

Assurance hand note in kl

Business, Accounting



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(Concept of & Need for Assurance) Assurance: a conclusion of an opinion designed to enhance the degree of confidence of the intended users by evaluating or measuring of a subject matter. Assurance engagement: is a process by which a practitioner can obtain the authority to express a conclusion opinion about the outcome of the evaluation or measurement of a subject matter against criteria to enhance the degree of confidence of the intended users. Key elements of assurance engagement: • • • • • Three parties A subject matter Suitable criteria Sufficient criteria Report

Reasonable assurance: is the high but not absolute level of assurance, depends on evidence obtaining during the time of audit. Importance and benefits of assurance: • • • • • Independent professional opinion Confidence Prevention of error and fraud Acceptance Recognition/reliability Credibility True: that is factual, confirmation and reality Fair: free from discrimination and bias Assurance never be absolute: assurance provider never obtain the absolute level of assurance due some limitations. So assurance never be absolute. Limitations of assurance engagement: • • • • •

- Over see the preparation of F.

S. Inherent limitation Evidence obtain Test basis checking Estimates Nature of assurance report Tarek 01712-049032 • • Short time Shortage of man power Assurance engagement process: • • • • • • • • • • Obtaining the engagement Continuous risk assessment Engagement acceptance Scope of the engagement Planning the engagement Obtaining evidence Evaluation the result of assurance work Concluding and reporting on the engagement Reporting to the engagement parties Keeping record Audit: the objective of

an audit of F. S. is to enable the auditor to express an opinion whether the F. S. re prepared, in all material respects, in accordance with an applicable financial reporting framework. There are many issues users want assurance on: *

- Value formoneystudies
- Circulation report
- Cost/benefit report
- Due diligence
- Review of specialist business activities
- Internal audit
- Report on website security
- Fraud investigations
- Inventories and receivables report
- Internal control report
- Reports on business plans or projections

Examples of assurance engagement • • • • • • • •

- Local authority audit
- Bank audit
- Insurance audit
- Pension scheme audit
- Charity audit
- Solicitors audit
- Environmental audit
- Branch audit

Expectation gap: difference between expectation level and practical audit performance. Tarek 01712-049032 Company Act: 1994 Chapter: 2 (Process of Assurance) Scope/step/process of assurance engagement: • • • • •

- Source of information of new client
- Enquiries from other source
- Document review
- Previous auditor
- Review rules, regulation and standards

Assurance engagement letter: 1. Starting: • •

- Flow of communication auditor Vs client
- Address- To responsible parties/client
- 2. Body: • • • •
- Introduction/reference
- Management and auditors responsibility to F. S.
- Scope of audit work-test
- limitation
- Other responsibilities
- . Conclusion: • •
- Audit fees and other charges
- Conclusion Para (depend on nature of business)

Audit accepting an engagement: • • • •

- Proposed auditor must communicate with previous auditor (on the permission of client).
- If their audit engagement date is valid
- Refusal reasonable cause
- If any fraud/error in the client

Assurance appointment considerations: • • • •

- Ensure professionally qualified
- Ensure existing resources are adequate
- Obtain reference
- Communicate with

previous auditor. Tarek 01712-049032 ** Read interactive questions and self test from manual. Chapter: 3 (Planning and Assignment)

Planning: is a process by which assignment will be performed in an effective manner. Audit plan: is a process by which auditor will perform all activities regarding audit in an effective manner. Audit strategy: is a technique which sets scope, timing and direction of the audit and guides the development of the audit plan. Importance/requirements of audit plan: • • • • • •
 Appropriate attention to important areas Identify potential problems and resolve timely Ensure the audit work done properly and organized way Assigned the audit work to the member of audit team Direction and supervision of audit work Facilitate review of work

Structure of audit plan: • • • • • • • • Ethical requirements Ensure team of engagement Establishing audit strategy Development audit plan including risk assessment procedure/audit test Determining the relevant characteristics Discovering key dates for reporting & others Determining materiality & preliminary risk assessment Consideration team members available

Tarek 01712-049032 Key elements of an overall audit strategy: • • • • • • • •
 • Understanding the entities environment Understanding the accounting & internal control system Risk and materiality Consequent nature, timing and extent of procedures Co-ordination, direction, supervision and review Other matters Budget and fees Staffing

Professional skepticism: An attitude of professional skepticism means the auditor makes a critical assessment with questioning mind, of the validity of

audit evidence obtained and is alert to audit evidence that contradicts or bring into question, the reliability of documents and responses to enquiries and other information obtain from management and those charged with governance. Analytical procedure: means evaluation of financial information made by a study of possible relationship among financial and non-financial data.

Sources for risk assessment by using analytical procedure: • • • • • • •

Interim financial information Budget Management information Non-financial information Bank and cash records VAT returns Board minutes Show ratio analysis formula (manual page 50) Materiality: relates to the level of tolerable error that affects the decision of users and accountant. Tolerable error: the maximum error that an auditor is accept in a class of transactions or balances in the F. S. Tolerable error percentage (%): On sales 0. 5-01% Gross profit 0. -1% Total asset 1-2% Net asset 2-5% Profit before tax 5% Profit after tax 5-10% Tarek 01712-049032 Audit risk: the risk is define, that auditors give an inappropriate opinion on the F. S. Audit risk: material misstatement risk (for co.) + detection risk (for auditor) Material misstate risk = inherent risk + control risk Inherent risk: the susceptibility of an account balance or class of transaction to misstatement that could be material individually or when aggregated with misstatements in other balances or classes assuring there where no related internal controls.

Characteristics of inherent risk: • • • • • Estimates of balances If co. is in trouble Seeking for fund raising Motivation of director/management (profit related issue) Choices of methods for financial transactions Control risk: the risk that a material misstatement would not be prevented, detected or

corrected by accounting and internal control systems. Detection risk: the risk that, auditors procedure will not detect or misstatement that exists in an account balance or class of transaction that could be material.

Steps for assessing the audit risk: • • • • Step 1: identify the risks throughout the process of obtaining and understanding the entity. Step 2: relate the risk to what can go wrong the assertion level. Step 3: consider whether the risks are magnitude that could result in material misstatement. Step 4: consider the likelihood of risk considering material misstatement.

Chapter: 4 (Evidence and reporting) Documents: All information which obtain/gathered by the auditor during audit period is documents. Audit evidence: all information/documents gathered by the auditor and on which based auditor conclude the opinion.

Tarek 01712-049032 Test of control: audit evidence obtains evaluating the effectiveness of controls in preventing/detecting and correcting material misstatement at the assertion level. Substantive procedure: test of details of classes of transactions account balance and disclosure substantive analytical procedure. Quality/source of evidence: • • • • • external auditor entity written oral F. S. assertion level: A) Class of transaction • • • • • Occurrence Completeness Accuracy Cut-off Classification B) A/C balance: • • • • • Existence Rights and obligations Completeness Valuation and allocation

C) Presentation and disclosure: • • • • • Occurrence Completeness Classification and understandability Accurate and valuation Sufficiency: is the measure of quantity of audit evidence. Appropriateness: is the measure of quality or reliability of audit evidence. F. S. assertion: the presentations by management, explicit or otherwise that are embodied in the financial

statement. Audit opinion: Tarek 01712-049032 A) qualified B) non-qualified
 Qualified opinion: 1. 2. 3. 4. modified scope of limitations adverse disclaimer
 Read self test and interactive question. Chapter: 5 (introduction to internal control

BSA 315: internal Control Internal control: is the process designed and effect by those charged with governance, management and other parts to provide reasonable assurance about the entities objectives with record to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Reason for internal control:

- • • Minimizing business risk Ensuring the continuing effective function of the company Ensuring Co. complies with relevant laws and regulations.

Limitation of internal control: • • • • • Expense Human elements Unusual transaction Management oversee Regular monitoring

Components of internal control: • • • • • The control environment Risk assessment process Information system Control activities All system should be monitored Tarek 01712-049032 Control environment: the control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entities internal control and its importance in the entity. Audit committee: a subsection of the board of directors which has a particular interest in the finance and accounting activities of the Co.

Function/duties of audit committee: • • • • • • • To review the integrity of the F. S. To review the Co. internal financial control Monitor the effectiveness of the Co. internal audit function To make recommendations to the board in relation to the external auditor Monitor the independence of the internal

auditor To implement policy on the provision of non-audit service by the external auditor Entities risk assessment process: the process by which management in a business identifies business risk relevant to financial reporting objectives and decides what actions to take to address those risks.

Business risk: The risks inherent to the Co. in its operations. It is risk at all levels of the business. Control activities: The policies and procedures that help ensure that management directives are carried. Business risk assessment process: • • • • Identify relevant business risk Estimate the impact of risks Asses the likelihood of occurrence Decide upon controls Reporting objectives: includes the procedures and records designed to initiate, record, process and report entity transactions and to maintain accountability for the related assets, liabilities and equities.

Types of control activities: • • • • • Authorizations Performance review Information processing physical control Segregation of duties IT control: the internal control in a computerized environment includes both manual procedures and procedures designed to computer programs. Tarek 01712-049032 Application control: are manual or automated procedures that apply to the processing of individual applications to ensures that transactions occurred, are authorized and are completely and correctly recorded and processed.

General controls: are policies and procedures that relate to many applications and support the effective function of application controls by helping to ensure the continued proper operation of information systems.

General control examples: • • • • • Development of computer applications Prevention or detection of unauthorized changes to programs Testing and

documentation of program Controls to prevent unauthorized amendments to data files Controls to ensure continuity of operations

Examples of application control: • controls over input: completeness • controls over input: accuracy • authorization control • processing control • control over master file and standing data Steps to recording of internal control: • • • Narrative (short note, background information)

Questioners/checklist Diagrammed (flow chart, organization chart, familytrees and record of related parties) Internal control procedure: • Initiative • Authorization • Accuracy • Recording • Documentation Tarek 01712-049032

Chapter: 6 (Revenue System) Risk objective on selling goods: • • • Order may be taken from customer who are not able to pay Order may be taken from customer who are paid after long time Order may not recorded properly Taking steps to prevent this risk: • • • Goods and services are only supplied to customers with good credit rating Customers are encouraged to pay promptly Chapter: 9 (Internal Audit) Internal Audit: A monitoring activities established within an entity as a service to the entity.

Its function includes, amongst other things, examining, evaluating and reporting to management and the directors on the adequacy and effectiveness of components of the accounting and internal control system.

External Audit: An audit carried out by an external. The objective of an external audit of financial statements is to enable auditors to express an opinion on whether the F. S. is prepared in accordance with the applicable financial reporting framework. Difference between internal and external audit: Subject Definition Reason Internal Audit

Is an activity design to add value and improve an organizations operation
 Audit report to the board of director or audit committee Audit works relate to
 the operations of the organization He/they are the employees of the Co.
 except some exception External Audit To express an opinion on F. S
 Reporting Relating to Relationship with the Co. Auditors report to the
 shareholder to Co. on the truth and fairness of the F. S Audits works to the F.
 S They are independent not the employee of the co. Internal Audit functions:

- Monitoring internal control

Tarek 01712-049032 • • • • Examining financial and operating information
 Review of the economy, efficiency and effectiveness of operations Review of
 compliance with laws and regulations Special investigations, for instance into
 suspected fraud Operational Audit: Operational Audit is the review of
 operational process of the organization. They are also known as
 management or efficiency audit. Their prime objective is the monitoring if
 management performance, ensuring Co. policy is adhered to. Function of
 Operational audit: • • Ensuring policies is adequate Ensuring policies work
 effectively

Chapter: 10 (Documentation) Audit evidence: Working paper with relevant
 evidence to draw opinion and helping assurance provider for assurance
 report. Audit Documentation: Audit documentation is the record of
 procedures performed, relevant audit evidence obtained and conclusion
 related. Form and content/work of documentation: • • • • • Procedure of
 audit Risk identification Judgment Significance Problem/expectation Audit
 methodology Automated working paper: Working paper package have been
 developed which can make the documenting audit work much easier.

Advantages of evidence: Tarek 01712-049032 • • • Risk and error reduce
 Key of analytical information Less time consuming Permanent audit filing: • •
 • • • • • • Engagement letter Questioner Memorandum of Article and A/A
 Legal documents Detail history of business Board minutes of continuing
 relevant Previous F. S. Accounting system notes Current audit file: • • • • • •
 • • • F. S. Checklist Management details Review notes Letter of
 representation Budget and summarized Management letter Notes of board
 minutes Communication with 3rd parties

Working paper decoration: • • • • • • • • • • • • • • • • Name of client Balance
 sheet date Name of the preparer Date of preparation Subject of the working
 paper Name of reviewer Date of review Object of the work done Source of
 information Sample size determine The work done The result obtained
 Analysis of error Other significant observation The conclusion drawn Tarek
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 Evidence: All of the information used by auditor to draw an opinion. Source
 to obtain evidence: • • • • • • • Inspection Observation Inquiry Confirmation
 Re-calculation Re-performance Analytical procedure

Test of control: Perform to obtain audit evidence about the effectiveness of
 controls in preventing or detecting and correcting material misstatement at
 the assertion level. Substantive procedure: Audit procedure to detect
 material misstatement at the assertion level test of details of transactions. *
 Account balance * Substantive analytical procedure Computer assisted audit
 technique: • • • Dummy data Rent data Dummy data against verified copy
 Quality of audit evidence: • • • • • External Auditor Entity Written Original

Tarek 01712-049032 Analytical Procedure – BSA 320 Audit reliability factors:

- Analyzed
- Availability of information
- Accuracy
- Frequency
- Relevant of the information
- Comparability of the information
- Previous auditor Source of information about client:
- Interim financial information
- Budgets
- Management accounts
- Non-financial information
- Bank and cash records
- Sales tax returns
- Board minutes
- Client/3rd party

Audit sampling: Involve the application of audit procedure to less than 100% of the items within an account balance or class transactions such that all sampling units have a change of selection.

Population: Is the [entire set of data from which a sample is selected and about which an auditor wishes to draw a conclusion. Statistical sampling: Is any approach to sampling that involves random selection of a sample, and use a probability theory to evaluate sample results, including measurement of sampling risk. Non-statistical sampling: Is a substantive approach to inference, in that mathematical terms are not used consistently in determining sample size, selecting the sample, or evaluating sample result.

Error: Means either control deviations, when performing test of controls, or misstatements, when performing substantive procedure. Tarek 01712-049032 Expected Error: Is the error that an auditor expects to be present in the population. Sampling units: Are the individual items constituting in a population. Tolerable error: Is the maximum error in the population that the auditor would be willingly to expect. Random selection: Ensures that all items in the population have an equal chance of selection, e. g. y use of random number tables or computerized generator. Sequence or block selection: It may be used to check whether certain items have particular

characteristics. Monetary unit sampling: This is a selection method that ensures that, every CU1 in a population has an equal chance of being selected for testing. Anomalous error: Means an error that arise an isolated event that has not recurred other than on specifically identifiable occasions and is therefore not representative of errors in the population.

Sampling method: • random selection • systematic selection • haphazard selection • sequence block selection • monetary unit sampling
 Name of some data analytical software for auditor: • ACL (Audit Command Language) • IDEA • ESCORT computer audit • Active data for Excel • Top CAAT for Excel • ACL service Ltd • Case ware international • Intra com IT service Tarek 01712-049032 • • Information active Inc Reinvent data Tarek 01712-049032
 Chapter: 12 (Management Representation) Management: Means officer (director and Co. secretary) and others who perform senior managerial functions.

Elements of management representation letter: • • • Entity letter head To auditor and date Tarek 01712-049032 Chapter: 13 (Substantive Procedure)
 Key issues/risk of non-current assets: • • • • • Right and obligations assertion Existence assertion Completeness assertion Valuation assertion Presentation and disclosure assertion Source of information/observation matters: • • • • • • The non-current asset register Purchases invoices for assets during the year Valuation carried out by 3rd party Purchases deeds or receipt documents Hire purchases documents of assets Physical inspection Depreciation calculation

Intangible non-current asset: means the assets which cannot touch or show but has a market value. Examples of intangible non-current assets: • • •

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Goodwill Patent right License and development cost etc. Key issues and sources of information of intangible non-current assets is as like as tangible non-current assets. Key issues/risk of inventory: • • • • • Existence Completeness Obsolete or damage goods Miscalculation Rights and obligations Cut-off dates Prevent risk of inventory: • The Co. control over inventory counting

Tarek 01712-049032 • • • • • Auditors regular physical counting Check inventory register Physical verification from warehouse Check purchases invoices Check work-in-progress records for inventory Post-year-end sales invoices for inventory Post-year-end price lists for inventory Post-year-end sales Sources of information for non-current assets: • • • • Invoices 3rd party valuation Auditors inspection Client schedule and calculation Source of information for inventory: • • • • • Auditors attendance at count Invoices 3rd party confirmation Client control over count Clients production schedule

Inventory count procedure/various types of inventory count: 1. organization of count: • • • • Supervision by senior staff Tidying and marking Restriction and control movement during counting Identification of damaged, obsolete, slow moving and returnable goods 2. Counting: • • systematic counting independence counting 3. Recording: • • • • • Serial numbering Information count records Quality, controls and work in progress counting Inward and outward counting Reconciliation with records

Tarek 01712-049032 Key issues of receivables: • • Rights and obligations Valuation Source of information of receivables: • • 3rd party confirmation Cash payment after date Key issues of bank: • • • • • Completeness Existence Rights and obligations Valuation Source of information about parties bank

A/c: • • • • Confirmation from bank Bank statement Client schedule
Reconciliation with cash book Payable key issues: • • • • Completeness Rights
and obligations Correct valuation Source of information of A/P: • • • •
Suppliers statements Payable ledger records Payment documents

Key issues of long term liabilities: • • • • • Completeness Accuracy Disclosure
Particular papers Source of information of long term liabilities: • Loan
documents Tarek 01712-049032 • • • • • Statutory books Confirmations
from lenders Client schedule Board minutes Client calculation Key issues of
income statement: • • • • • Completeness Accuracy Steps for observing long term
liabilities: • • • • • • • • • • • Compare opening balances to previous years
working paper Test clerical accuracy

Compare balance to nominal ledger Check nominal ledger Trace additions
and repayments to entries in the cash book Confirm repayments with loan
agreement Examine cancelled cheques Verify the borrowing limits Examine
sign of board minutes Obtain direct confirmation from lenders Verify interest
check Review any correspondence review minutes, cashbook and loan
books. Chapter: 14 (Codes of Professional Ethics) Fundamental principles of
code of ethics: • • • • • Integrity Objectivity Professional competence and
due care Confidentiality Professional behavior

Independence of mind: The state of mind that permits the expression of a
conclusion without being affected by influence that comprise professional,
allowing an individual to act with integrity. Independence in appearance:
Tarek 01712-049032 The avoidance of facts and circumstances that are so
significant that a reasonable and informed 3rd party, having knowledge of all
relevant information, including safeguard applied, would reasonably

conclude a firm's, or a member of the assurance teams, integrity, objectivity or professional skepticism have been compromised.

Threats of code of ethics: • • • • • Self interest threat Self interest threat

Advocacy threat Familiarity threat Intimidation threat Management threat

Safeguards of code of ethics: • • • • • Ethical training and experience

Continuing professional development requirement Corporate governance

regulation Professional standards Regulatory monitoring and disciplinary

procedure External review Chapter: 15 Integrity: Means that an accountant

must be straightforward and honest. It implies fair dealings and truthfulness.

Objectivity: State of mind that exclude bias, prejudice and compromise and

that gives fair and impartial consideration to all matters that are relevant to

the task in hand, disregarding those that are not. Independence: Is related to

and underpins objectivity, it is freedom from situations and relationships.

Self-interest threats are: • • Financial interests Close business relationship

Tarek 01712-049032 • • • • • • • • • • Employment with assurance client

Partner on client board Family and personal relationship Gift and hospitality

Loans and guarantees Overdue fees Percentage and contingent fees High

percentage of fees Low-balling

Financial interest: Exists where an assurance firm has a financial interest in a

client. Direct financial interest: Exists where an assurance firm has a directly

financial interest in a client. Immediate family: means a spouse (or

equivalent) or a dependent. Assurance team: means all member of the

engagement team for the assurance engagement and all others within the

firm who can directly influence the outcome of the assurance engagement.

Safeguards from interest: • • • • Disposing the interest Removing the individual from the team if required.

Informed the client audit committee of the situation. Using an independent partner to review work if necessary Close business relationship: will involve a commercial financial interest, which in addition to a self-interest threat, could cause an intimidation threat. Dual employment: means the same person being employed by both an assurance firm and a client is not permitted. Safeguard from dual employment: • • • Modifying the audit strategy Involving an additional professional accountant Carrying out a quality control review of the engagement

Partner on a client board: mean a partner or employee of an assurance firm is also serve on the board of an assurance client. This is not permitted. This can also cause of self-review threat or a management threat. Tarek 01712-049032 Close family: means parent, child or sibling who is not an immediate family member. Contingent fees: fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. Safeguards from high percentage of fees: • • • • Discussing the issues with audit committee Taking steps to reduce the dependency on the client Obtaining internal/external quality control review Consulting a 3rd party such as ICAB Self-review threat: • • • • • • • Service with assurance client Preparing accounting records an F. S Valuation service Tax service Internal audit service Corporate finance Other service Advocacy threat: • • • Legal service Corporate finance Contingent fees Familiarity threat: • • • • • Family and personal relationship with client Employment with assurance

client Recent service with assurance client Long association with assurance client Recruitment

Intimidation threat: • • • • Close business relationship Family and personal relationship Assurance staff members move to employment with client Litigation The ICAB code sets out a framework that professional accountant can follow when seeking to resolve ethical problems. It states that the professional accountant should consider: Tarek 01712-049032 • • • • • • The relevant facts The relevant parties The ethical issues involve The fundamental principles related to the matter in question Established internal procedure Alternative course of action

Chapter: 16 (Confidentiality) The following security procedures are probably wise to prevent accidental disclosure of information: • • • • • • Don't discuss client matter with any party of outside Don't discuss client matter in a public place Don't leave audit files un-attendant Don't leave an audit file in a car or unsecured place Don't remove audit working papers from the office unless strict necessary Don't work on electronic working papers on systems that do not have the requisite protection

Information only be disclosed where consent has been obtained from the client, employer or other proper source: • • If there is a public duty to disclose If there is a legal or professional right or duty to disclose Safeguards of confidentiality: • • • • • • Disclosure of the circumstances of the conflict Obtaining the informed consent of the client to act Establishing information barriers Regular review of the application of safeguards by a senior individual not involve with the relevant Ceasing to act Physical separation of teams. Show interactive questions and self-test. The End