

**SCHOOL OF ACCOUNTANCY**

**COLLEGE OF BUSINESS**

**UNIVERSITI UTARA MALAYSIA**

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**COURSE CODE: BKAA2013**

**COURSE: AUDIT AND ASSURANCE 1**

**PRE-REQUISITE: BKAF1013 INTRODUCTION TO FINANCIAL**

**ACCOUNTING/** **BKAR1013 FINANCIAL ACCOUNTING AND REPORTING 1, or BKAL1013 BUSINESS ACCOUNTING**

**LECTURERS: DR ROSE SHAMSIAH (A&C); DR REDHWAN (B&E); DR IFA RIZAD (D); MOHD RAIME (F&H);DR AHMAD BELLO (G&J); DR ROHAMI (I)**

1. **COURSE SYNOPSIS**

## This course is an introduction course in Auditing and it will introduce students to the concepts and principles of auditing. Emphasis will be given on external and statutory auditing. Students will be exposed to the principles of auditing in performing the auditing task. The coverage of the course includes collection of evidence, internal control evaluation, auditing documentation until the issuance of an audit report. Auditing of financial statement cycles such as sales and collection cycle; purchase and payment cycle; and cash and inventory cycle will be discussed. The fundamental knowledge gained from this course will be expanded in the Advanced Auditing course.

1. **COURSE OBJECTIVES**

After completing this course, students should be able to:

1. Comprehend applicable regulations, legal responsibilities and ethical standards and current issues facing the audit profession.
2. Understand the need for an external audit and its statutory nature.
3. Understand and apply audit risk, materiality, and statistical and non-statistical audit sampling techniques.
4. Understand several audit concepts and the relevant auditing standards.
5. Understand the various types of audit reports.

**3.0 COURSE LEARNING OUTCOMES**

Upon completion of the course the students should be able to do the following:

1. Explain the professional conduct and ethics of an auditor, the legal liability environment affecting the auditors and relate it to relevant cases (C2, P2, A3).
2. Explain the objectives of external auditing and the responsibility of external auditors and management in the audit of financial statements and also their responsibilities in relation to fraud(C2,P2,A2)
3. Explain the relationship between materiality and audit risk and apply appropriate sampling techniques to audit work (C2, P2, A2).
4. Explain the relevant regulators, authorities and professional bodies in Malaysian auditing environment(C3,P2,A3)
5. Explain the types of audit reports in accordance to the different circumstances (C4,P2,A2)

**4.0 REFERENCE**

Louwers, Timothy J., Ramsay, Robert J., Sinason, David H.,Strawser, Jerry R., Thibodeau, Jay C. (2015) **Auditing & Assurance Services**, 6th Edition, Mc-Graw- Hill Education.

Arens, Alvin A., Elder, Randal J., Beasley, Mark S.,Amran, N.A., Fadzil, F. H., M. Yusof, N.Z., Mohamad Nor, M.N., Shafie, R. (2014) **Auditing and Assurance Services in Malaysia: An Integrated Approach**, 3rd Edition, Prentice Hall.

Millichamp, A. & Taylor, J. (2008) Auditing. 9th Edition, Cengage Learning EMRA.

Messier, William F. & Boh, M. (2004) **Auditing and Assurance Services in Malaysia**. 2nd Edition, Mc-Graw Hill

Arens, A.A., Elder, R.J., Beasley, M.S. Adapted by Susela Devi, Takiah Mohd. Iskandar, Shaari Isa. Edited by Hasnah Haron. 2003. ***Auditing and Assurance Services in Malaysia*, An Intergrated Approach**. Pearson Education, Kuala Lumpur. (S, T & S)

Messier, William F. (2003) **Auditing & Assurance Services- A Systematic Approach**. 3rd Edition, Mc-Graw Hill

Porter, B., Simons, J. & Hatherly, D. (2003) **Principles of External Auditing**, 2nd Edition, John Wiley & Sons Ltd

Ricchiute, D. N. (2003) **Auditing and Assurance Services**. 7th Edition, Thompson South-Western.

Robertson, J. C., Louwers, Timothy J. (2002) **Auditing and Assurance Services**, 10th Edition, Mc-Graw Hill

Buckless, F.A., Beasley, M.S., Glover, S.M., Prawitt, D.F. 2000. **Auditing Cases**, Prentice Hall, New Jersey.

Company’s Act 1965 (*Incorporating all amendments up to 1 January 2006),* [*http://jpt.mohe.gov.my/RUJUKAN/akta/*](http://jpt.mohe.gov.my/RUJUKAN/akta/)

Accountant’s Act 1967 (<Http://www.mia.org.my/handbook/act>)

Audit Act 1957 (*Incorporating all amendments up to 1 January, 2006,* <http://www.agc.gov.my/Akta>*)*

Malaysian Institute of Accountants Members Online Handbook (Effective Jan 2010). <Http://www.mia.org.my/handbook/guide>

Malaysian Institute of Accountants By-Laws on Professional Ethics, Conduct and Practice (Effective Jan 2011) <Http://www.mia.org.my/handbook/bylaw_new/>

Akauntan Nasional (MIA) and Other Related Newspapers articles and journals

Relevant professional, academic journals and approved accounting standards in Malaysia

**5.0 COURSE CONTENT**

| **Topic** | **Learning Level \*** | **Weeks** | **References** | **Hours** |
| --- | --- | --- | --- | --- |
| **1. An Introduction to Auditing**   * Development of Auditing * Nature of auditing * Purpose of auditing * Types of audit and auditors * Differences between auditing and accounting * Principles of stewardship, accounting and agency * Introduction to Auditing standards and its importance * Statutory Audit and Companies Act 1965 * Differences between types of audit opinions issued * Framework of auditing (IFAC, MIA, Auditing Standards, professional bodies) | **1,2** | **1** | Millichamp (1,2)  Messier (1)  Arens (1)  AI 100  AI 120  AI 200 | **3** |
| **2. Statutory and Regulatory Requirement**   * Companies Act Requirement Responsibility, power & rights of auditor, appointment, resignation and termination of auditors (S.9, S.169, S.172-174) * Accountant Act 1967, ISAs and MASAs * Engagement/ appointment letter | **1, 2** | **2** | Millichamp (3,4,5)  Messier (1)  Arens (2),(5)  Company’s Act 1965  Accountant Act 1967  AI 210 | **3** |
| **3. Objectives and Scope of Financial Statement Audit**   * Audit Objectives and Basic Principles Governing an Audit * Auditor’s responsibility for detecting fraud * Management Assertions | **1,2** | **3** | Millichamp (20, 31)  Messier (2)  Arens (6)  AI 200  AI 220  AI 240  AI 250 | **3** |
| **4. Code of Ethics for Auditors**   * Fundamental principles of ethics and professional conduct in accordance to MIA By-law * The importance of professional ethics * Independence in assurance engagements * Marketing public practice services * Fees and other types of remuneration | **1,2,3** | **4** | Messier (19)  Arens (4)  MIA By-Laws  Millichamp (6) | 3 |
| **5. Auditor’s Legal Liability**   * Legal Environment * Liability under the statutory law * Liability under common law * Approaches to minimise legal liability | **3,4, 5 & 6** | **5** | Messier (20)  Arens (5)  Millichamp (31)  CA 1965,  Companies (Amendment) Act 2007 | 4 |
| **6. Materiality and Audit Risk**   * Concepts of audit risk and materiality * Common bases and qualitative factors for considering materiality * Audit risk model and its components * Relationship of risks and audit evidence * Application of materiality and audit risk model to audit process | **1,2,3,4** | **6-7** | Messier (3)  Arens (9)  Millichamp (10)  ISA 320  [ISA 315](http://www.mia.org.my/mia/tech/detail.asp?tid=1&rid=6&id=368)  ISA 400 | 5 |
| **7. Audit Planning**   * Planning activities * Determination of audit objectives * Understanding the client’s business and accounting system * Fundamental concepts of materiality and risk in auditing * Relationship between test and evidence * Preparation of audit plan, programme and budget * Analytical procedures: Planning, fieldwork and final stage | **1,2,3,4, 5 & 6** | **8-9** | Millichamp (10)  Messier (4, 5)  Arens (8,12)  AI 300,AI 310  AI 320,AI 400  AI 500,AI 520  AI 700 | **5** |
| **8. Internal Control System**   * Fundamental concepts * Objectives, characteristics and limitations * Definition of internal control (COSO, Cadbury and Auditing Standards in Malaysia) * Importance of internal control to auditors * Relationship of internal control and audit evidence * Review and documentation of internal control system * Internal control’s compliance test in transaction cycle * Strengths and weaknesses of internal control * management letter | **1,2,3** | **10** | Millichamp (9)  Messier (6)  Arens (10)  AI 400  COSO Framework | **3** |
| **9. Audit Evidence and Auditing Procedure**   * Types of audit evidence * Quality and adequacy of audit evidence * Auditing procedure used to collect evidence * Types of audit procedure and audit test * Compliance and substantive test * Test of transaction and balance | **1,2,3** | **11** | Millichamp (11)  Messier (4)  Arens (7)  AI 500  AI 501  AI 520 | **3** |
| **10. Introduction to Sampling**   * Fundamental concepts of sampling * Sampling risk and non-sampling risk * Probabilistic vs. Non-probabilistic sampling * Statistical vs. non-statistical sampling * Sampling procedure – statistical & non statistical * Test of control: Attribute sampling * Substantive Test: Monetary unit sampling/probability proportionate sampling | **1,2,3,4, 5 & 6** | **12** | Messier  Arens (15, 17)  Millichamp (12)  ISA 300  ISA 320  ISA 400  ISA 530 | 4 |
| **11. Audit Documentation**   * Importance of audit working papers * Types of working papers * Indexing, audit cross-footing and extension. * Types of audit file * Control and rights to the audit working papers. * Confidentiality | **1,2** | **13** | Millichamp (18)  Messier (4)  Arens (7)  AI 230 | **3** |
| **12. Auditor’s Report**   * Objectives and format of audit report * The needs for an audit report * Types of audit report   + Unqualified report   + Circumstances requiring a departure   + Modified unqualified auditors’ report.   + Emphasis of matter   + Going concern uncertainty   + Significant uncertainty due to pending litigation   + Non-compliance with an approved accounting standard but the auditor concurs.   + Qualified report   + Types of qualified report   + Circumstances requiring a departure * Disclaimer of responsibility * Materiality and pervasiveness * Other information accompanying audited financial reports | **1,2,3,4, 5 & 6** | **14** | Millichamp (24,25,26,27,28)  Messier (18)  Arens (3)  AI 570  AI 580  AI 700  AI 720  CA 1965 | **3** |
| **TOTAL CONTACT HOURS** |  | | | **42** |

\* Learning Levels (Bloom’s Taxonomy)

1. Knowledge
2. Comprehension
3. Application
4. Analysis
5. Synthesis
6. Evaluation

**6.0 COURSEWORK / ASSESSMENT**

Coursework

* Group project 15%
* Quizzes 5%
* Presentation 5%
* Individual project 15% 40%

Comprehensive Final Examination 60%

Total 100%

**DESCRIPTION OF COURSEWORK**

**Assignment**

Group/ individual

**Quizzes**

Short questions, MCQs and T/F

**Project and Presentation**

Group projects

**Final Examination**

All topics evaluated within 3 hours examination. Comprise of essay questions and case study.

1. **TEACHING METHODS**

Besides attending lectures and tutorial, students are expected to complete some project papers/assignment (case studies, article review, library research), quizzes (MCQ, short question, T&F, essay question), presentation and participate in class discussion.