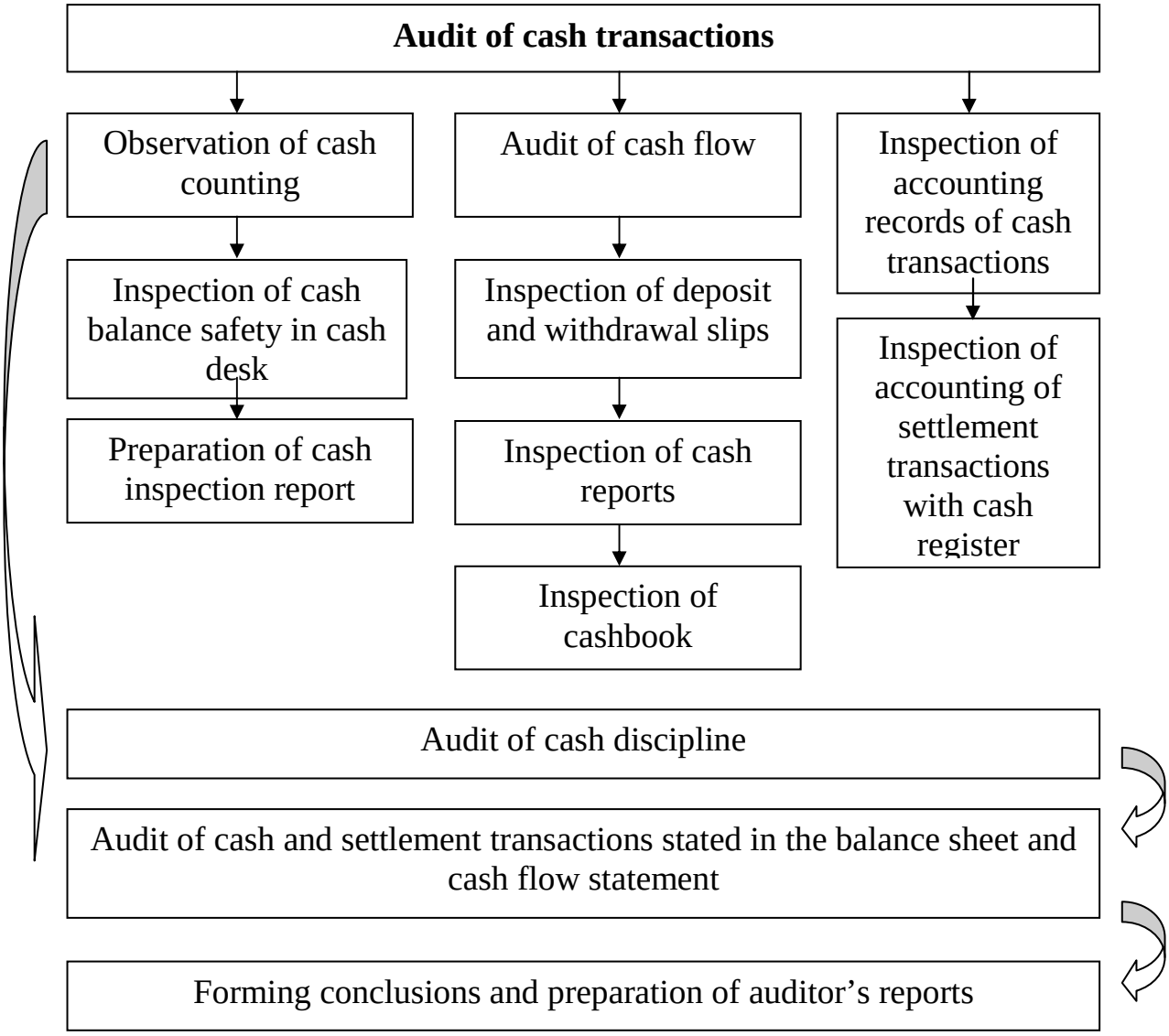

Figure 7.4 – Audit of cash transactions

The figure 7.5 and shows audit procedures of accounts (debs) receivable in companies.

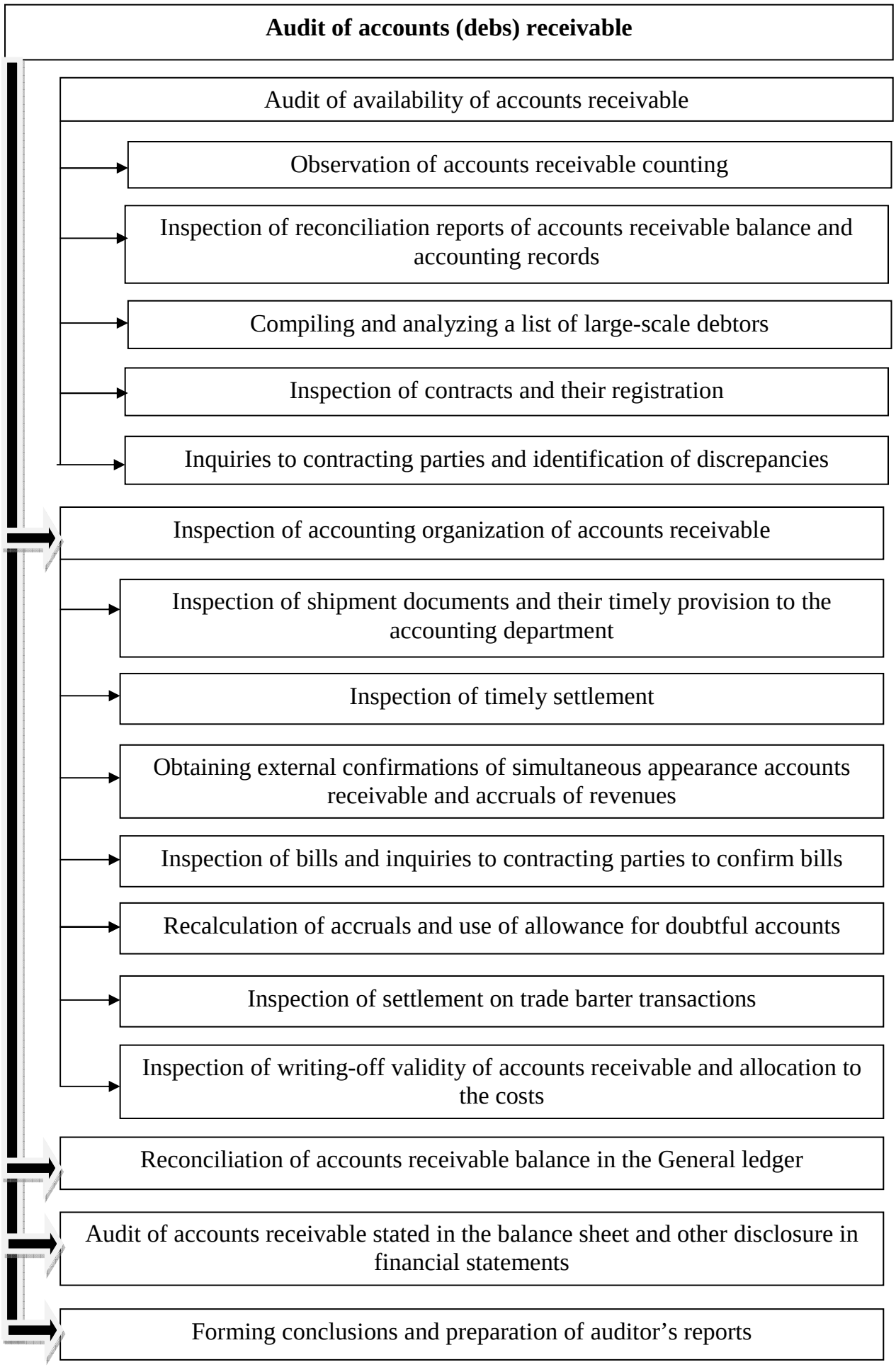

Figure 7.5 – Audit of accounts (debs) receivable

The purpose of the audit of accountants receivable is to confirm the information about the completeness, accuracy, legality and regularity of recording and the timeliness of payments in accordance with the applicable financial reporting framework.

The main objectives of the audit include:

• to verify the legitimacy of accounts receivable of the company;

• to control over the timeliness of settlements;

• to check the accuracy and the correctness of accounts receivable accounting;

• to analyze the appropriateness of measures taken to eliminate the causes of arrears;

• to verify the compliance with persons accountable and the correctness of their accounting;

• to evaluate of synthetic and analytical accounting of accounts receivable and reporting in financial statements.

Answer the following questions:

1. What objects of audit do you know?
2. What classification of the company's assets do you know?
3. What are objectives of the audit of fixed assets?
4. What audit procedures do auditors perform during the audit of fixed assets and other non-current assets?
5. What are objectives of the audit of inventories?
6. What audit procedures do auditors perform during the audit of inventories?
7. What are objectives of the audit of cash transactions?
8. What audit procedures do auditors perform during the audit of cash transactions?
9. What are objectives of the audit of accounts (debs) receivable?
10. What audit procedures do auditors perform during the audit of accounts (debs) receivable?

Lecture 8. Audit of Transactions with Equity and Audit of Long-and Short-Term Liabilities.

Plan

8.1. The classification of The Company's Equity and Liabilities.

8.2. The Audit of Equity.

8.3. The Audit of Long-and Short-Term Liabilities.

Keywords: the company's equity and liabilities, the audit of equity, the audit of long-and short-term liabilities.

The figure 8.1 shows the classification of the company's equity and liabilities.

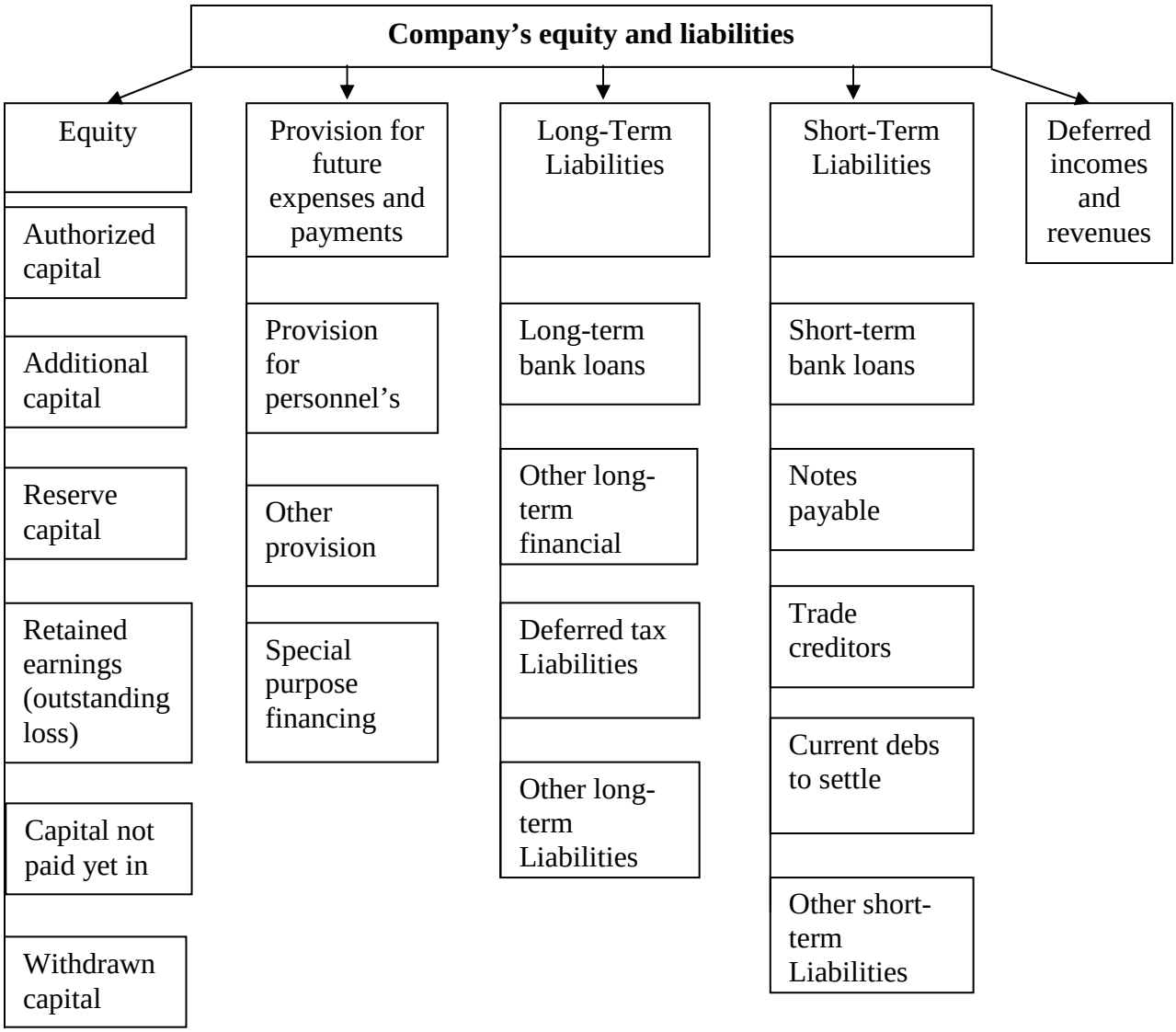

Figure 8.1 – The classification of the company's equity and liabilities

Equity – is the total value of a business (wealth, money, financial investments and the like), which belong to him on the property and are used in the manufacturing and other business activities.

The purpose of equity audit is a confirmation of the correctness of its formation and change of accounting compliance with current legislation, as well as confidence indicators in accounting (financial statements).

The objects of equity auditing are processes and economic operations, related to forming of the authorized capital, additional capital and retained

earnings, forming of the withdrawn and unpaid capital, creation of providing of future charges and payments, etc.

The figure 8.2 shows audit procedures of equity in companies.

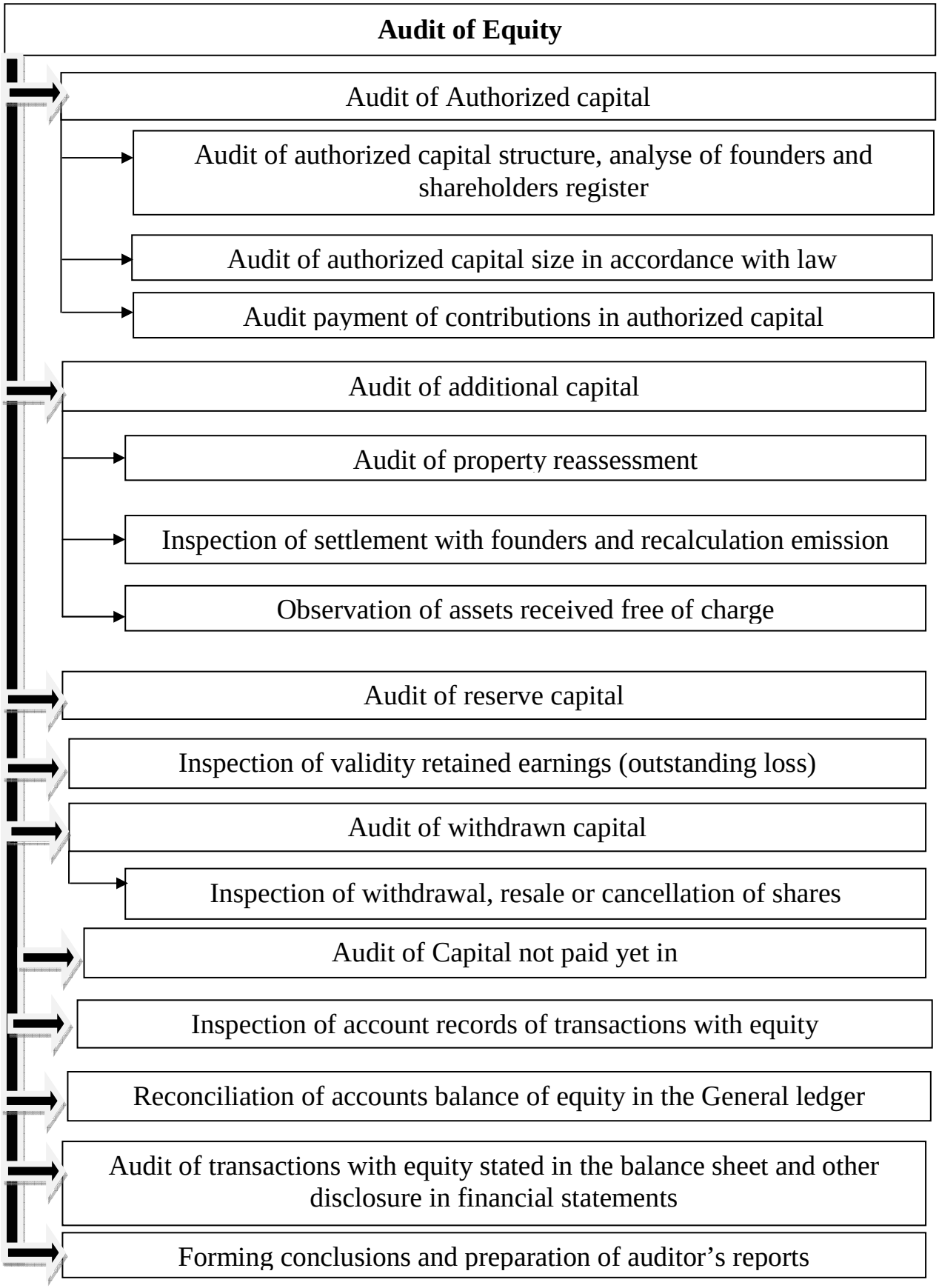

Figure 8.2 – Audit of the company's equity

The audit of transactions with equity and ensuring commitment is to establish the reliability of primary data on the formation and use of equity and security obligations, completeness and timeliness of information display in the information documents and accounting records, the accuracy of record keeping to ensure equity and liabilities in compliance with legislation and accounting policies, credibility display the status of equity capital and commitments to ensure accountability to the enterprise.

The subject of the audit of transactions with equity and ensuring commitments are the processes and business operations connected with the formation of the charter, share, and an additional reserve capital account Retained earnings (losses), the formation of seizures and unpaid capital to provide security for future expenses and payments, earmarked funding and the like, as well as the relationships that arise in this case between the company and its employees.

Liability is current at the balance sheet date of the actual debts of the organization, the repayment of which is a decrease of economic benefits in the form of an outflow of resources to satisfy the claims of the other party. The liabilities are the result of past transactions or past events and are divided into short-term (current) and long-term. A liability shall be classified as short-term, if it is assumed his payment in the course of the normal operating cycle of the organization or it must be performed within the period of 12 months after the balance sheet date. All other liabilities are classified as long-term.

The purpose of the audit of liabilities is to confirm the information about the completeness, accuracy, legality and regularity of recording liabilities, its' accounting and reporting according to the applicable financial reporting framework.

The main objectives of the audit of liabilities include:

- assessment of settlement discipline for all types of payments to creditors of the enterprise;
- establishing the existence, validity of contracts and other documents from the supply of inventories, works, services, and compliance with the terms of these contracts;
- assessing system of payments to staff and its effectiveness, establishing the correctness of calculation time and output, the validity of payroll accruals and holding on it;
- verification of tax laws compliance related to settlement for transactions with the budget, payroll, social security;
- evaluation of synthetic and analytical accounting of liabilities and its reporting in financial statements.

Audit items may be different depending on the characteristics of the economic subject and requirements of its management or the owner of the accounting, financial reporting, tax accounting, management structure of the enterprise, state enterprise assets, financial stability and solvency, etc.

The objects of the audit of current liabilities of the company are:

- accounts payable to suppliers and contractors, buyers and customers;
- the debt to extra-budgetary payments;
- arrears of social insurance and security;
- receivable for settlements with the budget;
- payable on settlements with the staff in the remuneration of labor;
- settlements with founders;
- intra-organizational settlements;
- settlements with banks on loans;
- settlements with the state and municipal authorities.

Answer the following questions:

1. What classification of the company's equity and liabilities do you know?
2. What is the purpose of the audit of the company's equity?
3. What audit procedures do auditors perform during the audit of the company's equity?
4. What are objectives of the audit of liabilities?

Lecture 9. Audit of Costs, Revenues and Financial Results

Plan

9.1. The Audit of Costs and Revenues.

9.2. The Audit of Financial Results.

Keywords: the audit of costs and revenues, the audit of financial results.

The aim of audit of revenues is establishment of objective truth in relation to authenticity, objectivity, veracity and legality of reflection in a record-keeping and financial reporting of profits and financial results and report of this truth through a public accountant conclusion to the users of information.

For the achievement of this aim it is necessary:

- to check, indexes are responsible for revenues and financial results of Report on financial results in all substantial aspects to the normative documents that regulate the order of his preparation;

- to check authenticity of index of profitability of actions;

- to confirm comparison of indexes after profits and financial results with corresponding indexes last year, with future tasks;

- to confirm or refute information about profits and financial results of activity, represented in Report on financial results, by an audit conclusion.

The object of audit of revenues, expenses and financial results are economic processes and operations, related to determination of profits, charges and financial results of activity, and also relations which arise up here into an enterprise and after his limits.

Checking up expenses, it follows documentarily to confirm the rightness of calculation of unit(works, services) cost, as it one of major synthetic indexes, that gives an opportunity to estimate efficiency of the use in the process of production of goods (works, services) of material and labor charges, profitability and financial firmness of enterprise. To beginning of realization of verification first of all auditor must to learn the organizational and technological features of enterprise, define character, specialization, scales and structure of every type of productive activity of organization-client.

The sources of data for an audit are source documentation and accounting records of productive charges ("Production", "Administrative charges", "Shortage in a production", "Prepared products", "Price of realization", "Expense on a sale", "Other charges of operating activity") and corresponding data about expenses on a production and realization of products(works, services), card on orders, information of allocation of overhead charges. The special attention applies on the correctness of taking of charges on an unit and grouping them by elements are material expenses, expenses on the remuneration of labour, contribution on social necessities, depreciation of the fixed assets, other expenses.

The auditing of charges for a production is one of labor intensive processes in auditing, requires a large concentration, knowledge of normative and instructional materials with their subsequent changes, and also features of correct calculation of productive charges in the separate types of economic activity of organization.

Checking up composition of productive expenses of organization, it is necessary to set, what method of forming of unit (works, services) cost is used on an enterprise: – traditional for a home account or calculation variant, or "direct-costing" (account of direct charges), that is used in international practice. Attention of public accountant must be concentrated on size of depreciation after the fixed assets and non-material assets. In particular, it is necessary to check, there are not extra charges of amortization of the fixed assets over the normative term of their exploitation.

Main tasks to the audit of revenues, expenses from financial and investment activity are:

- verification of presence and correctness of processing of source documents during realization of investment and financial activity, that are founding for registration records on objects;
- checking of timeliness, legality and authenticity of reflection for the accounts of realizable operations from accounting of incomes, charges and results from investment and financial activity;
- legitimacy of reflection in the account of sums of the got profits and carried out charges from investment and financial activity;
- estimation of synthetic and analytical account, correct use of corresponding accounts;
- estimation of the financial reporting in relation to an object on the set criteria;
- verification of calculations;
- verification of the proper classification of objects and corresponding necessary notes to the financial reporting.

The task of auditing the financial results of enterprises is a validation of the formation of financial resources and their distribution according to the purpose, in accordance with existing regulations, identifying reserves, improvement of marketing, which provides an increase in profits in market conditions.

Establishment of standards in the financial activities of the enterprise is engaged in order to achieve the greatest economic benefit; it is not surprising that information on the regulations constitutes a trade secret. Analysis of deviations from these regulations is the prerogative of the internal audit shall be performed by companies.

Audit of the financial results of the company includes:

- overall assessment of the financial condition and its changes during the reporting period;
- analysis of the financial stability of the enterprise, the liquidity of the enterprise (balance), the coefficients of financial mobility.

The objectives of the audit of financial results are: assessment of the dynamics of the formation of profit, the validity of the actual value of education and income distribution, identification and effect of various factors on the profit estimate of possible reserves for further profitable growth based on the optimization of production and costs. An audit of financial results includes several stages.

1. To determine the profits from the sale of commodity products (works, services). A profit from sales and other implementation is defined as the difference

between the proceeds from the sale at current prices without VAT and the cost of production and sales and inventory. In the production costs when determining the gain include material costs, depreciation on the full recovery of fixed assets; labor costs, including bonuses, not only workers but also managers, professionals and other employees for the production results (labor costs are normalized with the growth of production or other performance of the enterprise); deductions for state social insurance contributions for compulsory health insurance, compulsory insurance payments of property, payment of interest for short-term bank loans, excluding interest on overdue loans, the cost for all types of repairs and other costs of production and sales. In the production cost does not include such payments in cash and in kind: financial aid, payment of the work of the year, payment of additional holidays granted by the decision of the personnel, the size of which is not stipulated by law; one-time aid workers, retired, income (dividends interest) paid on the shares of the staff and members of labor collective contributions to the assets of the company, as well as other payments from the profit remaining at the disposal of the company.

2. Determining the amount of profit before tax. Balance sheet profit – is the amount of profit from sales and other revenues from the implementation and non-sale transactions, less the amount of the costs of these operations. The composition of income (expenses) from non-operating transactions include income from joint ventures, from the lease of property, dividends from shares, bonds and other securities belonging to the enterprise, the amount received in the form of economic sanctions and damages; Other income and expenses from operations that are not directly related to production and marketing.

At the same amount entered in the budget as a sanction in accordance with the law, are the profits left in the disposal of the company. To these sanctions are making the budget profit due to violations of state price discipline, non-standards and technical regulations, fines illegally obtained profits, as well as the amount of financial sanctions, withholding tax services, the amount of penalty for late payment of fees in the budget and other of sanctions.

The key issue is the definition of audit indicators of the formation of the total profit before tax. The auditor must first assess the impact of progressive factors in the formation of profit - reducing production costs; improve the quality and range of products.

3. Determination of the balance sheet profit values to taxation. Book profit in this case is adjusted as follows: increases (decreases) the excess amount (decrease) in labor costs of personnel companies engaged in core activities, as part of cost of sales as compared to their normative value, reduced by the amount of rent payments made to budget of income in the prescribed manner; the amount of

dividends received on shares, bonds and other securities belonging to the enterprise; the amount of income derived from mutual participation in joint ventures. In addition, the amounts deposited in the budget in the form of sanctions in accordance with the law at the expense of profits retained by companies for taxation purposes are excluded from non-operating expenses from operations.

4. Determination of income tax (benefit) payable to the budget. The auditor uses regulations on taxation, as well as the benefits provided to business entities in the calculation of taxes. In particular, this legislation on the taxation of profits (income), value added tax and other mandatory taxes and charges in state and local budgets, as well as regulations on these matters, issued by the Ministry of Finance.

5. Determination and allocation of net profits, remaining at the disposal of the company.Net profit is calculated as the difference between auditor tax profit that is taxable and the amount of tax based incentives. Direction of net profit is determined by the company itself. State influences on the choice of the directions of net income through taxes. In cases stipulated by legislative acts or the charter company, part of the net profit is transferred to the ownership of members of the personnel of the enterprise.

The size of the profit and its distribution are determined by order of council (board) of the enterprise. The amount of profit, owned by members of the team forms its contribution to the funds of the company. General characteristic of the enterprise in a market economy, the auditor determines the magnitude of net income and financial condition. It is important not only to obtain the greatest profit, and use the profits remaining in the disposal of the company, for the optimum ratio of the rate of technological, industrial (economic) and social expanded reproduction. The dynamics of growth of own funds appear successes or shortcomings of its development.

The final stage monitoring the financial condition of a classification and grouping of the test results obtained during the audit of financial and business enterprise. In this analytical table is made under sections balance income and expenditure (financial plan), which sets targets and reporting performance indicators of the financial plan of the enterprise. However, the balance of revenues and expenses are not displayed such important measures of financial performance as the use of working capital for other purposes, failure to complete standards for inventory or over them, bank loans, the estimated relationships and other factors, so it is useful to compare the grouping and unplanned investments in working capital On the one hand, and non-routine sources of coverage - on the other.

Auditor should verify whether methodically calculated the final financial result (net profit or loss). When checking the accuracy of earnings turns out the distribution of net profit shall be determined using the deviation of actual profits

from the plan, their causes, the correctness of the budget to be paid in taxes. The auditor checks the validity of deductions for capital reserve creation, the funds provided by the constituent documents or decisions of the owners.

During the preparation of audit program income auditor should plan the audit procedures that would allow him to establish the objective truth of the following statements:

- income derived from the result of actual transactions in the ordinary course of business;
- reflected in the income statements are relevant, generalized to the respective accounts of accounting;
- income reflected on accounts, confirmed by the relevant primary documents on products shipped and services rendered;
- income reflected in the corresponding period;
- income coverage in the notes to the financial statements properly.

In carrying out operations of the parties concluded a contract of sale by which one party (the seller) transfers or agrees to transfer property (goods) in the ownership of the other party (the buyer) and the buyer accepts or agrees to accept property (goods) and pay him a sum of money.

The auditor should ensure that:

- business transactions for the sale of products, goods, services, etc. issued by the relevant agreements;
- agreements concluded in accordance with the requirements of legislation;
- these contracts are onerous for the enterprise;
- price of the contract complying with the calculation.

Answer the following questions:

1. What is the purpose of the audit of the company's costs, revenues and financial results?
2. What audit procedures do auditors perform during the audit of the costs, revenues and financial results?

Glossary of Audit Terms

№	Terms	Definitions	Translation
1	2	3	4
1.	*Accounting records*	The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.	Бухгалтерські записи
2.	*Adverse Opinion*	An opinion, when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.	Негативна аудиторська думка
3.	*Agreed-upon procedures engagement*	An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.	Узгоджені процедури
4.	*Analytical procedures*	Evaluations of financial information through analysis of plausible relationships among both financial and non – financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.	Аналітичні процедури

The continuation of the glossary

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5.	*Applicable financial reporting framework*	The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.	Прийнята концептуальна основа фінансової звітності
6.	*Appropriateness (of audit evidence)*	The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.	Прийнятність (аудиторських доказів)
7.	*Assertions*	Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.	Твердження
8.	*Assess*	Analyze identified risks of material misstatement to conclude on their significance. "Assess," by convention, is used only in relation to risk.	Оцінювати (ризик)
9.	*Audit documentation*	The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms "working papers" or "workpapers" are also used).	Аудиторська документація
10.	*Audit evidence*	Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.	Аудиторські докази

The continuation of the glossary

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11.	*Audit file*	One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.	Аудиторський файл (аудиторське досьє)
12.	*Auditor*	Is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm.	Аудитор
13.	*Audit firm*	A sole practitioner, partnership or corporation or other entity of professional accountants.	Аудиторська фірма
14.	*Auditor's expert*	An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner[6] or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.	Експерт (помічник) аудитора
15.	*Audit risk*	The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.	Аудиторський ризик
16.	*Audit sampling (sampling)*	The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.	Аудиторська вибірка

The continuation of the glossary

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17.	*Control risk*	The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.	Ризик контролю
18.	*Detection risk*	The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.	Ризик не виявлення
19.	*Disclaimer of Opinion*	An opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.	Відмова від висловлювання думки
20.	*Emphasis of Matter paragraph*	A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.	Пояснювальний параграф (до аудиторської думки)

The continuation of the glossary

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21.	*Engagement documentation*	The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).	Робоча документація аудитора
22.	*Engagement letter*	Written terms of an engagement in the form of a letter.	Лист-зобов’язання
23.	*Engagement team*	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.	Аудиторська група із завдання
24.	*Error*	An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.	Помилка (в фінансовій звітності)
25.	*External confirmation*	Represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party, in paper form, or by electronic or other medium.	Зовнішнє підтвердження
26.	*Evaluate*	Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk.	Оцінювати (аудиторські докази)

The continuation of the glossary

1	2	3	4
27.	*Financial statements*	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.	Фінансова звітність
28.	*Fraud*	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.	Шахрайство
29.	*Historical financial information*	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.	Історична фінансова інформація

The continuation of the glossary

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30.	*Independence*	Comprises: (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.	Незалежність аудитора: а) незалежність думки; б) незалежність поведінки.
31.	*Inherent risk*	The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.	Властивий (внутрішній ризик)
32.	*Inquiry*	Consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.	Запит
33.	*Inspection (as an audit procedure)*	Examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.	Перевірка (як аудиторська процедура)

The continuation of the glossary

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34	*Internal auditors*	Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.	Внутрішні аудитори
35.	*Internal control*	The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.	Внутрішній контроль
36.	*Management*	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.	Управлінський персонал
37.	*Misstatement*	A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.	Викривлення

The continuation of the glossary

1	2	3	4
38.	*Modified opinion*	A qualified opinion, an adverse opinion or a disclaimer of opinion.	Модифікована думка
39.	*Observation*	Consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.	Спостереження (як аудиторська процедура)
40.	*Overall audit strategy*	Sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.	Загальна стратегія аудиту
41.	*Population*	The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.	Генеральна сукупність
42.	*Professional accountant*	An individual who is a member of an IFAC member body.	Професійний бухгалтер
43.	*Professional accountant in public practice*	A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.	Професійний бухгалтер, що практикує
44.	*Professional judgment*	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.	Професійне судження
45.	*Professional standards*	International Standards on Auditing (ISAs) and relevant ethical requirements.	Професійні стандарти

The continuation of the glossary

1	2	3	4
46.	*Qualified Opinion*	An opinion when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.	Умовно-позитивна думка
47.	*Reasonable assurance*	(in the context of an audit of financial statements) a high, but not absolute, level of assurance.	Достатня впевненість (в контексті фінансової звітності)
48.	*Recalculation*	Consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.	Повторний перерахунок (як аудиторська процедура)
49.	*Related services*	Comprise agreed-upon procedures and compilations.	Супутні послуги
50.	*Relevant ethical requirements*	Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.	Відповідні етичні вимоги до аудитора

The continuation of the glossary

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51.	*Reperformance*	Involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.	Повторне виконання (як аудиторська процедура)
52.	*Review procedures*	The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.	Процедури огляду
53.	*Risk of material misstatement*	The risk that the financial statements are materially misstated prior to audit.	Ризик суттєвого викривлення
54.	*Sampling risk*	The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions: (a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion. (b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.	Ризик вибірки

The continuation of the glossary

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55.	*Sampling unit*	The individual items constituting a population.	Елементи вибірки
56.	*Stratification*	The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).	Стратифікація
57.	*Sufficiency (of audit evidence)*	The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.	Достатність (аудиторських доказів)
58.	*Substantive procedure*	An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise: (a) Tests of details (of classes of transactions, account balances, and disclosures); and (b) Substantive analytical procedures.	Процедури по сутті
59.	*Tests of controls*	An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.	Тести контролю
60.	*Unmodified opinion*	The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.	Безумовно-позитивна думка

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Навчальне видання

МІЗІК Юлія Ігорівна

Конспект лекцій
з дисципліни

„ОРГАНІЗАЦІЯ І МЕТОДИКА АУДИТУ”

(для студентів 4 курсу денної форми навчання освітньо-кваліфікаційного рівня бакалавр за напрямом підготовки 6.030509 «Облік і аудит» із знанням іноземної мови)

(англ. мовою)

Відповідальний за випуск: *Т. В. Момот*

За авторською редакцією

Комп’ютерне верстання І. В. Волосожарова

План 2013, поз. 89 Л

Підп. до друку 21.05.2013 Формат 60 х 84/16
Друк на ризографі Ум.- друк. арк. 5,6
Тираж 50 пр. Зам. №

Видавець і виготовлювач:
Харківський національний університет
міського господарства імені О. М. Бекетова,
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Свідоцтво суб’єкта видавничої справи:
ДК № 4705 від 28.03.2014 р.