



Welcome

# **DEPARTMENT OF ACCOUNTING & INFORMATION SYSTEMS**

**ESTD.1972**

# AUDIT and Assurance

Course No:207



# **COURSE TEACHER :**



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## Books Recommended

The Institute of Chartered Accountants of Bangladesh : Audit and assurance (Study Manual)

The Association of Chartered Certified Accountants : Audit and assurance (Study Text)

The Institute of Chartered Accountants in England and Wales : Audit and assurance (Study Manual)

Sayed Khaja Amjad : Auditing

Tandon B. N. : A Hand Book of Practical Auditing

Government of Bangladesh : The Companies Act. 1994

# **Course Outline**

## **Course Description:**

The audit and assurance syllabus starts with the concept, process and need for audit and assurance including the legal and ethical issues, accepting and managing engagements, planning and risk assessment, internal audit and internal controls, audit evidence, and review and reporting. The objective of this course is to provide students to develop knowledge and understanding of the process involved in carrying out the assurance engagement and its application in the context of the professional regulatory framework.

On completion of this course, students should be able to explain the basic terminologies, concepts and contrast financial statement auditing and assurance services and how the financial statement auditing process helps to reduce this risk, thereby increase the users' confidence.

## **Intended Learning Objectives (ILOs):**

After successful completion of the course, students should be able to:

- 1.Explain the concept of audit and assurance and the functions of audit, corporate governance, including ethics and professional conduct, describing the scope and distinguishing between the functions of internal and external audit;
- 2.Demonstrate how the auditor obtains and accepts audit engagements, obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities) and plans an audit of financial statements;
- 3.Describe and evaluate internal controls, techniques and audit tests, including IT systems to identify and communicate control risks and their potential consequences, making appropriate recommendations;
- 4.Identify and describe the work and evidence obtained by the auditor and others required to meet the objectives of audit engagements and the application of the International Standards on Auditing (ISAs);
- 5.Explain how consideration of subsequent events and the going concern principle can inform the conclusions from audit work and are reflected in different types of auditor's report, written



## **Course Learning Outcome (CLO):**

Upon successful completion of the course, students should be able to:

1. Explain why audit and other types of assurance services are conducted
2. Identify the ethics and professional conduct, duties and legal liability of auditors and other assurance providers.
3. Apply the processes involved in accepting and managing assurance engagements and explain how quality assurance processes mitigate risks.
4. Evaluate the internal audit and control and apply the processes involved in auditing and other assurance services to collect audit evidence.
5. Conclude and report on assurance engagements in accordance with the terms of the engagements and appropriate standards.

It is often not possible to check the situation yourself



Skill? Time? Location?



Therefore rely on someone else



Standards?

How much checking?



Report



Audit is an example of assurance engagement



## What is assurance?

**An assurance engagement is:** 'An engagement in which a **practitioner** expresses a conclusion designed to enhance the degree of confidence of the **intended users** other than the **responsible** party about the outcome of the evaluation or measurement of a subject matter against criteria.'

# International Audit and Assurance Standards Board(IAASB)

Giving assurance means: offering an opinion about specific information so the users of that information are able to make **confident decisions** knowing that the **risk** of the information being 'incorrect' is **reduced**.

# Elements of an Assurance Engagement

- A **three party** relationship involving a practitioner, a responsible party, and intended users
- An appropriate **subject matter**
- **Suitable criteria**
- Sufficient appropriate **evidence**
- A written assurance **report** in the form appropriate



# Three Party Relationship

- **Practitioner:** for example an auditor. Responsible for determining the nature, timing and extent of procedures and must pursue doubts and queries
- **A responsible party:** the person responsible for the information and assertions
- **The intended users:** the person(s) for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users.

# Subject matter

Many types:

- **Financial** performance
- **Non-financial** performance e.g. the key indicators of efficiency and effectiveness.
- Physical characteristics e.g. capacity of a facility.
- Systems and processes e.g. an entity's internal control or IT system
- Behaviour e.g.- corporate governance, compliance with regulation

## **Suitable Criteria**

Criteria are the benchmarks used to evaluate or measure the subject matter. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

Examples:

- Financial Statements: IFRS
- Internal Control: an internal control framework.
- Compliance: the applicable law, regulation or contract.

They must be available to intended users



# **Sufficient appropriate evidence**

- Professional scepticism
- Sufficient, appropriate evidence

Sufficiency = quantity of evidence.

Appropriateness = quality of evidence (relevance and its reliability)

# Assurance Report

A written report containing a conclusion is provided to the intended **users**.

## Types of assurance engagement

The IAASB International Framework for Assurance Engagements permits **two** types of assurance engagement:

- Reasonable assurance engagement (Audit)
- Limited assurance engagement (Review Engagement)



## Reasonable assurance engagements

In a reasonable assurance engagement, the practitioner:

- Gathers sufficient appropriate evidence to be able to draw **reasonable conclusions**.
- Concludes that the subject matter conforms in all material respects with identified **suitable** criteria.
- Gives a positively worded assurance opinion.

Positive form (reasonable assurance engagement):

“In our opinion internal control is effective, in all material respects, based on *XYZ criteria*.”

## Limited assurance engagement

In a limited assurance assignment, the practitioner:

- Gathers sufficient appropriate evidence to be able to draw **limited conclusions**.
- Concludes that the subject matter, with respect to identified suitable criteria, is **plausible** in the circumstances.
- Gives a **negatively** worded assurance opinion.

Negative form (limited assurance engagement):

“Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on *XYZ criteria*.”



## Audit Defined

An audit is still a key example of and assurance service in Bangladesh, where all registered companies are required to have audits by law.

An **audit** is an official examination of the accounts (or accounting systems) of an entity (by an auditor).

The main objective of an audit is to enable an auditor to convey an **opinion** as to whether or not the financial statements of an entity are prepared according to an applicable financial framework.

## **Benefits of an audit:**

- An audit improves the quality and reliability of information,
- Giving investors faith in and improving the reputation in the market.
- Independent scrutiny and verification may be valuable to management.
- An audit may reduce the risk of management bias, fraud and error by acting as a deterrent.



- An audit enhances the credibility of the financial statements, e.g. for tax authorities/lenders.
- Deficiencies in the internal control system may be highlighted by the auditor.
- Auditors recommending improvements in company systems.

# **Purpose and Objectives of Audit**

**The purpose** of an audit is to enhance the degree of confidence of the intended users in the financial statements.

**The objective** of an external audit engagement is to enable the auditor to express an opinion on whether the financial statements:

- give a true and fair view (or present fairly in all material respects).
- are prepared, in all material respects, in accordance with an applicable financial reporting framework.

## **Review Engagement**

It is possible for small companies, who are not legally required to have a full audit, to have a review of their financial statements to enable them to present their accounts (for example) to potential lenders.

A review engagement is an example of a limited assurance engagement.

The objective of a review of financial statements is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared in accordance with the applicable financial reporting framework (i.e. negative/limited assurance).

# **Expectations gap**

Some users incorrectly believe that an audit provides absolute assurance; that the audit opinion is a guarantee the financial statements are 'correct'. This and other misconceptions about the role of an auditor are referred to as the **'expectations gap'**.

## **Level of assurance engagement/ Limitation of Audit**

The greatest level of assurance auditors can provide is reasonable. They cannot provide absolute assurance (i.e. 100% validation) for the following reasons:

- The financial statements contain estimates and judgments;
- Auditors have to test on a sample basis;
- Fraud may be disguised; and



- Much of the evidence obtained will be persuasive rather than conclusive.
- do not review 100% of the transaction.

**Other examples** of the expectations gap include:

- a belief that auditors test all transactions and balances; they test on a sample basis.
- a belief that auditors are required to detect fraud;
- a belief that auditors are responsible for preparing the financial statements; this is the responsibility of management.



Thank  
You