

STAGE: PROFESSIONAL 1

Subject Title:

AUDITING

Examination Duration: 3 Hours

Aim

The aim of this subject is to introduce students to the concepts and principles of the audit process and to develop their understanding of its application in the context of the legal, regulatory and ethical framework of the profession.

Auditing as an Integral Part of the Syllabus

Auditing is an essential foundation subject for the subsequent study of Audit Practice and Assurance Services at Professional 2 Stage. It is also an essential component for the study of Advanced Corporate Reporting at Professional 2 Stage.

In carrying out the audit of an entity's financial statements there is a critical need to identify the source, and test the treatment of financial statement items (period transactions and year-end balances) and disclosures, to ensure compliance with Irish GAAP. The subjects: Financial Accounting and Corporate Reporting will provide students with this necessary knowledge. Business Laws, Corporate Laws and Governance, Taxation and Information Systems will increase students' awareness of other matters that an auditor must consider in the audit process.

Stage	Subject	Subject	Subject	Subject	Subject	Subject
P2	Strategic Corporate Finance	Strategic Performance Management	Advanced Corporate Reporting	Strategy & Leadership	Audit Practice and Assurance Services	Advanced Taxation
P1		Managerial Finance	Corporate Reporting	Corporate Laws and Governance	Auditing	
F2		Management Accounting	Financial Accounting	Information Systems	Taxation	
F1			Management in Organisations	Economics and Business Planning	Business Law and Professional Ethics	

The above table shows the linkages between Auditing and the subjects highlighted. The capabilities developed will be built upon in the study of the subjects highlighted above.

Learning Outcomes

On successful completion of this subject, students should be able to:

- Interpret and discuss the legal, regulatory and ethical framework within which the auditor operates.
- Appraise the respective responsibilities of directors and auditors.
- Discuss the nature, purpose and scope of an audit and defend the role of the auditor.
- Apply and explain the process relating to the acceptance and retention of professional appointments, to include the purpose and content of engagement letters.
- Devise an overall audit strategy and develop an audit plan.
- Supervise and review the various stages of the audit process.
- Outline the nature of internal controls and the procedures required to evaluate control risk relating to specific accounting systems, in order to identify internal controls and weakness within the systems.
- Distinguish between Tests of Control and Substantive Procedures.
- Design and apply the appropriate audit tests to include in the audit programme.
- Carry out analytical procedures and assess the implications of the outcome.
- Appraise the significance, purpose and content of management letters and management representations.
- Discuss the distinction between an internal and external audit.
- Apply and discuss audit sampling.
- Demonstrate the outcome and implications of subsequent event reviews.
- Plan and describe the audit of computer information systems.
- Draw appropriate conclusions leading to the formulation of the auditor's opinion.
- Apply and explain the basic component elements of the auditor's report.
- Identify and appraise matters that impact on the wording of Modified Reports, differentiating between matters that do not affect the auditor's opinion, and matters that do affect the auditor's opinion.

- Recognise ethical issues, discuss, escalate or resolve these as appropriate within the Institute's ethical framework, demonstrating integrity, objectivity, independence and professional scepticism.

Syllabus

1: THE AUDITOR AND THE AUDIT ENVIRONMENT

CL*

The Statutory Audit: need, objective, 2 focus, nature and structure. 2

Public interest, expectations, interrelationships between auditor, directors (management) and shareholders and other users of financial statements, including their respective roles and the auditor's duties to these parties. 2

The Irish audit profession and the CPA Institute: organisation and regulation. 2

International Standards on Auditing (ISAs) and other technical pronouncements issued by APB: nature, formulation, issuance and compliance enforcement. 2

The audit implications of International Accounting Standards (IFRS/IAS): understanding and basis for application. 2

Directors' responsibilities versus auditor's responsibilities for financial statements and internal controls; distinction between external and internal audit. 2

Corporate governance. 2
The audit exemption threshold for Companies, and the procedure to become audit exempt 2

2: AUDITOR'S LEGAL, ETHICAL AND PROFESSIONAL RESPONSIBILITIES

Professional ethical responsibilities: 2

- CPA Code of Ethics.
- IFAC Code of Ethics.

2: AUDITOR'S LEGAL, ETHICAL AND PROFESSIONAL RESPONSIBILITIES

- Ethical Standard for Auditors (Ireland) 2016.

Statutory responsibilities and rights: 2

- Companies Act 2014: audit conduct, appointment, termination, removal, access.
- Company Law Enforcement Act (2001): indictable offence, reporting to ODCE in the event of indictable offences (lack of proper books of accounts, improper director transactions).
- Criminal Justice Acts: money laundering offences (including Money Laundering and Terrorist Financing 2010 Act), reporting to Revenue Commissioners and Gardai in the event of breaches.
- Other relevant laws: EU Directives.

Key responsibilities derived from International Standards on Auditing (ISAs). 2

Auditor's responsibility in relation to fraud and for the entity's compliance with laws and regulations. 2

Auditor's responsibilities defined by case law arising from alleged negligence (financial statements misstated) and related exposure and consequences 2

Pre-appointment procedures: client 2 assessment (including management integrity) and completion of engagement letter. 2

3: AUDIT PLANNING AND SUPERVISION

Materiality: nature (quantitative and 2 qualitative), determination, impact and use throughout different phases of the audit. 2

Audit risk and its components (inherent, control and detection risks): interrelationships, evolution as audit progresses and impact on nature, timing and extent of audit work. 2

Audit strategies (risk-based auditing, tests of control, substantive procedures, combined procedures, audit around and through computerised systems) and their impact on the conduct of the audit. 2

Knowledge of the entity and its environment: business, risks, management, and accounting systems. 2

Nature, extent and timing of audit procedures in response to assessed risks of material misstatement, sufficient and appropriate audit evidence, types of audit evidence, general audit techniques (enquiry, observation, inspection, analysis, computation, confirmation). 2

Audit planning memo, audit programmes and working papers. 2

Audit supervision and review. 2

4: AUDIT EXECUTION: INTERNAL CONTROL, ASSESSING CONTROL RISK AND TESTS OF CONTROL

Entity's control environment and control procedures, objectives, limitations, attributes. 2

Auditor's and management respective responsibilities. 2

Internal control descriptions (flowcharts, narrative descriptions, walkthroughs) and internal control assessments (ICEs/ICEQs). 2

Broad approach to internal controls, components of internal controls, limitations of internal control 2

Assessing the Risk of Material Misstatement, Internal Controls assessment and Tests of Control for the following major systems: sales, purchases, payroll, cash receipts and disbursements, inventory. 2

4: AUDIT EXECUTION: INTERNAL CONTROL, ASSESSING CONTROL RISK AND TESTS OF CONTROL

Audit Programmes for Tests of Control. 2

Final Assessment of Control Risk. 2

Management letter reporting and assessment of impact on audit strategy. 2

5: AUDIT EXECUTION: FINANCIAL STATEMENT ITEMS SUBSTANTIVE PROCEDURES.

Application of specific substantive procedures to test the following categories of assertions: 2

- Assertions relating to classes of transactions and events;
- Assertions relating to account balances;
- Assertions relating to presentation and disclosure.

Audit of statements of financial position, validation procedures, applied in audit of: 2

- Tangible fixed assets.
- Inventory.
- Accounts receivable, prepayments & sundry debtors.
- Investments and market securities.
- Bank and cash balances.
- Accounts Payable, accruals & sundry creditors, provisions for liabilities.
- Debenture loans and bank borrowings.
- Capital and Reserves, Equity.

Audit of statements of profit or loss and other comprehensive Income account , validation procedures, applied in audit of: 2

- Revenues and expenses.
- Sales/purchases.
- Wages and salaries.
- Other statements of profit or loss and other comprehensive income account items.

Understanding of IFRS/IAS 1 concerning above items.

Misstatements / aggregation / assessment / impact on audit reporting.

6: AUDIT EXECUTION: OTHER CONSIDERATIONS

Sampling methods: decision to use, judgemental versus statistical (MUS) sampling methods for controls and financial statement items, sample selection and assessment. 2

Analytical review: nature and use (financial statements/data) throughout audit. 2

Going concern and its impact throughout the different phases of the audit. 2

Subsequent events. 2

Accounting estimates. 2

Commitments and contingencies. 2

Management representation letters. 2

Use of experts. 2

7: AUDIT EXECUTION: COMPUTER INFORMATION SYSTEMS (CIS) AUDITING

Entity's computer systems and controls: 2

<ul style="list-style-type: none"> Computer systems: general applications of e-commerce and impact on control and audit work, key computer processes, including data organisation and access, network and electronic transfers and transaction processing modes. Key computer system hardware and software, including xbrl. 	
<ul style="list-style-type: none"> Key computer system general controls: design and implementation, data integrity, privacy and security, system program changes, system access and disaster recovery plans. 	
<ul style="list-style-type: none"> Key computer system application controls: transactions input, processing and output, masterfile changes. 	
Computer Assisted Audit Techniques (CAATS):	2
<ul style="list-style-type: none"> Nature (computer software including expert systems and test data), 	
<ul style="list-style-type: none"> Purpose (testing, administration), 	
<ul style="list-style-type: none"> Application and related audit concerns (integrity and security of CAATs, audit planning considerations) 	
8: AUDIT REPORTING	
Reporting on Audited Financial Statements.	2
Key concepts: opinion, true and fair view, materiality, statutory requirements.	2
Basic elements of the Auditor's Report.	2
Key Audit Matters.	2
Modified Reports, differentiating between	2
<ul style="list-style-type: none"> Matters that do not affect the auditor's opinion, and 	
<ul style="list-style-type: none"> Matters that do affect the auditor's opinion. 	
Circumstances giving rise to Modified Reports:	2

- Limitations on Scope.

- Disagreements with management.

Auditor's responsibility before and after the date of the Auditor's Report. 2

Auditor's responsibility for other information in documents (e.g. Annual Report) containing audited financial statements. 2

FINANCIAL REPORTING AND AUDITING STANDARDS:

See Examinable Material Document on pages 92 to 99 for details of the Financial Reporting and Auditing Standards etc. applicable to this examination. It is important to note that the International Standards in Auditing (ISAs) and the International Financial Reporting Standards (IFRs) are examinable at this stage.

COMPANIES ACT:

See Examinable Material Document on pages 92 to 99 for details of the Companies Act applicable to this examination.

Assessment Strategy

EXAMINATION APPROACH

The skills examined include comprehension, detailed application, synthesis, evaluation, effective communication, the analysis of audit issues and the ability to propose appropriate solutions thereto. Students are required to attempt three questions that are scenario-based. One of the compulsory questions is multi-choice examining a broad range of the syllabus. Students' competence is assessed over a range of issues and they are asked to show how elements of it interact and overlap. The questions seek to ascertain the students' knowledge of the practical application of the theoretical concepts studied.

Students are also required to demonstrate, in the context of the scenario presented, the ability to exercise professional judgement, including appropriate professional scepticism and consideration of legal and ethical issues in drawing conclusions.

EXAMINATION FORMAT

The examination is unseen, closed-book and 3.0 hours in duration. Students are required to answer questions 1 to 3, and either question 4 or 5. One of the compulsory questions is multiple-choice, with 8 sections is from a range of topics across this syllabus. All other questions are split between practical application and / or theory.

Marks Allocation	Marks
Section A	
Questions 1 and 2 compulsory questions (30 Marks each)	60
Question 3 Multiple Choice questions	20
Questions 4 and 5, answer either, but not both	20
<u>Total 100</u>	

Learning Resources

CORE TEXTS:

External Auditing and Assurance: An Irish Textbook
2nd Edition by Martin Nolan and Christine Nangle
Revised/2016/ICAI/ ISBN-13: 978-1910374696

Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities /3rd Edition
2011 / IFAC / ISBN1-13: 978-1608150991 Published in two volumes freely available for download from:

Volume 1:

<http://ifac.org/sites/default/files/publications/files/SMP-ISA-Audit-Guide-Volume-1-3e.pdf>

Volume 2:

<http://ifac.org/sites/default/files/publications/files/SMP-ISA-Audit-Guide-Volume-2-3e.pdf>

TECHNICAL MATERIAL:

1. Auditing and Quality Control Standards

International Standards on Auditing (Ireland)

ISQC (Ireland) Quality control for firms that perform audits and reviews of financial statements and related services engagements.

These are available from the Irish Auditing and Accounting Supervisory Authority www.iaasa.ie

2. Financial Accounting and Reporting Standards

International Financial Reporting Standards (IFRSs) EU Endorsed are available from the European Commission on http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

The International Standards on Auditing Ireland are available from the Irish Auditing and Accounting Supervisory Authority www.iaasa.ie.

ETHICAL STANDARDS

APB Ethical Standards (ESs) are available from the Auditing Practices Board website www.frc.org.uk/apb

CPA – Code of Ethics, available from the CPA website at www.cpaireland.ie

4. Examinable Material Document

See pages 92 to 99

SUPPLEMENTARY TEXTS AND JOURNALS

Principles of External Auditing 4th ed / Porter, Hatherly, Simon / Wiley 2008 / ISBN-13: 9780470974452

The Audit Process, Principles, Practice & Cases 6th ed/ Gray, Manson and Crawford / Cengage 2015 / ISBN-13: 978-1408081709

AccountancyPlus

CPA Students' eBulletin

USEFUL WEBSITES (AT DATE OF PUBLICATION)

www.cpaireland.ie – CPA Ireland.

www.iaasa.ie/ - Irish Auditing and Accounting Supervisory Authority.

www.ifac.org/auditing-assurance/ - International Auditing & Assurance Standards Board

www.frc.org.uk/About-the-FRC/FRCstructure/Former-FRC-structure/AuditingPractices-Board.aspx - Auditing Practices Board

www.ifac.org – The International Federation of Accountants.

www.ifrs.org/ - The International Financial Reporting Standards Foundation.

www.frc.org.uk/ - The Financial Reporting Council.

www.frc.org.uk/About-the-FRC/FRCstructure/Audit-and-Assurance-Council.aspx, FRC - Audit and Assurance Council

www.frc.org.uk/About-the-FRC/FRCstructure/Accounting-Council.aspx, FRC Accounting Council

www.frc.org.uk/About-the-FRC/FRCstructure/Conduct-Committee.aspx, FRC-Conduct Committee

www.accountingnet.ie/ - Irish Accounting and Business Portal