

- ⊕ UK co, owned by a US co, then SOX applies
- Directors - CEO & CFO must attest to the veracity of the FS
- greater disclosure of amendments made to FS during the audit
- auditors - if auditing such a co, must follow SOX
- stricter independence rules
  - can be inspected by PCAOB
- Public Co's  
AccS oversight Board

ICAEW AA

Topic 1 - SFQs

or small sub req of longer Q  
Responsibilities

	Directors	Auditors
General	<ul style="list-style-type: none"> <li>• Maintain accounting records</li> <li>• Prepare financial statements</li> <li>• Safeguard assets</li> <li>⊕ Comply with Sarbanes Oxley legislation (only if parent company is a US company ⊕)</li> </ul>	<ul style="list-style-type: none"> <li>• Follow Companies Act 2006</li> <li>• Set out terms (in an engagement letter)</li> <li>• Follow auditing standards } in open book</li> <li>• Follow ethical standards</li> <li>• Perform quality control procedures (in stds - topic 3)</li> </ul>
Audit & Internal controls	<ul style="list-style-type: none"> <li>• Prepare financial statements</li> <li>• Design internal controls which will prevent, detect and correct errors and omissions (in the whole business including the financial statements)</li> </ul> <p>reduce by &lt; engt letter explain responsibilities of "expectation gap" mgt &amp; auditors - what auditors actually do - what public (directors) think they do</p>	<ul style="list-style-type: none"> <li>• Express opinion on the financial statements free from material misstatement</li> <li>• Detect material errors</li> <li>• Test internal controls if they address audit risks (i.e. they relate to the financial statements)</li> <li>• Communicate weaknesses in internal controls to those charged with governance</li> </ul> <p>Don't look at all controls just ones that relate to FS</p>
Fraud (Theft or intentional errors and omissions)  ISA 240	<ul style="list-style-type: none"> <li>• Prevent, detect and correct any instance of fraud</li> </ul> <p>exam qs</p> <p>- directors want to change auditors because their auditor failed to detect fraud</p> <p>→ would need to clarify whether material or not &amp; ensure directors understand their responsibilities</p>	<ul style="list-style-type: none"> <li>• Detect material frauds in the financial statements</li> <li>• Obtain a written representation from the directors acknowledging their responsibilities</li> <li>• Communicate any instances of fraud with 1) Management 2) Those charged with governance (Directors/ audit committee) 3) Regulatory authorities</li> </ul> <p>to reduce gap</p> <p>topic 7</p>
Laws and regulations  ISA 250	<ul style="list-style-type: none"> <li>• Identify all relevant laws and regulations</li> <li>• Comply with them</li> </ul>	<p>Consider any instances of non-compliance and whether they cause errors and omissions in the financial statements, e.g.</p> <ul style="list-style-type: none"> <li>• Provisions</li> <li>• Impairments</li> <li>• Fines</li> <li>• Going concern issues</li> </ul> <p>break the law</p> <p>Communicate issues with</p> <ol style="list-style-type: none"> <li>1) Those charged with governance</li> <li>2) Shareholders</li> <li>3) Third parties</li> </ol> <p>fines (provision in FS) Shut down (prep FS on break up basis if not G-C)</p>

Related parties <u>ISA 550</u>	<ul style="list-style-type: none"> <li>Identify all related parties</li> <li>Disclose transactions</li> </ul>	<ul style="list-style-type: none"> <li>Audit disclosures relating to related parties <i>eg RPT p28</i></li> </ul>
Going concern (topic 7)	<ul style="list-style-type: none"> <li>Make an <u>assessment</u> as to whether the company is a going concern or not <i>must cover 12 mths from date FS approved</i></li> <li><u>Prepare forecasts</u> to provide evidence to support the going concern assumption</li> </ul>	<ul style="list-style-type: none"> <li>Audit the going concern assumption (audit forecast)</li> </ul>
Money laundering (= concealing proceeds of crime) <i>eg Fiddle &amp; Drum P39</i>	<ul style="list-style-type: none"> <li>Don't do it</li> </ul> <p><i>Tax evasion saved costs = money laundering eg req'd to install a 2nd fire exit to comply with H&amp;S laws Don't do it to save money broken the law - crime saved money - proceeds of a crime</i></p>	<ul style="list-style-type: none"> <li>Appoint money laundering reporting officer (MLRO)</li> <li>Provide staff with training on <u>how to spot</u> <i>if do spot</i></li> <li>Perform client identification procedures <i>NCA</i></li> <li>Keep records <i>National Crime Agency</i></li> <li>Don't tip off if you have any suspicions.</li> </ul>
Bribery <i>against the law benefit from bribe = proceeds of crime</i>	<ul style="list-style-type: none"> <li>Prevent bribery in your organisation through use of internal controls</li> </ul>	<ul style="list-style-type: none"> <li>Consider risks of non-compliance (e.g. fines, penalties)</li> <li>Report suspicions to the national crime agency (NCA)</li> </ul>

auditors need to try & ID related parties  
ISA 550 (13, 15, A22)

*higher risk of misstatement - info confined to mgmt - mgmt don't understand why should*

*disclose / don't want to*

SFQS

*report to MLRO do not tip off MLRO decides whether to report to NCA*

*exam: tested on this nearly always SFQ or sub reqt in LFQ*

## Types of assurance

- reasonable assurance

- limited assurance

- high level of assurance

- lower level of assurance

- yle audit

- 1/2 yr review forecast review

- positive expression

- negative expression

"in our opinion the FS are true & fair"

"nothing has come to our attention to suggest the FS / forecast one / is not true & fair"

- detailed testing

- work limited to enquiries & analytical review

for forecast  
evidence is all subjective so could never give higher level of assurance

## Audit threshold

Exempt from audit if 2 out of 3 apply:

- No more than 50 employees
- Revenue no more than ~~£5.5m~~ £10.2m
- Gross assets no more than ~~£3.25m~~ £5.1m

*currently under review in UK*

*Some companies will have an audit even if not legally required to*

*Why?*

Benefits of being audited?

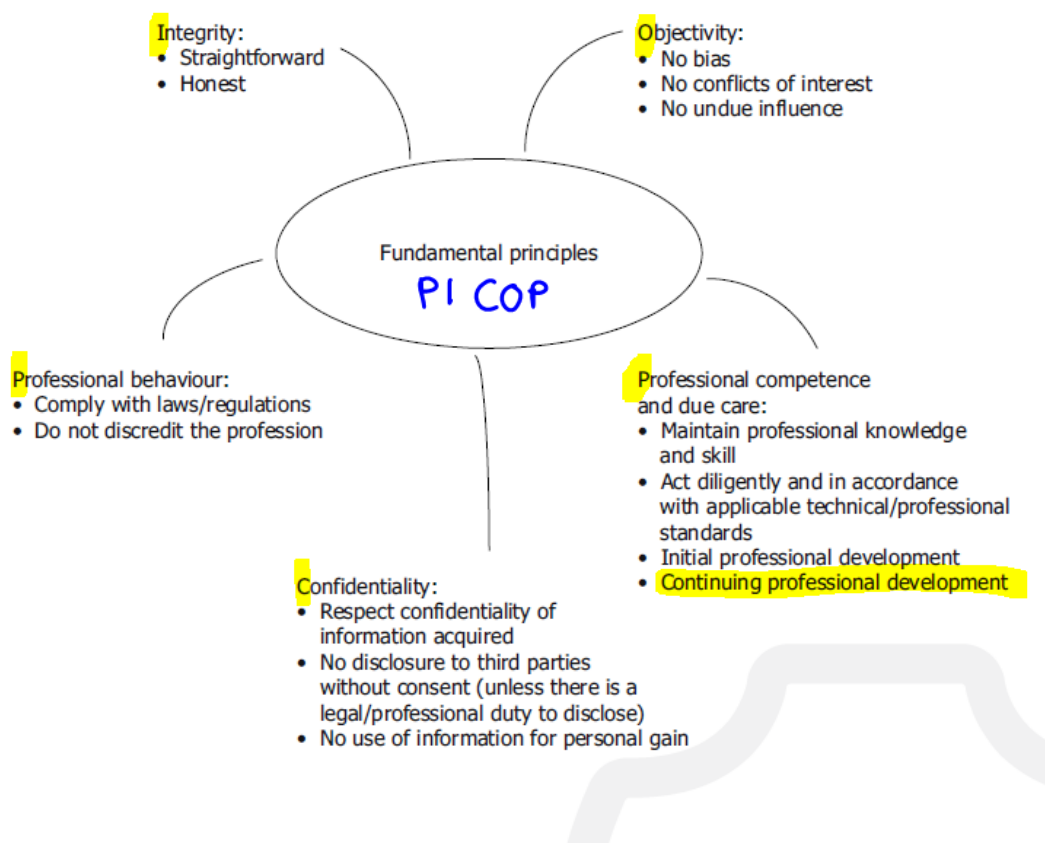
Scrutiny  
Reassurance on internal controls  
Future-proofing  
Greater level of assurance

*eg*

- want a bank loan & bank insists on audited FS
  - SH not involved with co day to day so want greater assurance that directors are running the co in their best interests
- eg 'Benefits of an audit' p14*

## Topic 2

Ethical issues – need to identify threats, explain them using the principles and suggest safeguards



## MASSIF

Threat	Description
<b>Self-interest</b>	The threat that a financial or other interest of a professional accountant or of an immediate or close family member will inappropriately influence the professional accountant's judgement or behaviour.
<b>Self-review</b>	The threat that a professional accountant will not appropriately evaluate the results of a previous judgement made by the professional accountant.
<b>Advocacy</b>	The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.
<b>Familiarity</b>	The threat that, due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.
<b>Intimidation</b>	The threat that a professional accountant will be deterred from acting objectively by threats, actual or perceived.

**Management:** Threat that auditor will take decisions that should be made by mgt

General ones  
+  
Ethical  
Standard

### Threat

eg PSI

There is a self-review threat due to the auditor being asked to prepare the FS therefore the auditor may be less rigorous<sup>3</sup> in their testing

There is also a management threat therefore the auditor may make decisions that should be taken by mgt

### Safeguard

- have separate teams preparing the FS & doing the audit
- have an independent partner review the key judgements & audit opinion
- ensure informed mgt is in place
- state in next letter mgt must make all decisions

Stats book

ICAEW code of ethics Confidentiality Code 140.7  
Conflicts of interest: competing clients 220.3  
 2 - relationships  
 3 - long association  
 4 - fees, gifts  
 5 - non-audit services  
 - if say yes  
 safeguards 220.4  
 eg p71 Ate & Club  
 obtain written consent of both parties to act for both

Ethics standards

What safeguard should be applied when...	Safeguard	Reference
A firm, partner or person has shares or an investment in the client which is being audited	Firm – Can't do the audit Person can't be on the team	SECTION2 para 2.5
A person involved with the audit has a business relationship with the client	Ok if arm's length or inconsequential Consult ethics partner	SECTION2 para 2.29
Staff from the audit firm are loaned to the audit client	Ok if: <ul style="list-style-type: none"> <li>• Short period</li> <li>• Don't make management decisions</li> <li>• Doesn't involve doing anything prohibited by Section5</li> <li>• Not part of the audit team</li> </ul>	SECTION2 para 2.39
Audit partner joins the audited entity as key management personnel	Audit firm shall not accept reappointment for 2 years	SECTION2 para 2.45
Member of the audit team (not a partner) joins the audited entity as key management personnel	Consider composition of the audit team (i.e. change members)	SECTION2 para 2.47
Close family member of the audit team is employed by the audit entity in a position to influence accounting records	Audit team member should be taken off the audit	SECTION2 para 2.70/2.71
Partner or employee from the audit firm is invited to attend board meetings or be a non-executive director	Do not accept appointment	SECTION2 para 2.53
Former director or employee of audit client comes to work at the audit firm	Should not be part of the audit team for 2 years	SECTION2 para 2.57
There has been a long association between the audit partner and the audit client	<u>Listed companies</u> <u>Audit partner</u> Act for 5 years and then take a break for 5 years Could continue for an extra 2 years if necessary to safeguard audit quality (as requested by client) if disclosed to shareholders. Other audit partners	SECTION3 para 3.11 SECTION3 para 3.15 SECTION3 para 3.20

	Act for 7 years then take a break for 2 years										
Client offers you a contingent fee	Do not accept	SECTION4 para 4.6R/4.14									
Audit fee is overdue	Consider whether the firm can continue or whether it is necessary to resign	SECTION4 para 4.29									
Fee income from one client forms a significant proportion the firm's income	<table> <tr> <td></td><td>Plc</td><td>Ltd</td></tr> <tr> <td>Implement more safeguards</td><td>5-10%</td><td>10-15%</td></tr> <tr> <td>Resign from a service</td><td>10%+</td><td>15% +</td></tr> </table>		Plc	Ltd	Implement more safeguards	5-10%	10-15%	Resign from a service	10%+	15% +	SECTION4 para 4.44 & 4.51
	Plc	Ltd									
Implement more safeguards	5-10%	10-15%									
Resign from a service	10%+	15% +									
Non-audit fees are a substantial percentage of total fees from a public interest entity	For audits of PIEs, non-audit fees must be limited to no more than 70% of the average of audit fees paid in the last three consecutive financial years	SECTION4 para 4.34									
Audit client sues you	Consider Resignation	SECTION4 para 4.68									
Audit client offers you a gift	Do not accept unless insignificant	SECTION4 para 4.61/D									
Offered internal audit work in addition to performing external audit	Do not accept internal audit if the external audit will be relying on the work or it involves making management decisions	SECTION5 para 5.53									
Offered IT work in addition to performing external audit	Do not accept IT work if the external audit will be relying on the work or it involves making management decisions	SECTION5 para 5.63									
Offered valuation work in addition to performing external audit	<p>Do not accept if it is listed company and the valuation is material</p> <p>Do not accept if it is a limited and the valuation involves judgement and is material</p>	SECTION5 para 5.67									
Offered tax work in addition to performing external audit	<p>For a listed company, do not accept the tax work (tax calcs) if the calculations are used in accounting entries which are material</p> <p>For a limited company can do with separate teams</p>	<p>SECTION5 para 5.92</p> <p>SECTION5 para 5.95</p>									
Asked to help audit client prepare for a court case	Do not do if it involves judgement material to the financial statements	SECTION5 para 5.104									

Asked to help an audit client with recruitment	Can't do if make decisions on behalf of the management. Could do if you had informed management (but for a plc this could not be for key management personnel appointments)	SECTION5 5.109 page 1684
Asked to provide corporate finance services (e.g. mergers and acquisitions) for an audit client	Can't do if <ul style="list-style-type: none"> <li>• Promoting client</li> <li>• Making decisions for client</li> <li>• Causes issues in the FS</li> </ul>	SECTION5 para 5.126
• Asked to prepare accounts for an audit client	Can't do if a listed company <del>unless it's an emergency</del>  For a limited company can't do if it involves making management decisions	SECTION5 para 5.155
Asked to audit a competitor of one of your existing clients	Can overcome this conflict of interest with safeguards	Handbook ICAEW code of ethics para 220.10 Or ICAEW code of ethics Para 220.4
Asked to give a second opinion on an audit report produced by another firm	Can do with safeguards	ICAEW code of ethics para 230.1

If the question explicitly states that the entity is a **public interest entity** (PIE) then go to para 5.167R



Why do we need quality control procedures? To do a good job  
 Why do we need acceptance procedures? We only accept clients for whom we can do a good job.

### Topic 3 Acceptance and Quality Control

#### Tender/Acceptance

If requirement says matters to be considered when tendering or when accepting work think about

TRIM ROT

Why do we need to do a good job?

If give wrong opinion and are found negligent - fines - affect reputation - damages → lose clients

Reduce risk by - "limit liability" (PTO)

	Factor	Think about
T	Technical competence	Does the firm have the skills expertise for the work/ industry?
R	Resources	Does the firm have enough staff available?
I	Independence	Are there any ethical threats? Can they be overcome?
M	Money laundering	Are there any indicators of any dodgy transactions?
R	References	What is the directors' background? Can we rely on work they produce?
O	Outgoing auditors	Why did the old auditors resign/ why were they removed?
T	Terms of engagement	Should be easy for an audit but need to clarify for other assurance

engagement letter - recurring audits ISA 210 (13 → A28)  
 contents ISA 210 (10)  
 Contacting outgoing auditors

1. Explain to client that you have a duty to contact the outgoing auditors
2. Obtain client's permission to contact
3. If not given do accept the audit
4. Send letter to the outgoing auditors
5. Outgoing auditor replies mentioning anything untoward
6. If no reply then chase
7. Still no reply send them a letter saying you take silence to mean all is well

professional

ICAEW Code of Ethics  
 Appx to Section 210

Fees  
 lowballing  
 240-1

see calculation  
 240-2a

#### Terms of engagement/Acceptance of assurance engagement

If requirement says matters to be considered when agreeing terms of an engagement or accepting other assurance work think about elements of an assurance engagement (CREST)

	Element	Matters to consider pre acceptance
C	Criteria ISA 3400 - forecasts	Does the client want us to use ISAE? Are there any issues defining the criteria (e.g. if looking at KPIs)?
R	Report report ISA 3400 (27)	Likely to be limited assurance as cheaper for the client and less risky for the auditor & working of opinion For PFI will only give limited assurance and include a caveat as forecasts are forward looking
E	Evidence	More bespoke than audit so level of evidence required need to be agreed (procedures will primarily be enquiries and analytical procedures) Is access to records an issue? Any confidentiality issues?
S	Subject Matter	Will not be in a standard format like financial statements so the assurance provider needs to understand the format. Clarify which elements we are giving our opinion on
T	Three Party relationship resp. user practitioner party ? audit firm - directors	Who is placing reliance on the assurance opinion (banks, investors)? Increased interested parties will increase the risks of being sued Is the report going to be published and publically available? Also discuss: Fees, Locations, Deadlines, Admin

could be liable to them

Acceptance often examined with ethics in a LFQ  
 Frequently in SFQs now.

## Quality control issues

ISQC 1 (must do)

eg Victory p92

An audit firm needs the following to conduct a good quality audit

- **Leadership** – <sup>ptrs</sup> Tone set from the top, <sup>must win</sup> managers promote quality, discipline those who don't follow procedures **quality** – profitability
- **Ethics** – Good systems to identify and deal with threats
- **Acceptance/continuance** procedures – procedures in place re background checks, credit checks, resources, budgeting = taking on clients for whom we do a good job **TRIM ROT**
- **Human resources** – Recruitment procedures to find ethical, competent staff. Assign right expertise to right audits, appraisals, training
- **Engagement performance** – doing the audit + before during end → issue auditor's report
- **Monitoring** – 2nd partner reviews, cold audits

## Business issues

- Audit firm wants to:
  - make a profit
  - retain clients
  - have good credit control
- Also want to avoid litigation. Previous court cases have shown that auditors may be found liable when
  - They owe a duty of care (auditors owe a duty of care to the shareholders and also third parties if they reasonably could have known that party was relying on their opinion) **and**;
  - The auditors have been negligent **and**;
  - There is a loss arising
- Can **limit liability** by: **Reducing the risk of being found negligent / suffering financial consequences**
  - must** ○ Doing a good job (**key**) = **Quality Control**
  - could** ○ Making the firm a company or an LLP **Limited Liability P'ship** – liability restricted to negligent ptr
  - must** ○ Getting professional indemnity insurance
  - could** ○ Lobbying the government to pass a law which caps auditors liability **Agree a liability cap with the shareholders (6.1.1)**
  - could** ○ Liability disclaimer paragraph in the audit report (⚡)
  - (must)** ○ Clarifying responsibilities in the engagement letter
- Must comply with laws and regulations specifically money laundering (concealing the proceeds of crime)
  - Mustn't tip off client
  - Must report suspicions to MLRO
  - Must train staff to spot
  - Must perform client identification checks to confirm identities

⚡ 'Bannerman' paragraph – restricts auditor's duty of care to the shareholders  
– Stops 3rd parties eg banks from being able to prove us negligent if they rely on the FS and we give the wrong opinion.



Auditor appointment (Co's Act - not in book)  
Private co directors find & appoint auditor

- No AGM required
- Auditor is automatically reappointed
- Unless 5% or more of shareholders register notice to change auditors
- Then > 50% needed for resolution to pass

if no auditor has been appointed  
- Secretary of State will appoint one  
(very rare)

Plc <sup>Annual General Meeting</sup>  
• Auditor appointed at AGM (SH ratify directors' appt)  
• Resolution passed by > 50% of shareholders

Removal (sacked)

- Possible at any time if shareholders pass an ordinary resolution
- Notice given to auditor (prior to removal)
- Auditor has right to:
  - Write to shareholders
  - Attend GM where vote is made
- Responsibility of the company to inform companies house

Resignation

Rights

- Requisition a general meeting
- Circulate written statement to shareholders prior to the meeting

Responsibilities

- Prepare resignation letter
- Prepare statement of circumstance
- Send to company's registered office
- Contact audit authority

Removal & resignation : make sure that SH know if directors are misbehaving

must do (examined most)

&

could do

- deposit a "Statement of Circumstances" at Co's registered office explaining why being removed or why you're resigning

if listed client  
|  
must deposit statement

if not listed  
|  
could say there are no circumstances

- maintain confidentiality
- return all books & records
- co-operate with the incoming auditor

removal  
- not being reappointed at the AGM

- could attend the AGM to speak to SH

& could have written representation circulated to SH ahead of the meeting

resignation  
- during the year

- could request on EGM, attend & speak at it

LFG: risk assessment (planning)

- understand the entity ISA 315 A31 eg G Co: p124
- perform a risk assessment (narrative & ratios)
- ID what areas need to focus on during the audit

audit strategy (8) & appx  
- high level  
ISA 300  
audit plan (9)  
- detailed procedures

Topics 4-6 Risks and procedures

**Risk questions (Going for 1 mark per risk)**

**ROMM/ Audit risk questions** (part of C40 MC Q)

justify why area has been identified as risky procedures.

justification

Balance/transaction may be over/under/misstated/ omitted if..... accounting rule has not been followed or due to indicator from the scenario.

Techniques

what could be wrong in FS?

why (from scenario)  
narrative ratios

- Use scenario (words)
- Use scenario (numbers)
- Use FAR knowledge
- FOREX
- New system/ transaction/ audit
- Incentive to manipulate = fraud risk

Good example of a risk written up

Clothing

Inventory may be overstated if the cost of clothing is less than the net realisable value. New ranges are introduced every 8 weeks which increases the risk of inventory obsolescence. Inventory is material as it represents 23% of assets.

Bad example

Jolie sells clothing, with a strategy of selling high fashion items under the JLC brand name. New ranges of clothes are introduced every 8 weeks. Per IAS 2 inventory valuation is a key issue and there is a risk that inventory has not been accounted for correctly. Particular attention should be paid at the stock count to ensure that inventory is correctly valued.

Learning points

- Do relate your answer to the scenario
- Do explain what could go wrong and be specific
- Do use headings
- Don't repeat large chunks of text from the scenario with no explanation provided
- Don't just say 'there is a risk' or 'there is a risk this has not been accounted for correctly'
- Don't provide definitions which have not been asked for
- Don't provide audit procedures for risks unless required
- Don't provide recommendations of how to mitigate risks when not required

**Materiality** - can be by size (see below) or by nature (judgement) directors' remuneration related parties & 1 turns co. from profit to loss making

	High risk client	Low risk client
Revenue	0.5%	1%
Assets	1%	2%
PBT	5%	10%

big picture 1st  
 calc relevant ratios  
 use them to identify areas of FS that may be misstated.  
Ratios you could use when identifying risks

### Profitability

- (a) Return on capital employed (ROCE) =  $\frac{\text{Profit before interest and tax (PBIT)}}{\text{Share capital + reserves + NC liabilities}}$
- (b) Operating profit margin =  $\frac{\text{PBIT}}{\text{Revenue}}$
- (c) Asset turnover =  $\frac{\text{Revenue}}{\text{Share capital + reserves + NC liabilities}}$
- (d) Gross margin =  $\frac{\text{Gross profit}}{\text{Revenue}}$

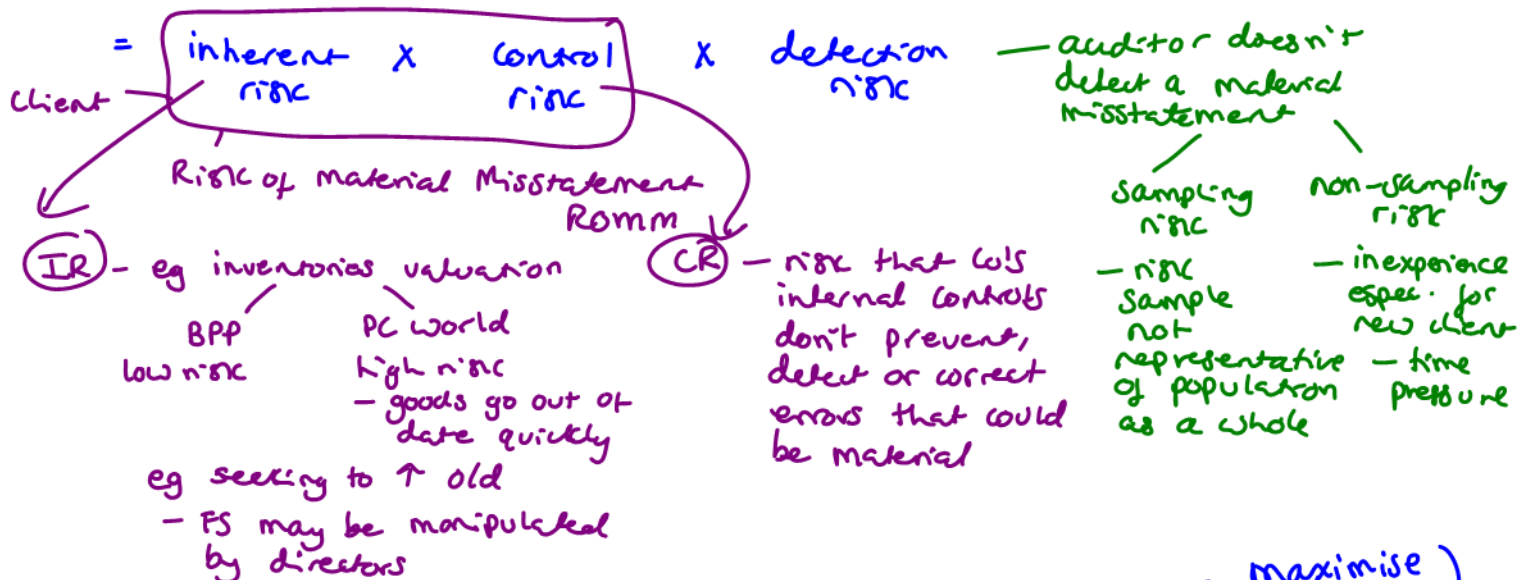
### Liquidity

- (a) Current ratio =  $\frac{\text{CA}}{\text{CL}}$
- (b) Quick ratio (acid test) =  $\frac{\text{CA} - \text{Inventories}}{\text{CL}}$
- (c) Inventory holding period <  $\frac{\text{Inventories}}{\text{COS}} \times 365 \text{ days}$  (⊕) — how many days goods are in inventory for?  
 or  $\frac{\text{COS}}{\text{Inventories}} = \text{No. of times turnover}$
- (d) Receivables collection period =  $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 \text{ days}$  — assume revenue = credit sales
- (e) Payables payment period =  $\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365 \text{ days}$  — use cos

eg Analytical Procedures p114-15

Audit : risk that auditor gives wrong opinion on FS

C.40 MLC p — large chunk 'risks'  
 — don't have to specify type of risk



Business risk : risk to won't meet its objectives (maximise profits)  
 Directors assess & design internal controls to reduce the risk.

## Procedures (Going for 1 mark per procedure)

- Use bullet points
- **Start your procedure with a verb** (e.g. compare, inspect, verify, trace, inquire, recalculate, obtain) *Avoid "check" & "ensure"*
- **State the piece of evidence you want to look at e.g.**
  - assets themselves
  - ask
  - bank statement
  - board minutes
  - budgets
  - correspondence
  - controls
  - contracts
  - calculations
  - comparisons
  - documents
  - experts
  - events post year end
- **State why you want to see the piece of evidence** ( can use the phrase 'to ensure that')

Good procedure	Bad procedure
Obtain a written representation <u>for the non-impairment of the brand</u> ✓	Get written rep <i>of what?</i>
Discuss the reasons <u>for non-amortisation of the brand</u> with management ✓	Generic statements such as: <ul style="list-style-type: none"> <li>• Discuss with management <i>discuss what?</i></li> <li>• Inspect the asset <i>for what? why?</i></li> <li>• Check the invoice " "</li> </ul>
Agree costs to supporting documentation e.g. purchase invoice ✓	• Testing the accuracy and reasonableness of the inventory figures, checking if goods that are perishable are valued accordingly and correctly, and not at their cost of NRV if they are unable to be sold. <i>aims not procedure</i>
Compare the useful economic life of the asset to a similar company to see if the depreciation policy is reasonable ✓	Testing over the inventory figures and recalculation of how inventory is valued and if this is appropriate and reasonable. •
Inspect post year end receipts from receivables to confirm year end balances are not over valued ✓	• Enquire how stock is valued - obtain invoices and recalculate stock value ensure it is complying with accounting policies i.e. FIFO. Enquire how staff at retail stores are suitably qualified to undertake a stock take - have they been through training? <i>not a procedure</i>

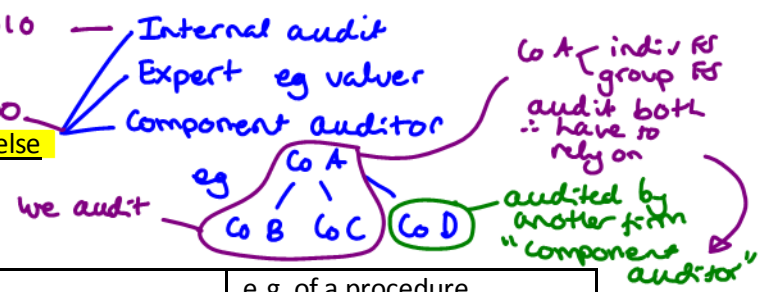
How approach would differ if auditing a not for profit entity

Charities, Clubs, hospitals, schools p171-2

Areas where IAT could help  
 A16 - ISA 610  
 understanding 19, 20  
 communication 40, 41 - ISA 600

Procedures when relying on the work of someone else

Use SODIT to help generate ideas for tests



Matter to consider	Key issue	e.g. of a procedure
Scope	Has the work been performed in accordance with IFRS	<u>Inspect the engagement letter</u> /instructions to of the expert to confirm an appropriate measurement bases have been used
Organisational status (Internal audit only)	Are the suggestions made acted upon and implemented by the directors	<u>Review board minutes to identify what actions have implemented following internal auditors' suggestions</u>
Due skill and care	Has the work been performed properly	<u>Inspect the report</u> produced by the expert <u>to ascertain if the work performed was appropriate and detailed</u>
Independence	Is the <u>expert independent</u> (they may have an incentive to overstate results if they're not)	<u>Obtain a list of shareholders and confirm that the expert is not a shareholder</u>
Technical competence	Is the expert qualified/ up to date?	<u>Review the expert's qualifications and training</u> to ensure they are able to perform the work.

Specific to Q

### Analytical procedures

Enquiry  
 Inspection  
 Observation

Recalculation / reperformance

(Assurance notes)

### Stds book

going concern  
 ISA 570 A16

related parties  
 ISA 550 13, 15  
 A22

accounting estimates  
 ISA 540 12, 13  
 eg 159

### Assertions

#### SOPP

Completeness  
 Obligations & rights  
 Valuation  
 Existence

#### SPLOC/

Occurrence  
 Completeness  
 Cut off  
 Classification  
 Accuracy

### Disclosures

Assets : overstated? existence

Liabilities: understated? completeness

### Big data / Data analytics

- use computers as part of the audit
- deal with a lot more data
  - for some areas could test 100%
- take data from client's system put it into yours (specific audit software or excel) & recalculate all discounts (VAT etc.)
- use to reorganise data into visuals to help interpretation (pie charts) eg p136

### Cyber security

- what could go wrong?
  - what controls should be in place?
- eg p136



## Topic 7 and 8 Audit completion and reports

### Audit completion summary

Activity	Detail/example
Overall financial statement review	Need to confirm that: <ul style="list-style-type: none"> <li>Sufficient and appropriate evidence has been collected</li> <li>Do the financial statements make sense (e.g. if whilst auditing payroll one team member has found that an employee is suing the company for unfair dismissal we need to confirm that we have considered the effect on provisions)</li> <li>Summarise all findings in the audit completion memorandum</li> </ul>
Summary of unadjusted misstatements	All errors found need to be summarised in one document. From this document the auditor needs to: <ul style="list-style-type: none"> <li>Consider if the sum of the uncorrected immaterial misstatements are in total material</li> <li>Reassess materiality of necessary</li> <li>Inform management of all errors found unless trivial (below 5% of materiality)</li> <li>Get a written representation to say that these have been communicated</li> </ul>
Audit opening balances (for a new client)	Opening balances will need auditing, can do this by: <ul style="list-style-type: none"> <li>Reviewing working papers of previous auditors</li> <li>Considering whether audit procedures in the current year give evidence over the opening balances</li> <li>Auditing the opening balances</li> </ul>
Comparatives (for an existing audit client)	Confirm the comparative numbers have been brought forward correctly. <p>ISA 710 (3, 14)</p>
Going concern ISA 570	Audit the going concern assumption. See ISA 570 paragraph A16 below for example procedures
Subsequent events ISA 560	Audit subsequent events <p>Before audit report is signed off perform procedures to audit subsequent events (see ISA 560 paragraphs A8 and A9)</p> <p>If you become aware of any subsequent events after the audit report has been signed and before the AGM then ask then:</p> <ul style="list-style-type: none"> <li>Discuss with management</li> <li>Determine if amendment necessary</li> <li>Perform audit procedures on the necessary change</li> <li>If an amendment is required and FS have not yet been issued ask them to amend before sending out to shareholders</li> <li>If an amendment is required and FS have been issued ask them to send out an amended version to shareholders</li> <li>If they refuse speak at the AGM, resign and seek legal advice</li> </ul>
Written representations ISA 580	Finalise the written representation letter for matters where evidence obtained is persuasive but not conclusive
Other parts of the annual report	Check other non-audited parts of the annual report for consistency with the financial statements

during audit  
material - get client to adjust if refuse affects opinion

immaterial - skill and for correction but doesn't affect opinion unless material in total.

op bal  
Comparatives

often tested with auditor's reports in a LFG

always say 10-12

could say 13 - involves judgement & for

- facts confined to mgt

analytical procedures  
- planning: risk assessment  
- completion: do FS make sense

could be source of evidence eg proof in total

matters for attention of ptr

letter from directors to auditor

"we confirm that the value of uncorrected"

misstatements is not material

eg PPE bld X additions X dep'n (X) disposals (X) old X

comparative

P 191-2 : Supachill

active duty auditor's report issued FS issued to SH AGM

passive.

find a difference?

FS wrong? : request correction if refuse affects audit opinion  
other info? : won't affect our audit opinion but do need to inform users of inconsistency in auditor's report.



## Receipts and payments

As part of the audit of going concern you need to audit the **cash flow** forecast of the company looking at their predicted receipts and payments. Some requirements **ask you to identify receipts and payments and state the matters you would consider.**

eg Herbalink p 211-12

Receipts	Matter to consider	Payments	Matter to consider
Receipts from customers	<p>Have they delayed the timing of receipt to reflect credit terms?</p> <p>Have they factored in slow payers?</p> <p>Have they factored in potential bad debts?</p> <p>Adjusted for potential lost contracts or customers?</p>	Payments to suppliers	<p>Calculated correctly and in line with credit terms?</p> <p>Amended for anticipated changes in suppliers?</p>
From potential sales of PPE?	In line with correspondence?	Payroll	In line with previous trends and updated for new joiners and pay rises?
		Redundancies	In line with announcements?
		Rent/ Utilities	In line with previous trends and updated changes in rates?
		To acquire new PPE	In line with quotes and standard price lists?
		To tax authorities	In line with standard payment schedules?

these were identified as part of the audit not a report on all IEs  
Report on deficiencies in internal controls aka management letter

SFA : deficiency given need to state consequence & recommendation  
 eg Delta p207

Consequences ②	Recommendation ③ how to improve
<p>Explain what could go wrong for the <b>business</b></p> <p>e.g. falling</p> <ul style="list-style-type: none"> <li>Revenue</li> <li>Profits</li> <li>Reputation poor cash flows</li> </ul> <p>↓ profit</p>	<p>Good control activities include</p> <ul style="list-style-type: none"> <li>Physical controls</li> <li>Authorisation</li> <li>Information processing (e.g. sequential numbering checks)</li> <li>Reviews/ reconciliations</li> <li>Segregation of duties</li> </ul>

IC  
 - missing  
 - not working

Sometimes

LFQs : given a scenario

- 10 deficiencies
- explain consequences
- give recommendations

# ① Basic report — Unmodified report with unmodified opinion eg p1216 — 1220

## Auditor's

Audit reports (normally 3-4 marks for choosing the correct option and explaining why)

Choose one and only one of the following 8 options

	Option	When to use	Impact on overall report
1	Unmodified opinion/ Unqualified opinion/ Say the accounts are true and fair <i>ie nothing wrong</i>	No material misstatement in the FS No material problem with insufficient evidence  <i>8 nothing needs highlighting to users</i>	None
<b>Options 2-4 are the only 3 examples of modified opinions</b>			
2	<b>Qualified 'except for' opinion</b> with basis of opinion paragraph coming after the opinion to explain and quantify the issue	Material but <b>not pervasive</b> issue (issues could be either <b>misstatement</b> or <b>insufficient evidence</b> )  <i>Wording: "except for" eg p220</i> <i>insert "qualified" in</i> <i>- opinion</i> <i>- basis of opinion ] headings.</i>	Basis of opinion paragraph after opinion <i>explain issue.</i>
3	<b>Adverse opinion</b> with basis of opinion paragraph coming after the opinion to explain and quantify the issue	Material and <b>pervasive misstatement</b>  <i>FS do not give a T&amp;F view</i> <i>p223</i>	Basis of opinion paragraph after opinion
4	<b>Disclaimer of opinion</b> with basis of opinion paragraph coming after the opinion to explain and quantify the issue	Material and <b>pervasive insufficient audit evidence</b>  <i>We do not express an opinion</i> <i>p222</i>	Basis of disclaimer of opinion paragraph after opinion
<b>Options 5-8 are the only 4 examples of unmodified opinions with modified reports</b>			
5	Unmodified opinion with <b>material uncertainty relating to going concern</b> paragraph coming after the opinion	<ul style="list-style-type: none"> <li><b>No error in the FS</b></li> <li><b>Significant going concern issue</b></li> <li><b>Disclosed</b></li> <li><b>Disclosure is adequate</b> and in line with IFRS</li> </ul> <i>auditor should draw attention to the disclosure</i> <i>eg if bank recalled the overdrafts, not a GC</i>	Comes after the <b>basis of opinion</b> <i>+ BEFORE ICAI</i>
6	Unmodified opinion with <b>emphasis of matter paragraph</b> coming before key audit matters	<ul style="list-style-type: none"> <li><b>No error</b> in the FS</li> <li><b>Significant uncertainty</b> (not about going concern) <i>eg CN p218</i></li> <li><b>Disclosed</b></li> <li><b>Disclosure is adequate</b> and in line with IFRS</li> </ul>	Goes <u>before</u> or <u>after</u> key <u>audit matters</u> depending on severity

*nothing wrong but need to highlight something*

*eg sued by a customer for a significant sum.  
If have to pay, still a GC, but would affect biz so want people to know.*

7	Unmodified opinion with <b>other matter paragraph</b> coming after the key audit matters	Auditors <b>want to explain something</b> which they can't reference to the annual report e.g. <ul style="list-style-type: none"> <li>They weren't the auditors last year</li> <li>The sub's report is qualified but the group's report is not</li> </ul>	Goes before key audit matters if an inconsistency <i>After KAM</i>
8	Unmodified opinion with <b>other information paragraph</b> coming before the key audit matters if there is an inconsistency	<b>Inconsistency</b> in other non-audited information <ul style="list-style-type: none"> <li>directors' report</li> <li>strategy report</li> <li>describe inconsistency in "opinion on other matters" &amp; "by exception" para under Cons. Act</li> <li>anything else (Chairman's Statement) = describe in other info para &amp; move para to before KAM</li> </ul>	Goes after key audit matters

For **going concern issues** (See ISA 570 para 22-24)

- If there is a significant possible going concern issues which has been disclosed adequately use option 5 *nothing wrong, but need to highlight*
- ⊙ If there is a significant possible going concern issues which has not been disclosed adequately use option 2 or 3 *if deemed not pervasive ..... qualified*  
*if deemed pervasive ..... adverse*
- If the company is not likely to be around in 12 months' time and has not used the break up basis use option 3 *not a GC. must use break up. pervasive - adverse.*

- ⊙ If the directors won't prepare a forecast to prove the company can continue use option 2 or 4 *if deemed not pervasive ..... qualified*  
*if deemed pervasive ..... disclaimer of.*

Key Audit Matters *if deemed not pervasive ..... qualified*  
*if deemed pervasive ..... disclaimer of.*

Factual description of subjective, complex and material areas of the audit

Learn

**Matters to report by exception**

P1219

- Returns received for all branches *(returns adequate .....)*
- Accounts agree to records *(not in agreement with acc'd records & returns)*
- Proper accounting records kept *(adequate acc'd records kept)*
- Information requested from directors received *(info & explanations ...)*
- Directors emoluments disclosed *(directors' remuneration ...)*

Exam: most likely

— given a scenario

answer

— State the issue

— Say whether it's material

— if not - List on schedule of uncorrected misstatements, at end total to see if material in aggregate.

— do we need to modify report?

- ①-④ **Ⓐ** nothing wrong & nothing needs highlighting — No
- ⑤-⑧ **Ⓑ** nothing wrong but something needs highlighting — Yes *explain why & how*  
(unmodified opinion) (modify report)
- ②-④ **Ⓒ** something wrong *material misstatement (nos disclosures in FS)* & / not pervasive *only affects 1/2 areas*  
*sufficient, appropriate evidence not found* & / material & pervasive *affects multiple areas*
- explain why + whether pervasive*

## AA OPEN BOOK HIGHLIGHTING

COURSE NOTE CHAPTER	WHAT?	WHY?
ALL		Glossary
1	ISA 200 11	Objectives of an auditor
	ISA 240 3-5	Types of fraud Responsibilities for fraud
	40-43	Reporting fraud
	A1	Characteristics of fraud
	ISA 250A 3-8	Responsibilities re. illegal acts
	14	Audit tests re. illegal acts
	22-25, 28	Reporting illegal acts
	ISA 550 2, 6	Why related party transactions are risky
	10	Related party definitions
	A22	Ideas for related party tests
2	FRC ETHICAL STANDARD I 14	Third party test
	1.12	Ethics partner
	1.29, 1.45	6 threats to independence; informed management; role of safeguards
	1.61	Communication with audit committee
	2.45	Audit partner moving to client
	2.65	Client staff moving to audit firm
	3.6	Partner rotation (non-listed)
	3.10, 3.15	Partner / staff rotation (listed)
	4.6 -4.7	Contingent fees
	4.29	Overdue fees
	4.34, 4.42, 4.47	Fee rules (listed)
	4.44, 4.51	Fee rules (non-listed)
	4.56	Cross-selling
	4.61	Gifts / hospitality
	5.167	Public interest companies – forbidden services
	5.53	Internal audit
	5.63	IT systems
	5.67b	Valuation services
	5.89	Tax services
	5.109	Recruitment services
	5.116	Remuneration services
	5.115	Accounting services
		<b>Small entities</b>

	6.5	Fee rules
	6.7	Non-audit services
	6.13	Partners joining client staff
	<b>ICAEW CODE</b> 100.5	5 ICAEW principles
	140.7	Disclosure of confidential information
	220.3-4	Conflicts of interest
<b>3</b>	<b>ISQC 1</b> 16	6 elements of quality control
	19	Qualities of leadership
	21, 24	2-way process re. independence
	26	Job acceptance considerations
	29, 30	Staff qualities / delegation
	32-34	Supervision / review / consultation
	37-38	Hot reviews
	48	Cold reviews
	<b>ICAEW CODE</b> 240.1	Lowballing
	240.2a	How fee is fixed
	240.7	Commissions
	210.9, 11, 14	Communication with outgoing auditor
	<b>ISA 210</b> 10	Content of engagement letter
	Appendix 1	Model engagement letter
<b>4</b>	<b>ISA 300</b> 2	Benefits of planning
	7-9	Audit strategy v. audit plan
	<b>ISA 320</b> A3, A4, A7	Using benchmark to determine materiality
	A10	Material by nature
	<b>ISA 315</b> A14-16	Use of analytical procedures in planning
	11	Knowledge of the business
	14, 15, 18, 20, 22	5 elements of internal control
	<b>ISA 402</b> 12	Dealing with service organisations
<b>5</b>	<b>ISA 315</b> 25-30	Risk assessment / significant risks
<b>6</b>	<b>ISA 330</b> 8	Use of controls testing
	A1	Overall approach to risk
	<b>ISA 610</b> 15-16	Evaluation of internal audit
	<b>ISA 620</b> 6	2 types of expert
	A1	When appropriate to use expert
	<b>ISA 600</b> 12	Responsibilities – accepting group audit
	19	Understanding component auditors
	40	Communication to component auditor

	41	Communication <b>from</b> component auditor
	<b>ISA 540</b> 13	Audit of accounting estimates
<b>7</b>	<b>ISA 450</b> 5-6, 8, 10-12, 14	Dealing with misstatements
	<b>ISA 720</b> 14	Reading other information in Annual Report
	<b>ISA 520</b> 5-6	Use of analytical procedures at testing and review stage
	<b>ISA 510</b> 6	Audit of opening balances
	<b>ISA 570</b> A2	Going concern indicators
	A11	12 month review
	A16	Going concern procedures
	<b>ISA 560</b> 2	2 types of subsequent events
	4a	Responsibility – to date of audit report
	4b	Responsibility – after date of audit report
	7	Procedures – to date of audit report
	A16	What to do – financial statements already issued
	<b>ISA 580</b> Appendix 2	Sample letter of representation
<b>8</b>	<b>ISA 260</b> 14-17	Communication with those charged with governance
	<b>ISA 265</b> 10	Management letters
	<b>ISRE 2410</b> Appendix 4	Review report on interim FS
	<b>ISA 700</b> Illustration 1	Content of audit report
	<b>ISA 701</b> 8	Key audit matters Definition
	9	Determination of key audit matters
	13	What to disclose
	<b>ISA 706</b> 8-9, A5	Emphasis of matter paragraphs
	10, A10, A13	Other matters paragraphs
	<b>ISA 705</b> 7-9, A1	3 types of modification
	16-19	Drafting modified opinions
	A3	Material misstatement
	A8	Inability to obtain evidence



## KPMG GDA Audit and Assurance 2018 – Homework

Achievement ladder steps – [vle.bpp.com](http://vle.bpp.com)

Day 1 – 1,2

Day 2 – 3,4

Day 4 - 6

NB step 5 will be sat in class on day 4

### Question Bank

Day	Must do	Should do	Could do
1	<b>Q4 Calormen plc, Hwin Ltd, Shasta plc</b> – <i>Ethics &amp; Quality Control</i>	<b>Q8 Financial Reporting Council</b> – <i>Quality Control</i>	<b>Q11 Kelsi plc</b> – <i>Quality Control &amp; Ethics</i>
2	<b>Q36 Graphite plc</b> – <i>Risks (with FS extracts)</i>	<b>Q65 Underground Ltd</b> – <i>Acceptance &amp; Ethics</i>	<b>Q33 Stabbington Ltd</b> – <i>Ethics, Risks (with FS extracts), Subsequent events, Component Auditors</i>
3	<b>Q59 Mansard plc, Gable Ltd, Hip Ltd</b> – <i>Internal Control Deficiencies, Auditor's Reports</i>	<b>Q52 Puzzle Ltd, Shift Ltd</b> – <i>Auditor's Reports, Going Concern, Related Party Transactions</i>	<b>Q64 Marmalade Ltd</b> – <i>Purpose of Analytical Procedures, Risks (with FS extracts), Quality Control</i>
4	<b>Q51 Gourmet Ltd</b> – <i>Receipts &amp; Payments, Written Reps, Conclusion vs Opinion</i>	<b>Q43 Haskett Ltd</b> – <i>Risks (with FS extracts), Matters to consider</i>	<b>Q50 Muntz, Ellie, Docter, Tepui</b> – <i>Auditor's Reports</i>
5	<b>Q35 Blu Botanicals Ltd</b> – <i>Risks (narrative), Component Auditors, Auditor's Reports</i> <b>Q87 Gidget</b>	<b>Q60 Speedy Shifters plc, Letterbox Group Ltd</b> – <i>Internal Control Deficiencies, Auditor's Reports</i>	<b>Q3 Abbots &amp; Co</b> – <i>Ethics, Audit procedures, Money Laundering &amp; Confidentiality</i>
6	<b>Q7 Kristoff Ltd, Reindeer Ltd, Pabbie Group plc</b> – <i>Ethics &amp; Auditor's reports</i> <b>Q63 SFQs</b>	<b>Q42 Hutton plc</b> – <i>Analytical Procedures for planning, Risk (with FS extracts)</i>	<b>Q24 Clymene Ltd, Dusky Ltd, Risso Ltd, Irrawaddy Ltd</b> – <i>Acceptance</i>
7	<b>Q19 Pampered Pooches Ltd</b> – <i>Acceptance, Analytical Procedures (enquiries &amp; docs)</i>	<b>Q66 Brown Ltd, Bear Ltd, Windsor Ltd, Peru Ltd</b> – <i>Auditor's reports, Assurance reports for forecasts, limiting auditor's liability</i>	<b>Q30 Duca Football Club</b> – <i>Acceptance, Planning Notes, Ethics, Receipts and Payments</i>