

CPA PROFESSIONAL: AUDIT & ASSURANCE

Aim

The aim of this module 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, including the governance requirements applicable to business entities.

Integration of this module with the rest of the syllabus

Audit & Assurance is an essential foundation subject for the subsequent study of Advanced Audit & Assurance at the Strategic Level. It is also an essential component for the study of Advanced Financial Reporting. 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 IFRS. Corporate Law, Taxation and Advanced Taxation will increase students' awareness of other matters an auditor must consider in the audit process.

Syllabus and Subject Dependencies

LEVEL	SUBJECT					
CPA Foundation	Financial Accounting	Management Fundamentals	Taxation		Management Accounting	
CPA Professional	Financial Reporting	Corporate Law	Advanced Taxation	Audit & Assurance	Performance Management	Managerial Finance
CPA Strategic	Advanced Financial Reporting	Strategy & Leadership	Advanced Tax Strategy	Advanced Audit & Assurance	Data Analytics for Finance	Strategic Corporate Finance

Minimum Intended Learning Outcomes

On successful completion of this module, students will be able to:

- Appraise the audit and assurance environment, including stakeholder expectations of audit and assurance
- Interpret the UK Corporate Governance Code and related Irish Stock Exchange requirements with respect to the role and responsibilities of shareholders, directors and auditors
- Devise an audit strategy and develop an audit plan
- Evaluate internal controls and provide appropriate recommendations to overcome weaknesses or potential weaknesses identified
- Apply the International Standards of Auditing to execution of audit engagements
- Prepare an audit report, modified or unmodified as appropriate, having formed an opinion based on the audit work and relevant evidence
- Identify ethical issues and discuss, escalate or resolve these as appropriate within the Institute's ethical framework, demonstrating integrity, objectivity, independence and professional scepticism.

Indicative Syllabus

		Competency Level
The Audit and Assurance Environment	• The legal, ethical and regulatory environment of auditing • The responsibilities and statutory rights of directors and auditors • Companies Act 2014, Company Law Enforcement Act (2001), Criminal Justice Acts, EU Directives • Relevant International Standards on Auditing (ISAs) • Relevant International Accounting Standards (IFRS/IAS) • Auditor responsibilities in relation to money laundering • Fraud and the entity's compliance with laws and regulations • Professional scepticism • Pre-appointment procedures, client assessment and engagement letter • Emerging technologies and their effect on the role of the auditor	2 2 2 2 2 2 2 2 2 1
Corporate Governance	• Definitions of Corporate Governance • Agency theory • The role of the board • Remuneration, transparency and accountability • Compliance culture • Corporate regulation in Ireland • UK Corporate Governance Code • Sarbanes-Oxley Act • Emerging issues and developments in Corporate Governance	2 2 2 2 2 2 2 2 2
Audit Strategy and Planning	• Materiality • Audit risk • Audit strategies • Knowledge of the entity and its environment • Nature, extent and timing of audit procedures • Audit planning, audit programmes and working papers • Audit supervision and review	2 2 2 2 2 2 2
Audit Execution, Internal Controls and Risk Management	• Entity's control environment • Continuous audit • Responsibilities of auditors and management • Internal controls • Tests of control for major systems • Risk of material misstatement • Audit programmes for tests of control • Final assessment of control risk • Management letter reporting and assessment of impact on control risk	2 1 2 2 2 2 2 2 2
Audit Execution – Substantive Procedures	• Application of specific substantive procedures • Validation procedures • IFRS/IAS concerning above • Misstatements / aggregation / assessment / impact on audit reporting	2 2 2 2
Audit Execution – Computer Information Systems (CIS) Auditing	• Entity's computer systems and controls • Computer assisted audit techniques	2 2

Indicative Syllabus contd.

		Competency Level
Audit Execution – Other Considerations	• Sampling methods • Analytical review • Going concern • Subsequent events • Accounting estimates • Commitments and contingencies • Management representation letters • Use of experts	2 2 2 2 2 2 2 2
Audit Reporting	• Reporting on audited Financial Statements • Audit opinion • True and fair view • Materiality • Statutory requirements • Auditor's report, key audit matters • Modified reports • Professional scepticism	2 2 2 2 2 2 2 2

Learning Guide

The Audit and Assurance Environment

- Demonstrate an understanding of the legal, ethical and regulatory environment of auditing: CPA Code of Ethics, IFAC Code of Ethics, Ethical Standard for Auditors (Ireland) 2017
- Explain and discuss the responsibilities and statutory rights of directors, auditors and those charged with governance with respect to statutory audit: Companies Act 2014, Company Law Enforcement Act (2001), Criminal Justice Acts, other relative laws, EU Directives
- Explain the relationship between International Standards on Auditing (ISAs) and other technical pronouncements issued by IAASA and other standard setters
- Demonstrate the ability to review the audit implications of International Accounting Standards (IFRS/IAS)
- Define Money Laundering and demonstrate the responsibility of the auditor in relation to money laundering and fraud
- Understand the auditor's responsibility in relation to fraud and describe the client entity's responsibilities in relation to compliance with laws and regulations
- Demonstrate an understanding of the ability to consider the application of professional scepticism
- Explain the process of pre-appointment procedures, client assessment and engagement letters
- Understand the impact of emerging technologies and the effect they may have on the role of the auditor e.g. Artificial Intelligence (AI), Automated Accounting technology, Blockchain technology, Cloud computing, Data Analytics and the use of Big Data, Machine Learning (ML) and Robotic Process Automation (RPA)

Corporate Governance

- Understand and discuss the concepts, objectives, relevance and importance of Corporate Governance
- Assess the role of agency theory in Corporate Governance
- Discuss the role of the board, demonstrating an understanding of the roles, duties and responsibilities of directors
- Assess whether the board have acted in good faith in relation to remuneration, transparency and accountability
- Recognise the importance of compliance culture – in particular analysing the structures, roles and requirements of committees within the board, such as the audit committee, remuneration committee and risk committee
- Describe the provisions of corporate regulation in Ireland – including the role of the Companies Registration Office (CRO), the Office of the Director of Corporate Enforcement (ODCE), the Irish Stock Exchange (ISE), the Financial Regulator, the Irish Auditing and Accounting Standards Authority (IAASA)
- Discuss the provisions of UK Corporate Governance Code (2018) and related FRC/ISE guidelines, making reference to specific sections of the Code and evaluating deficiencies within a given scenario and making recommendations to improve the structures currently in place
- Understand the Sarbanes-Oxley Act and its role to help protect investors from fraudulent activities of corporations
- Understand the emerging issues and developments in Corporate Governance and the implications on the accounting and auditing profession

Learning Guide contd.

Audit Strategy and Planning

- Define and explain the concepts of materiality and performance materiality (nature, determination, impact and use) and the calculation of materiality levels
 - Explain audit risk and its components: inherent, control and detection risk
 - Identify and explain audit strategies, including designing auditing strategies
 - Explain how auditors obtain an initial understanding of the entity and its environment during audit planning, including the nature and purpose of analytical procedures, and the computation and interpretation of key ratios used in analytical procedures
 - Understand the nature, extent and timing of audit procedures in relation to planned audit strategies
 - Recognise and design audit planning memos, audit programmes and working papers
 - Explain the purpose of audit supervision and reviews
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Audit Execution - Internal Controls and Risk Management

- Evaluate and assess an entity's control environment, recognising why an auditor needs to obtain an understanding of the internal controls relevant to the audit
 - Understand the application of a continuous audit which examines accounting practices, risk controls, compliance, information technology systems, and business procedures on an ongoing basis
 - Understand and differentiate between the auditor's and management respective responsibilities in relation to internal controls and risk management
 - Describe and explain components of internal controls: the control environment, the information system, the entity's risk assessment, control activities and monitoring of controls. Discuss internal control descriptions, assessments and identify limitations within an entity's control environment
 - Evaluate tests of control for major systems: sales, purchases, payroll, cash receipts, inventory, receivables, payables and non-current assets including deficiencies in internal controls. Discuss the limitations of internal controls for major systems
 - Recognise the risk of material misstatement and the responsibility of auditors for detecting and reporting material misstatement due to fraud and error
 - Design an audit programme for tests of control in relation to: sales, purchases, payroll, cash receipts, inventory, receivables, payables and non-current assets
 - Discuss the factors to be taken into account on the final assessment of control risk
 - Understand the requirement for auditors to communicate with those charged with governance by way of management letter reporting, highlighting deficiencies and providing recommendations for resolving these deficiencies to management and assessing any impact on control risk
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Audit Execution – Substantive Procedures

- Apply specific substantive procedures to test assertions relating to classes of transactions and events, account balances, presentation and disclosure
 - Validate procedures, applied in the audit of statements of financial positions
 - Validate procedures applied in the audit of statements of profit or loss and other comprehensive income account
 - Explain the significance of misstatements and aggregation, and assess the impact it may have on audit reporting
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Audit Execution – Computer Information Systems (CIS) Auditing

- Describe the entity's computer systems controls including key computer system general controls and key computer system application controls:
 - 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
 - Key computer system general controls: design and implementation, data integrity, privacy and security, system program changes, system access and disaster recovery plans
 - Key computer system application controls: transactions input, processing and output, master file changes
 - Describe the relevant Computer Assisted Audit Techniques (CAATS):
 - Nature (computer software including expert systems and test data)
 - Purpose (testing, administration)
 - Application and related audit concerns (integrity and security of CAATs, audit planning considerations)
 - Exercise professional scepticism around data reports, reliance on artificial intelligence generated reports, questioning the underlying algorithms
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Learning Guide contd.

Audit Execution - Other Considerations

- Define audit sampling methods, explain the need for sampling and identify and discuss the differences between statistical and non-statistical sampling
 - Discuss and give examples of how analytical reviews are used as substantive procedures. Compute and interpret analytical procedures to obtain audit evidence
 - Define and discuss the going concern concept and its impact throughout various stages of the audit which includes identifying and explaining potential going concern indicators along with the reporting implications of such findings explaining the responsibilities of auditors and management regarding going concern
 - Explain and discuss the purpose of subsequent events and relevant procedures undertaken during a subsequent events review explaining the responsibilities of auditors regarding subsequent events
 - Discuss the procedures surrounding the audit of accounting estimates and the difficulties associated with the audit and review of accounting estimates
 - Explain and identify the audit procedures to obtain sufficient and appropriate evidence in relation to commitments and contingencies
 - Exercise professional scepticism and recognise bias and potential gaps in evidence. Identify contradictory evidence and unsupported statements
 - Discuss the purpose and procedures for obtaining management representation letters
 - Discuss the extent to which external auditors can rely on the work of experts which includes the work on an internal audit
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Audit Reporting

- Identify and describe elements contained in the auditor's report on audited financial statements
 - Describe key concepts and elements of an audit report such as: the responsibility of the auditor and the management of the company, the opinion of the auditor, basis of the opinion, true and fair view/ fair presentation, materiality, statutory requirements, key audit matters (KAM)
 - Advise on modifications to the auditor's report (unmodified and modified) and when they are justified, differentiating between matters that do not affect the auditor's opinion, and those that do affect the auditor's opinion, providing examples of circumstances giving rise to modified reports
 - Apply professional scepticism to the integrity of the information provided and exercise a questioning mind throughout the audit engagement process
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Learning Resources

Core Texts

External Auditing and Assurance: An Irish Textbook 3rd Edition by Martin Nolan and Christine Nangle
Revised/2018 / ICAI / ISBN 978-1-912350-03-2

Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities /2018 / IFAC / ISBN 978-1-60815-353-4 Published in two volumes, with Companion Manual, freely available for download from:

www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/guide-using-international-standards-auditing-audits-small-and-medium-sized-entities

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

Learning Resources contd.

2. Financial Accounting and Reporting Standards

International Financial Reporting Standards (IFRSs) EU Endorsed are available from the European Commission on <https://op.europa.eu/en/publication-detail/-/publication/1e1688e8-f9a6-11e7-b8f5-01aa75ed71a1/language-en/format-PDF/source-130716561>

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

3. 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 84 - 89

Supplementary Texts

Auditing, 11th Edition / Millichamp and Taylor / Cengage 2018 / ISBN: 9781473749306

The Audit Process, Principles, Practice & Cases 7th Edition / Gray, Manson and Crawford / Cengage 2019 / ISBN-13: 978-1408081709

AccountancyPlus

CPA Students News eBulletin

Machine Learning in Auditing, Current and Future Applications

By Gabe Dickey, Sandra Blanke and Lloyd Seaton, The CPA Journal, June 2019

Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession

AICPA, 2017

Auditing the RPA environment - Our approach towards addressing risks in a BOT environment

Deloitte, March 2018

Unconscious Bias and Professional Skepticism

By Elizabeth Gammie, IAESB, April 2018

How Can We Become Better Skeptics?

IAESB, April 2018

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
Questions 1 and 2 compulsory questions (30 Marks each)	60
Question 3 Multiple Choice questions	20
Questions 4 and 5, answer either, but not	20
Total	100