

Chapter 6: audit responsibilities and objectives



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Objective of Conducting an Audit of Financial Statements
The 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 framework

Auditor's Opinion
The auditor's opinion enhances the degree of confidence for users of financial statements

5 Steps to Develop Auditing Objectives
1. 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 disclosures

Management Responsibilities By 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 statements
Auditor's Responsibilities
1. Obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement whether due to fraud or error, thereby

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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 assessment Elements of Professional

Skepticism 1. Questioning mindset

2. Suspension of judgement

3. Search for knowledge

4. Interpersonal understanding

5. Autonomy

6. Self-esteem Summary of Auditor's Responsibility 1. 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

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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 regulations

What 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 regulations
Financial Statement Cycles
Sales (Revenue) --> Receipt of Cash --> Inventory

Purchase (Expenditure) --> Payment of Cash --> Inventory

Inventory --> Payroll
Transaction Related Auditing Objectives (TRAO)
(CA POT Classification)(CA POT Classification)

C - Completeness

A - Accuracy

P - Posting and summarization

O - Occurrence or existence

T - Timing

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C - Classification Balance 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 - Existence Presentation and Disclosure Audit Objectives Occurrence

Completeness

Accuracy

Classification ON CHAPTER 6: AUDIT RESPONSIBILITIES AND OBJECTIVES

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