**BUST 412 - AUDITING 2** *(Facilitator: John K. Karuitha, TEL: 0736 917 717; jkingathia2005@yahoo.com)*

**Course Description**

The general definition of an *audit* is an evaluation of a person, organization, system, process, enterprise, project or product. It is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person. We have financial statement audits, operational audits, compliance audits, environmental audits, information systems audits, management and human resource audits, e.t.c. This course is concerned with financial statement audits, the examination of companies’ and other financial statements. We will cover the following concepts.

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| **PART 1 – INTRODUCTION TO AUDITING** | | |
| 1 | 1 | Nature and purpose of an audit (Demand for audits: Agency theory, Stakeholder hypothesis, Information hypothesis, Insurance hypothesis). Services offered by auditors. |  |
|  | 2 | Types of audits and auditors: External, internal, government/ public sector. Classification of audits: Financial, operational, compliance, information systems, integrated and forensic audits. |  |
|  | 3 | Auditor appointment, responsibility, authority, rights and duties, and legal liabilities. |  |
| **PART 2- FUNDAMENTAL AUDITING CONCEPTS** | | |  |
| 2 | 4 | Materiality and Risk; Audit risk: Inherent, control and detection risks, Assurance: Reasonable vs. absolute assurance. Risk based audits, Risk analysis methods, Value for money. |  |
|  | 5 | Independence: Meaning, and need for independence in attitude and appearance, situations that impair independence (risks to auditor independence), improving auditor independence, the audit committee. |  |
|  | 6 | Audit Evidence: Types of evidence, meaning of sufficient, reliable and relevant evidence, Overview of methods of gathering evidence, CAATs. Drawing valid conclusions from evidence. |  |
|  | 7 | Fraud: Meaning, Types, components, indicators, fraud detection and control. Fraud auditing. Auditor responsibilities towards fraud. **CASE STUDIES (ASSIGNMENT 2 DUE WHEN COVERING THIS TOPIC)** - The Olive Oil Swindle. |  |
| **PART 3: AUDITING STANDARDS - CASES AND APPLICATIONS** | | |  |
| 3 | 8 | International Standards on Auditing (ISA) and their roles. Standard setting bodies. Selected standards. |  |
| **PART 4– THE AUDIT PROCESS** | | |
| 4 | 9 | Overview of audit process (including flow charting) |  |
| **PART 6 – THE REVENUE PROCESS** | | |  |
| **PART 8 – INTERNAL AUDIT** | | |  |
| **PART 9 – IT AUDITS-** Controls over Information assets | | |  |

**Evaluation**

The course shall be assessed by use of two sit in CAT and two take away ASSIGNMENTS (Attached).

**Notes and case studies**

The instructor will avail a detailed hard copy of the notes for every topic covered. Students shall make copies for their own use. Students are however, encouraged to take short notes in their note books during classroom discussion sessions to facilitate understanding of the content.

The instructor shall also avail case studies in advance when needed. Students should make a copy of the case study and carry the copy to class for discussion.

**Reference books**

* Whittington, O. Ray; Pany, Kurt (2007); Principles of Auditing and Other Assurance Services, Fifteenth Edition, McGraw Hill- Irwin, Boston.
* Pickett Spencer (2005), the Essential Handbook of Internal Auditing, Wiley & Sons, London.
* Messier, William et al (2006), Auditing and assurance services- A systematic approach, 4th Edition, McGraw Hill Irwin, New York.
* Other audit and assurance texts

**Assignment 1 (Submission in the week ending June 22, 2012)**

1. Highlight SIX situations that may impair the independence of an auditor. What should be done to improve the independence of auditors(12 mks)
2. Visit the IFAC website at <http://web.ifac.org/clarity-center/the-clarified-standards> and give a summary of the **ISA 500: Audit evidence**. (Maximum 1 printed page/ or 2 handwritten) (8 mks)
3. What factors should an auditor consider while assessing the acceptable level of overall audit risk? Explain. (10 mks)