

# [Chapter 6: audit responsibilities and objectives](https://assignbuster.com/chapter-6-audit-responsibilities-and-objectives/)

Objective of Conducting an Audit of Financial StatementsThe purpose of an audit is to provide financial statement users with an opinion by the auditor on:
- whether the financial statements are presented fairly
- in all material respects,
- in accordance with the applicable financial frameworkAuditor's OpinionThe auditor's opinion enhances the degree of confidence for users of financial statements5 Steps to Develop Auditing Objectives1. Understand the objectives and responsibilities for the audit
2. Divide financial statements into cycles
3. Know management assertions about financial statements
4. Know general audit objectives for classes of transactions, accounts, and disclosures
5. Know specific audit objectives for classes of transactions, accounts, and disclosuresManagement ResponsibilitiesBy Law:
1. Adopt sound accounting practices
2. Maintain proper internal control
3. Provide financial statements
In Spirit:
1. Maintaining the integrity and fairness of the representations (assertions) in the financial statements
2. Determining which presentations and disclosures it considers necessary
SOX:
CEO/CFO must certify financial statementsAuditor's Responsibilities1. Obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are (1) presented fairly (2) in all material aspects (3) within applicable financial framework.
2. Report on the financial statements by communicating as required by auditing standards. SAS 122 - 1241. Material v. Immaterial
Combined effects if error or fraud would change the actions (decisions) of a reasonable user.
2. " Reasonable Assurance"
A measure of the level of certainty
3. Error v. Fraud
Intentional or not
4. Professional Skepticism
A questioning mind and a critical assessmentElements of Professional Skepticism1. Questioning mindset
2. Suspension of judgement
3. Search for knowledge
4. Interpersonal understanding
5. Autonomy
6. Self-esteemSummary of Auditor's Responsibility1. Auditor's responsibilities for detecting material errors
- mistakes in calculations, omissions, misunderstanding & misapplication of accounting standards, incorrect summaries
2. Auditor's responsibilities for detecting material fraud
- fraudulent financial reporting typically committed by management
--- decision to omit a disclosure about pending litigation
- Misappropriation of assets typically by employees
and management
--- theft by employees
3. Auditor's responsibilities to consider laws and regulations
a) laws and regulations with a direct effect on the financial statements
--- tax and pension laws - violations of federal tax laws directly effecting income tax expense and taxes
b) Laws and regulations that do not have a direct effect on the financial statements
--- compliance with operating license, federal employee security requirements, and environmental regulationsWhat if noncompliance is identified? a. Audit procedures when noncompliance is identified or suspected - the auditor should obtain an understanding of the nature and circumstances of the act - more information to evaluate the effect on financial statements
b. Reporting of identified or suspected noncompliance - auditor should communicate with governance matters involving noncompliance with laws and regulationsFinancial Statement CyclesSales (Revenue) --> Receipt of Cash --> Inventory
Purchase (Expenditure) --> Payment of Cash --> Inventory
Inventory --> PayrollTransaction Related Auditing Objectives (TRAO)
(CA POT Classification)(CA POT Classification)
C - Completeness
A - Accuracy
P - Posting and summarization
O - Occurrence or existence
T - Timing
C - ClassificationBalance Related Audit Objectives (BRAO)
(ROC's Value of Existence)(ROC's Value of Existence)
RO - Rights and Obligations
C - Completeness
V - Value and allocation
---(ACCD Value) Accuracy, Classification, Cutoff, Detail tie-in and Realizable Value
E - ExistencePresentation and Disclosure Audit ObjectivesOccurrence
Completeness
Accuracy
Classification ONCHAPTER 6: AUDIT RESPONSIBILITIES AND OBJECTIVES SPECIFICALLY FOR YOUFOR ONLY$13. 90/PAGEOrder Now