

Summary of auditing theory chap 1 and 2

[Finance](#)



Assurance services - deal with audit or review of historical financial information and assurances dealing with subject matters other than historical financial information. * 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 FF. are the broad categories of services under the umbrella of assurance services: 1. Risk assessment 2. Information system reliability 3.

Adequacy of security over Electronic commerce transactions, electronic documents, and support systems 4. Effectiveness of Healthcare performance measurement systems 5. Reliability and relevance of Business performance measurement * it evolves naturally from Attestation services, which in turn evolve from audit * The root of all three is independent verification Non-assurance services (Related Services) - pertain to compilation of financial information , agreed-upon-procedures and other related services which do not result in the expression of conclusion that provides a level of assurance.

Auditing - is a systematic process of objectively obtaining and evaluating evidence regarding selected assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the result to interested users. * determining whether recorded information properly reflects the economic events that occurred during the accounting period. Elements: * Systematic process * Objectivity * Obtaining and evaluating evidence * Assertions about economic actions and events * Degree of correspondence... established criteria * Communicating results * Interested users Attestation - refers to an expert's written communication of a conclusion about the reliability of

someone else's assertions. * when a practitioner is engaged to issue a written communication that expresses a conclusion about the reliability of a written assertion * a type of assurance service whose subject matter (both FS and non-FS in nature) * offering some level of assurance Ex. of attest services: 1. Future-oriented financial information 2. Management's discussion and analysis 3.

Effectiveness of internal control 4. Compliance with statutory, regulatory and contractual obligations Consulting services (Management Advisory Services) - professional services that provide advice and assistance concerning an entity's organization, personnel, finances, operations, systems, or other activities. * an analytical process that typically involves some combination of activities relating to: a) objective-setting b) fact-finding c) definition of problems or opportunities d) evaluation of alternatives e) development of recommendations including actions) communication of results g) implementation h) follow-up - reports are generally written in a narrative style - nature and scope is determined by agreement between the professional accountant and the client Areas of consulting services: 1. Consultations 2. Advisory 3. Implementation 4. Transaction 5. Staff and other support 6. Product Assurance Consulting * three party-two party contractscontracts * to improve quality-to recommend of informationuses for infos. * decision makers & -Outcomes info. used for optimum decisions * intended to improve-designed to ecision maker's improve client's condition indirectly condition's thru directly thru recommendationsfindings, conclusions and recommendation Four conditions that create demand for audits: 1. Potential conflict of interest between those who prepare

information & those who use information. 2. Information can have substantial economic consequences for a decision maker. 3. Expertise is often required for preparing and verifying information 4. Users of information frequently are prevented from directly assessing the quality of information

Stewardship or agency Theory - implies that the manager, as well as the owner, wants the credibility an audit adds to the financial statements assertions. Types of Audits 1. Compliance Audits - to determine compliance with criteria, standards, or rules set by an authoritative body 2. Management Audit (Effectiveness of Performance) - an examination and evaluation of the activities of management 3. Performance Audit - analyzes an organization's structure, internal systems, work flow and managerial performance 4. Comprehensive Audit - includes the components of compliance, performance and financial statements audit 5. Operational Audit - to determine the extent to which some aspect of an organization's operating activities is functioning effectively 6. Internal Audit - an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Helps by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process 7. Environmental Audit - environmental matters which may have an impact on the financial statements 8.

Forensic Audit - examination of evidence 9. Financial Statements Audit Types of Auditors 1. External (independent) auditors - public accountants, both individuals or firms 2. Internal auditors - services for a single organization for which they are employed on a full-time basis, typically

reporting to the board of directors 3. Government auditors - full-time employees of the government tasked to determine compliance with laws, statutes, policies and procedures 4. Forensic auditors - financial auditing specialists who focus on unearthing the truth

Auditing and Assurance Standards Council (AASC) - body authorized to establish and promulgate generally accepted auditing standards (GAAS) in the Philippines * The main distinguishing feature of auditing and related services is the level of assurance provided by the auditor in the engagement.

* An auditor becomes associated with the financial information through the attachment of a report or when consenting to the use of auditor's name in professional connection. Remedies if known that the auditor's name is inappropriately used: 1.

Request management to stop the inappropriate association of auditor's name 2. Inform any known third party users 3. Seek legal advice Sarbanes Oxley Act of 2002 (SOX) - legislation passed in the USA in response to increased occurrence of corporate fraud. * gave Public Companies Accounting Oversight Board (PCAOB) authority to establish auditing standards, quality control standards and independence standards for auditor of public companies * Philippine Securities and Exchange Commission (SEC) in its Resolution No. 135 Series of 2002 - Code of Corporate Governance

Assurance Engagement - 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 evaluation or measurement of a subject matter against criteria. " Subject matter information" - the outcome of the evaluation or measurement of a subject

matter. Types of Assurance Engagement Objective Conclusion
 1. Reasonable – risk reduction Positive to an acceptably low level
 2. Limited – risk reduction to a level Negative that is acceptable in the circumstances

Elements of an Assurance Engagements
 1. A three-party relationship - practitioner - responsible party - intended users
 2. An appropriate subject matter
 a) identifiable and capable of consistent evaluation or measurement against the identified criteria
 b) information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion
 3. Suitable criteria - benchmarks used to evaluate or measure the subject matter, including where relevant, benchmarks for presentation and disclosure. . Sufficient appropriate evidence - an attitude of professional scepticism to obtain sufficient appropriate evidence
 5. A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement - a conclusion that conveys the assurance obtained about the subject matter information
 Assertion-based engagement:
 * In terms of the responsible party's assertion
 * Directly in terms of the subject matter and the criteria
 Non-assurance Engagements Engagements covered by ISRS/PSRS, such as agreed-upon procedures engagements and compilation of financial or other info
 * preparation of tax returns where no conclusion conveying assurance is expressed
 * consulting engagements, e. g. Management and Tax consulting Reports on Non-assurance Engagements - clearly distinguishes that report from an assurance report
 Philippine Standards on Assurance Engagements - covers assurance engagements other than audits or reviews of historical financial infos. Acronyms: * AASC -

Auditing and Assurance Standards Council * ASPC - Auditing Standards and Practice Council GAAS - Generally Accepted Auditing Standards * PICPA - Philippine Institute of Certified Public Accountants * ACPAPP - Association of CPAs in Public Practice * ISAEs - International Standards on Assurance Engagements * PCAOB - Public Companies Accounting Oversight Board * AAS - Auditing and Assurance Services * FRF - Financial Reporting Framework * PAS - Philippine Accounting Standards * PFRS - Philippine Financial Reporting Standards * PSA - Philippine Standards on Auditing * PRC - Professional Regulation Commission * BOA - Board of Accountancy

Chapter 2 Objectives of Financial Statement Audit to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework - Auditor is responsible for forming and expressing opinion on the FS and should determine whether such financial reporting framework adopted by management is acceptable - Management those charged with governance and has the primary responsibility of preparing and presenting these FS in accordance with frameworks and responsible for identifying the financial reporting framework to be used

Complete Set of FS: * Statement of Financial position * Statement of Comprehensive Income * Statement of Changes in Equity * Statement of Cash Flows * Notes

General Principle of Audit

1. Ethical Requirements - Quality control
2. Audit in accordance with PSA
3. Professional scepticism - questioning mind
4. Objectives - reduce audit risk to an acceptable level

Assurance Provided by Auditor

1. Basis of evidence gathered (which include sampling)
2. Auditor provides reasonable assurance
- 3.

Financial statements are free from material misstatements (materiality) *
Sampling - used to gather evidence on financial statement amounts and disclosures * Reasonable Assurance - alludes to the concept of audit risk which is implicit in the audit function and implied in the scope paragraph of auditor's report * Material misstatements - no guarantee that the FS are accurate. Auditor provides reasonable assurance concerning material misstatements and an opinion on fairness, in all material aspects.

Collusions - when two or more individuals work together to effect misappropriation or concealment. Assertions - representations by managements, explicit or otherwise, that are embodied in the financial statements * Internal control assertions - an implied assertions by management that such internal control procedures are effective as to both their design and operation * Financial Statement assertions - management asserts that the financial statements, and by implication the financial statement items and underlying account balances and classes of transaction, are free of material misstatement.

Level of Aggregation Category of FS Assertions per the AASC's Glossary of Terms: 1. Existence 2. Rights and Obligations 3. Occurrence 4. Completeness 5. Valuation 6. Measurement 7. Presentation and disclosure Audit Objectives * to gather and evaluate audit evidence of sufficient quantity and appropriate quality in order to form an opinion on the financial statements prepared by management. Three Fundamental Concepts in Conducting an Audit 1. Materiality - degree of misstatement or omission . Audit risk - auditors may inappropriately express his opinion 3. Evidence - refers to the necessary information that an auditor gathers in order to form a credible

opinion on the assertions Audit Report 1. Title 2. Addressee 3. Introductory paragraph 4. Management's responsibility 5. Auditor's responsibility 6. Auditor's opinion 7. Other reporting responsibilities 8. Auditor's signature 9. Date of the auditor's report 10. Auditor's address Other Types of Opinions

Qualified - expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive

Adverse - issued when the effect of a disagreement is so material and pervasive to the FS that the auditor concludes that a qualification of the report is not adequate Disclaimer - issued when the possible effect of a limitation on scope is so material and pervasive to the FS