

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE**

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

Methodological guidelines  
for Seminars, Individual Task, Self-study Work of Students  
on the subject

**«AUDIT ORGANIZATION AND  
METHODS OF AUDITING»**

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

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## INTRODUCTION

The Discipline «Audit Organization and Methods of Auditing» for the educational and vocational program has the status of the sample.

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.

Skills (by level of formation) and knowledge:

- to have advanced techniques of the inspection of accounting, using computer technology;
- to organize auditing and audit planning;
- to have skills on inspection of the legality of financial and business transactions and the reliability of accounting and financial statements;
- to develop audit programs.

**MODULE.**  
**AUDIT ORGANIZATION AND METHODS OF AUDITING**

**CONTENT MODULE 1.**  
**THE ORGANIZATIONAL AND METHODOLOGICAL PRINCIPLES**  
**OF AUDIT**

**THEME 1 INTRODUCTION TO AUDIT**

*The purpose of the audit. The audit theories of its origin. Formation and development of audit in the world and in Ukraine.*

**Exercise 1.1** Read the text and answer the questions to it.

**Text WHAT IS AUDITING**

Auditing is a very ancient activity. "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. The origin of stewardship goes far back into the Middle Ages. It was the original purpose of accounting and was also called "accountability". Kings or lords who were away at war or for other purposes usually left their estates in the hands of a steward. The steward kept an account of the payments and receipts of the estate so that he could be discharged of responsibility when the owner returned. 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").

In the early days of auditing the prime qualification for the position of an auditor was reputation. A man known for his integrity and independence of mind took this honoured position, the matter of technical ability being entirely secondary. In those days, the function of auditor was never confused with that of accountant. However, as accounting gradually became more complex, auditors became increasingly dependent on the expertise provided by accountants. Eventually, the audit function itself became totally dominated by the accountancy profession. By the 19th century, many owners of businesses appointed one of their members to be an auditor of the financial statements prepared by the directors of a company. This was partly because the process of auditing had become more complicated as business itself became more complicated.

In its modern sense, an audit is a process (carried out by suitably qualified auditors) whereby the accounts of business entities, including limited companies, trusts etc., are subjected to scrutiny in such detail as will enable the auditors to form an opinion as to their truth and fairness. To put it differently, its main aim is to give

an opinion on whether the financial statements drawn up by the directors of a company give a fair presentation. This opinion is then embodied in an "audit report" In order to do this, an auditor needs to check the physical existence and valuation of important assets. He also needs to examine the systems of internal control to ensure that transactions are likely to have been recorded correctly. If internal control is poor, he will ask for it to be improved and he will increase the amount of checking done on sample transactions. If the control systems look good, relatively small samples of various types of transactions may be checked.

Auditors would generally be expected to circularize a sample of the debtors to confirm that they exist. He would normally attend the count of the inventory. The rules for auditing are usually set out in auditing standards.

The qualifications that auditors must have are set down: membership of a CPA body in the US, or in the UK membership of one of four of the bodies of the consultative committee of the accountancy bodies. Auditing is carried out by individuals or by firms which vary greatly in size, Some firms have hundreds of partners and thousands of staff.

Questions:

1. What does the word «Audit» mean? Why does?
2. What was the prime qualification for the position of an auditor in the early days of auditing?
3. What is an audit in its modern sense?
4. What qualifications must auditors have?

**Exercise 1.2** Read the text and answer the questions to it.

### **Text THE DISTINCTION BETWEEN AUDITING AND ACCOUNTANCY**

Auditing may be defined as the examination and testing of financial statements. In all countries of the world society relies heavily on auditors for credible financial reports. In Britain, for example, all public corporations and many companies applying for sizable loans must have their statements audited. The same holds true for Russia as well.

The main objective of auditing is to give the auditor's professional opinion as to whether the company's financial reports correctly present its financial position Auditors are known to check and test all accounting records. In order to do that they must prove cash balances, confirm physical inventories and verify the amounts owed by customers Apart from that auditors must also decide whether the company's records are kept in accordance with accepted accounting practice.

It should be said that an audit can start only once necessary accounting work has been completed. However, in practice, especially in the case of small companies, the distinction, between auditing and accounting work is not clearly appreciated. This

is determined by the fact, that small companies have very often limited book-keeping capabilities. So, it is always tempting for them to leave things to the auditor to complete. It should be clearly understood that preparation or completion of accounts is the accountant's task and not the auditor's.

Thus, although many accountants readily undertake both accounting and audit work, these tasks are undertaken with different objectives in view. It would, however, be quite wrong to infer from this that accounts preparation work provides no audit assurance. It is now generally accepted that the assurance derived by auditors from preparing accounts contributes greatly to the overall assurance required. And that in its turn allows reduced testing in other areas.

Questions:

1. How may auditing be defined?
2. What is always expected from auditors?
3. What is the condition for receiving sizable loans?
4. What is the main objective of auditing?
5. What must auditors do to check and test accounting records?
6. Is preparation or completion of accounts the auditor's task?
7. What does the assurance derived by auditors contribute to?

**Exercise 1.3** Compare the theories of audit origin. Perform the exercise in a tabular form (Tabl. 1).

Table 1 – Theories of audit origin

The theory	backgrounds	financial or psychological aspects	objectives	stakeholders
“needs of potential or existing investor”				
the theory of agents (or managers)				
the theory of motivation				

Which theory do you think the most rational?

### ***Homework***

Prepare the presentation of a firm of the «Big Four» by the such characteristics: the history, audit services, headquarters, clients, revenues and costs, employees etc. Perform the task in groups of the students.

## **THEME 2 REGULATION AND INFORMATION SUPPORT OF AUDIT**

*Creation and organization of the audit firm and its structure. Auditor professional organizations. Certification auditors. International Standards on Auditing, Review, Other Assurance, Related Services, and Quality Control.*

**Exercise 2.1** Read the text and answer the questions to it.

### **Text SETTING ACCOUNTING AND AUDITING STANDARDS INTERNATIONALLY**

Accounting standards are the rules for preparing financial statements. They are called generally accepted accounting principles and they specify: first, the type of information that financial statements ought to contain; and second, how that information ought to be prepared. Accounting standards define what acceptable and unacceptable financial accounting practices are.

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 GAAP. 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. Financial statements conforming to GAAP are said to be reliable. To put it differently, they provide reliable information which is an important ingredient in goods decision making.

Accounting standards and auditing standards are interrelated. Accounting standards presumably define what is useful financial information. Auditing standards guide an auditor in determining whether it is also reliable. Useful and reliable financial information puts investors, creditors and others in a position to make better decisions.

Accounting has been called the language of business. That analogy is accurate, since accounting is a form of communication. As with all types of communication, though, misunderstandings can arise unless meanings are reasonably clear.

It should be remembered that accounting reflects the environment in which it operates. And since environments differ around the world it follows that accounting will also be different around the world.

Unfortunately, this diversity of accounting practices results in a general lack of comparability in financial reports from one country to the next. As a result, there is a risk of misunderstanding when financial statements are communicated transnationally. There may arise problems for both users and preparers.



The problem of different auditing standards is more subtle. Fundamentally, an audit assures users that they can trust the information communicated by the financial statements. However, if auditors around the world are not comparably trained or if they do not observe comparable standards, then their work varies in quality. As a result the inherent reliability of financial statements also varies.

The existence of different accounting and auditing standards affects the decisions of resource providers 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.

Questions:

1. What are accounting standards?
2. What do generally accepted accounting principles specify?
3. What do auditing standards govern?
4. What is meant by an audit of financial statements?
5. Who is legally sanctioned to conduct financial statements audits?
6. What is the importance of financial statements conforming to GAAP?
7. What is accounting called?
8. Why is accounting different around the world?
9. What does the diversity of accounting practices result in?
10. What happens if auditors around the world do not observe comparable standards?
11. How does the existence of different accounting and auditing standards affect business activity?

**Exercise 2.2** What are the principles of Code of Ethics for Professional Accountants and Auditors broken in the following situations:

1. the auditor has agreed for a fee to correct some mistakes in accounting before the auditor's report will be drawn up;
2. after the auditor's report the auditor has received a valuable gift from a client for the timely performance of the audit;
3. the auditor told his colleagues about the fraud, which he had exposed in the firm, where he had performed the audit, in order to carry on his professional knowledge;
4. the auditor refused to audit the company, the management of which treated him disrespectfully in his opinion;
5. during the holidays the auditor met the owner of the enterprise, who invited him to audit in order to establish the credibility of the chief accountant.

### ***Homework***

Give examples of each broken audit principle. Perform the exercise in a tabular form (Tabl. 2).

Table 2 – The principles of Code of Ethics for Professional Accountants and Auditors

<b>The principles</b>	<b>Examples of the broken audit principle</b>
Integrity	
Objectivity	
Professional competence and due care	
Confidentiality	
Professional behavior	

## **THEME 3 AUDIT PLANNING**

*Stages of the audit and their essence. Planning stage of audit. The overall audit strategy, audit plan and audit programs. Materiality of misstatements in the audit. The concept and the components of audit risk.*

**Exercise 3.1** Draw up the audit plan by the following steps:

1. Audit of accounting policy and foundation documents.
2. Internal controls testing.
3. Audit of fixed assets.
4. Audit of intangible assets.
5. Audit of inventories.
6. Audit of debts receivable.
7. Audit of monetary assets.
8. Audit of equity.
9. Audit of Long-Term Liabilities.
10. Audit of Short-Term Liabilities.
11. Audit of Costs.
12. Audit of Revenues.
13. Audit of Financial Results.
14. The auditor's conclusion and report.

Draw up the audit plan in a tabular form.

## Audit plan

Company / Division / Department : \_\_\_\_\_

Client: \_\_\_\_\_

Year/Period : \_\_\_\_\_

№	Steps of the audit	Duration	Period	Executive

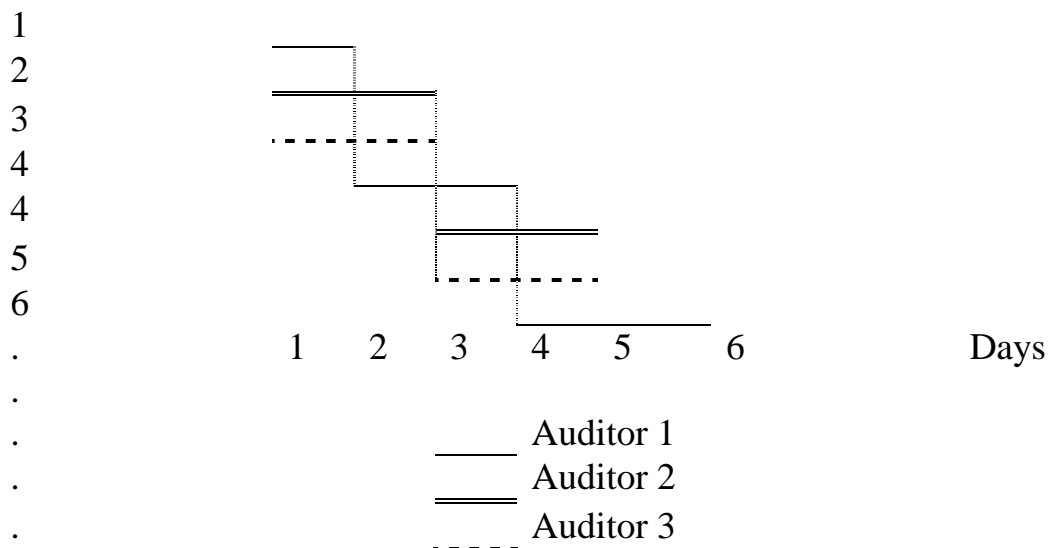
Reviewed by:

Date:

**Exercise 3.2** Based on the audit plan, drawn up in the exercise 3.1, build a kalendarny timetable, ensuring synchronization of the auditors. Take Engagement team – 3 persons.

Kalendarny timetable for a audit is as follows:

The number of  
the step



### Exercise 3.3

3.3,a Assess the audit risk, if the internal risk is 76%, the control risk is 48% and the detection risk is 8%. Express an opinion on its acceptability.

3.3,b Assess the control risk, if reasonable assurance in the context of the audit of financial statements is planned as 90%, the audit risk is 0,03, the internal risk is 0,5.

### **Exercise 3.4**

In assessing the internal risk the auditor was applied testing of 50 questions. The test prepared so that the increased risk is the same on the answers to each question. Answers to these questions were obtained from the accountant and employees. Responses 33 of 50 questions on the auditor's judgment increased the internal risk by 1 percent for the answer.

In assessing the control risk the auditor was applied testing of 50 questions. The test prepared so that the increased risk is the same on the answers to each question. Answers to these questions were obtained from the accountant and employees. Responses 34 of 50 questions on the auditor's judgment increased the control risk by 2 percent for the answer.

- a) Assess the internal risk and the control risk.
- b) Assess detection risk taking into account the minimum and maximum value of acceptable audit risk.
- c) Assess detection risk, if the auditor may accept the audit risk at the 3,5 percent level.

### ***Homework***

Establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

## **THEME 4 AUDIT EVIDENCE AND AUDIT DOCUMENTATION**

*The concept and measures of audit evidence. Types and sources of audit evidence and its evidentiary value. The provision of audit documentation. The Objectives of audit documentation. The form, content and extent of audit documentation. Audit file.*

**Exercise 4.1** Range the audit evidence by the evidence importance:

1. The General ledger
2. Financial statements.
3. Journal entries, subsidiary ledgers.
4. The auditor's report from the previous audit.
5. Plans, pricings, estimates.
6. Unpaid invoices.
7. Unofficial documents.
8. Account balances.

**Exercise 4.2** Test the following assertions (yes - „+", no - „-").

Table 3 – Assertions about audit evidence

№	The assertion	yes/no
1.	The higher the assessed risks, the more audit evidence is likely to be required.	
2.	Obtaining more audit evidence, may compensate for its quality.	
3.	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.	
4.	The reliability of audit evidence is reduced when it is obtained from independent sources outside the entity.	
5.	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.	
6.	Audit evidence obtained indirectly or by inference is more reliable than audit evidence obtained directly by the auditor	
7.	Audit evidence obtained orally, is more reliable than evidence in documentary form, whether paper, electronic, or other medium.	
8.	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.	

### ***Homework***

Develop and record one or more examples of audit documentation.

## **THEME 5 AUDIT PROCEDURES OF OBTAINING AUDIT EVIDENCE**

*Procedures for obtaining audit evidence. Tests of controls. Audit sampling.*

**Exercise 5.1** Find out the procedures for obtaining audit evidence:

- The stock stored surplus of building materials;
- Invoices do not meet the data of the cash book;
- The cash box does not match requirements of their equipment;
- The management paid for consulting in the absence of the agreement;
- Signatures in the statement on the payment of are unreliable;
- There is the unaccounted cash in the cash box.

**Exercise 5.2** Consider the given situations and find out the procedures for obtaining audit evidence.

Situation 1. Fuel received from the supplier, was not made a record.

Situation 2. A fictitious amount of advance to supplier was recorded.

Situation 3. Indicators of profitability is much lower than the average for branch.

Situation 4. All outgoing cash orders did not authorize cash.

Situation 5. The stocks were irreversible in the fixed assets.

Situation 6. The General ledger was missing.

Situation 7. As part of the assets debts receivable were not recognized by the buyer.

### ***Homework***

Develop the auditor's substantive procedures for an object of accounting.

## **THEME 6 AUDIT CONCLUSIONS AND REPORTING**

*The concept and structure of the audit report. The types of the auditor's opinion. The influence of the auditor's opinion on the choice of auditor's report. Emphasis of Matter paragraph in the auditor's report.*

**Exercise 6.1** Refer the examples to the proper circumstances of auditor's opinion.

Table 4 – Circumstances of auditor's opinion

Circumstances of auditor's opinion	Examples of circumstances
1	2
1) A material misstatement of the financial statements may arise in relation to the appropriateness of the selected accounting policies.	(a) The financial statements adequately disclose the significant accounting policies, which were selected and applied.
	(b) The selected accounting policies are not consistent with the applicable financial reporting framework.

1	2
2) A material misstatement of the financial statements may arise in relation to the application of the selected accounting policies.	(c) Due to the method of application of the selected accounting policies (such as an unintentional error in application).
	(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable.
3) A material misstatement of the financial statements may arise in relation to the appropriateness or adequacy of disclosures in the financial statements.	(e) The management prevents the auditor from observing the counting of the physical inventory.
	(f) The accounting records of a significant component have been seized indefinitely by governmental authorities.
4) An unmodified opinion.	(g) 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.
	(h) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.
5) Circumstances beyond the control of the entity.	(i) The management prevents the auditor from requesting external confirmation of specific account balances.
6) Circumstances relating to the nature or timing of the auditor's work.	(j) The selected and applied accounting policies are consistent with the applicable financial reporting framework and are appropriate.
7) Limitations imposed by management.	(k) 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.
	(l) The accounting estimates made by management are reasonable.
	(m) The financial statements do not include all of the disclosures required by the applicable financial reporting framework.

1	2
	(n) The 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).
	(o) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
	(p) The entity's accounting records have been destroyed.
	(q) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework.
	(r) The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.
	(s) The financial statements do not provide the disclosures necessary to achieve fair presentation
	(t) The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.

**Exercise 6.2** Analyse the nature of matter giving rise to the modification and choose the type of modification to the auditor's opinion.

Table 5 – Circumstances of auditor's opinion

The nature of matter giving rise to the modification	The type of modification to the auditor's opinion
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, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.	



1	2
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, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.	

**Exercise 6.3** Analyse the circumstances and choose the type of the auditor's opinion. Perform the task in groups of the students.

Situation 1. In order to form the opinion, the auditor has obtained reasonable assurance about the financial statements as a whole are free from material misstatement, due to fraud or error. The financial statements adequately disclose the significant accounting policies, which were selected and applied. The selected and applied accounting policies are consistent with the applicable financial reporting framework and are appropriate.

Situation 2. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement. The selected accounting policies are not consistent with the applicable financial reporting framework. The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation. The auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

Situation 3. The management has not applied the selected accounting policies consistently with the financial reporting framework between periods or to similar transactions and events. The auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Situation 4. The financial statements do not include all of the disclosures required by the applicable financial reporting framework. The financial statements do not provide the disclosures necessary to achieve fair presentation. The auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

Situation 5. The entity's accounting records have been destroyed. That's why the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Situation 6. The auditor is unable to obtain sufficient appropriate audit evidence, because the accounting records of a significant component have been seized indefinitely by governmental authorities. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material, but not pervasive.

Situation 7. The auditor is unable to obtain sufficient appropriate audit evidence, because the timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Situation 8. Management prevents the auditor from observing the counting of the physical inventory and the auditor from requesting external confirmation of specific account balances. The auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material, but not pervasive.

Situation 9. The financial statements present fairly, in all material respects the financial position of Company as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Situation 10. For the breach of the contract to supply the provider filed a lawsuit to the audited enterprise demanding a compensation for all losses incurred, the amount of which actually to determine at this point is impossible. The other misstatements and errors in accounting were not found.

### ***Homework***

Write the auditor's report, which contains the following elements:

- (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 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.

## **CONTENT MODULE 2.**

### **THE METHODS OF AUDITING ON OBJECTS**

#### **THEME 7 AUDIT OF THE COMPANY'S ASSETS**

*Audit of non-current assets. Audit of transactions with inventories. Audit of settlements and of cash payments.*

**Exercise 7.1.** Develop the different audit programs for:

7.1, a) the audit of non-current assets;

7.1, b) the audit of transactions with inventories;

7.1, c) the audit of settlements and of cash payments.

Draw up the audit programs in a tabular form.

#### Audit work program

Company / Division / Department : \_\_\_\_\_

Section : \_\_\_\_\_

Year/Period : \_\_\_\_\_

<b>№</b>	<b>The auditor's substantive procedures</b>	<b>Working Paper Ref.</b>	<b>Done by &amp; Date</b>	<b>Executive</b>

Reviewed by:

Date:

**Exercise 7.2** Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

The company's inventories are carried in the statement of financial position. 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 would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased, and income tax, net income and shareholders' equity would have been reduced respectively.

### ***Homework***

Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

The engagement team was 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. The engagement team was 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. 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. The engagement team was unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at December 31, 20X1. As a result of these matters, the engagement team was 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.

## **THEME 8 AUDIT OF TRANSACTIONS WITH EQUITY**

*Audit of statutory documents and accounting policies. Audit procedures and methods of companies' equity.*

**Exercise 8.1** Develop the audit program for the audit of transactions with equity. The form of audit program is the exercise 7.1.

**Exercise 8.2** Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

The company's short-term marketable securities are carried in the statement of financial position. 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 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 respectively.

### ***Homework***

Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

As explained in note, 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.

## **THEME 9 AUDIT OF LONG-AND SHORT-TERM LIABILITIES**

*Audit procedures and methods of long-term liabilities. Audit procedures and methods of current liabilities.*

**Exercise 9.1** Develop the different audit programs for:

9.1, a) the audit of long-term liabilities;

9.1, b) the audit of short-term liabilities.

The form of audit program is the exercise 7.1.

**Exercise 9.2** Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

The company's investment in its joint venture XYZ (Country X) Company is carried on the company's statement of financial position, which represents over 90% of the company's net assets as at December 31, 20X1. The engagement team was not allowed access to the management and the auditors of XYZ, including XYZ's auditors' audit documentation. As a result, the engagement team was 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.

## **THEME 10 AUDIT OF COSTS, REVENUES AND FINANCIAL RESULTS**

*Audit procedures of cost accounting. Methods of auditing revenues and financial results.*

**Exercise 10.1** Develop the different audit programs for:

- 10.1, a) the audit of costs;
- 10.1, b) the audit of revenues;
- 10.1, c) the audit of financial results.

The form of audit program is the exercise 7.1.

**Exercise 10.2** Analyse the circumstances, develop, record audit working papers and choose the type of the auditor's opinion.

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried on the statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income is included in ABC's income for the year then ended. The engagement team was 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.

## **INDIVIDUAL TASK**

In studying this discipline the students should write the paper according to the requirements of Methodological guidelines for Seminars, Individual Task, Self-study Work of Students on the subject «Audit Organization and Methods Of Auditing» (for 4-year full-time students direction of studies 6.030509 «Accounting and Audit»).

The purpose of the paper: consolidating theoretical knowledge and skills to use different sources of information, practical skills to prepare audit documentation.

The paper consists of two parts – theoretical and practical. In the theoretical part the students should write about the audit of an object of accounting, including the objectives of the audit, auditor's procedures, typical errors and misstatements in accounting e. t. In the practical part the students should develop, record audit documentation (audit program, work papers) and prepare the auditor's report of the same object of accounting, as in the theoretical part. The number of topic for writing the work is selected in the list of the ledger. The topics of student's papers are the follows:

1. Audit of fixed assets.
2. Audit of intangible assets.
3. Audit of inventories.
4. Audit of debts receivable.
5. Audit of monetary assets.
6. Audit of equity.
7. Audit of long-term liabilities.
8. Audit of short-term liabilities.
9. Audit of costs and revenues.
10. Audit of financial results.

## **SELF-STUDY WORK OF STUDENTS**

Self-study work of students is the ultimate mastery of the material discipline, mastering the required skills in time, free from mandatory training sessions. During self-study work the students may use educational, special books, lecture notes. The specific form of self-study work is the implementation of individual tasks as writing the calculation and graphic work.

The content of self-study work of students is determined by the program discipline and teacher recommendations. Self-study work includes: preparation for audience instruction (lectures, practical, seminar, lab, etc.), the tasks of the discipline

during the trimester; the implementation of individual tasks as writing the calculation and graphic work in accordance with the teaching and thematic plans, preparing for practice training to all control tests, including current and final tests.

**Test yourself answering 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»?
10. What is the certification of auditors?
11. What related professional qualifications do you know in the field of financial audit?
12. What do you know about the Uniform CPA Exam?
13. What is the purpose and powers of The International Federation of Accountants (IFAC)?
14. Describe the activity of International Auditing and Assurance Standards Board (IAASB) as an independent standard-setting body in The International IFAC.
15. What is the independence of auditors?
16. What fundamental principles of audit do you know?
17. What are the standards and standardization of audit?
18. Describe the legal status and scope of International standards on auditing.
19. Answer the following questions:
20. What are the stages of a typical audit? Describe each of them.
21. What shall auditors include in audit planning documentation?
22. What is the overall audit strategy?
23. What is the audit plan?
24. What is the audit risk? What components does the audit risk consist of?  
How can you assess the audit risk?
25. What is the materiality in planning and performing an audit? What is the relationship between the audit risk and the materiality?
26. What is audit evidence?



27. What measures of audit evidence do you know?
28. What do you know about relevance and reliability of audit evidence?
29. What is the reliability of audit evidence influenced by?
30. What sources of audit evidence do you know?
31. How do audit evidence rank by the evidence importance?
32. What is audit documentation?
33. What does audit documentation provide?
34. What is audit file? What does audit file consist of?
35. What factors do the form, content and extent of audit documentation depend on?
36. What examples of audit documentation do you know?
37. What types of audit procedures do you know?
38. What is the inquiry as an audit procedure?
39. What are the inspection and observation as audit procedures?
40. What is the external confirmation as an audit procedure?
41. What are the recalculation and reperformance as audit procedures?
42. What are the analytical procedures as audit procedures?
43. What are the means available to the auditor for selecting items for testing to obtain audit evidence?
44. What is selecting all items?
45. What is selecting specific items?
46. What is audit sampling?
47. What approaches can audit sampling be applied?
48. What statistical methods of selecting samples can be applied in audit?
49. What is the auditor's report?
50. What elements should an auditor's report contain? Describe the sections of an auditor's report.
51. 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?
52. In relation to what circumstances may a material misstatement of the financial statements arise?
53. In relation to what circumstances may a limitation on the scope of the audit arise?
54. In which circumstances can a qualified opinion be expressed?
55. In which circumstances can an adverse opinion be expressed?
56. In which circumstances can an auditor disclaim an opinion?

57. When and in which circumstances should an auditor include the emphasis of matter paragraphs in the auditor's report?
58. What objects of audit do you know?
59. What classification of the company's assets do you know?
60. What are objectives of the audit of fixed assets?
61. What audit procedures do auditors perform during the audit of fixed assets and other non-current assets?
62. What are objectives of the audit of inventories?
63. What audit procedures do auditors perform during the audit of inventories?
64. What are objectives of the audit of cash transactions?
65. What audit procedures do auditors perform during the audit of cash transactions?
66. What are objectives of the audit of accounts (debs) receivable?
67. What audit procedures do auditors perform during the audit of accounts (debs) receivable?
68. What classification of the company's equity and liabilities do you know?
69. What is the purpose of the audit of the company's equity?
70. What audit procedures do auditors perform during the audit of the company's equity?
71. What are objectives of the audit of liabilities?
72. What is the purpose of the audit of the company's costs, revenues and financial results?
73. What audit procedures do auditors perform during the audit of the costs, revenues and financial results?

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*Навчальне видання*

Методичні вказівки  
до практичних занять, самостійної роботи  
та виконання розрахунково-графічного завдання  
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)*

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