

Chapter 9. Audit

Good luck - I'm sure you'll do great!

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1. Definition



Definition



The examination of financial statements by a certified public accountant in order to express an opinion as to the fairness of presentation.



Vocabulary

- certified public accountant: kế toán viên công chứng
- express an opinion: đưa ra ý kiến kiểm toán
- fairness of presentation: trình bày hợp lý



2. Process of auditing



Obtaining an
engagement

*Kí hợp đồng kiểm
toán*



Planning an
assignment

*Lên kế hoạch kiểm
toán*



Evidence and
reporting

*Bằng chứng kiểm
toán và báo cáo
kiểm toán*

Obtaining an engagement

Acceptance procedures

- Ensure professionally qualified to act
- Ensure existing resources adequate
- Obtain references
- Communicate with existing/predecessor auditors



Obtaining an engagement

Sources of information about new client?



Enquiries of other sources	Bankers, solicitors
Review of documents	Most recent annual accounts, listing particulars, credit rating
Previous accountants/auditors	Previous auditors should be invited to disclose fully all relevant information
Review of rules and standards	Consider specific laws/standards that relate to industry





Planning an assignment



Planning

Step 1: Ensuring ethical requirements continue to be met

✦ Step 2: Ensuring the terms of the engagement are understood

✦ Step 3: Establishing the overall audit strategy

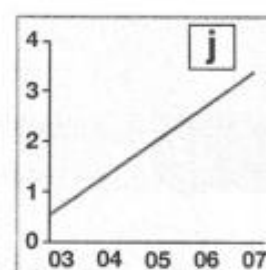
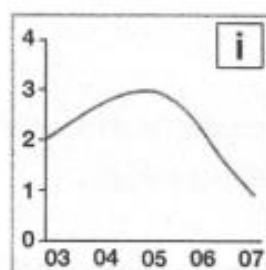
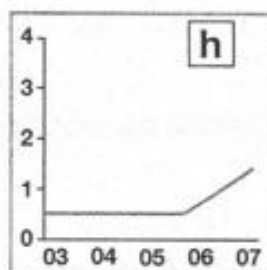
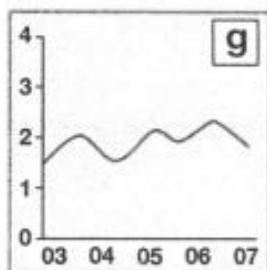
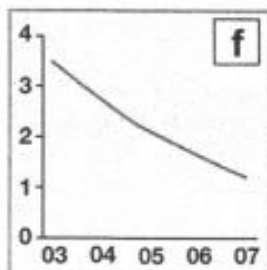
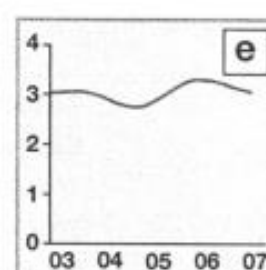
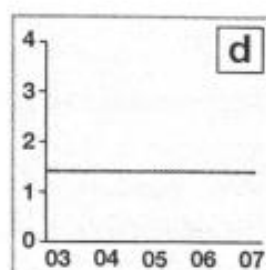
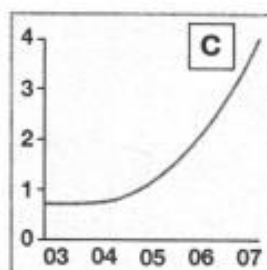
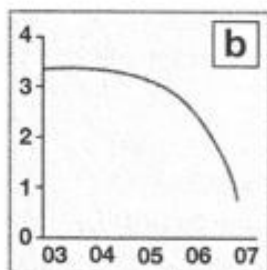
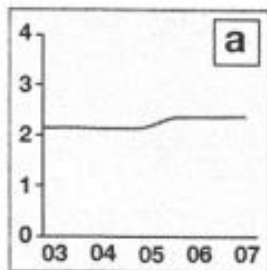
Step 4: Developing an audit plan

Analytical procedures



- Analytical procedures consist of the analysis of significant ratios and trends including the resulting investigations of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predictable amounts.
- During planning, analytical procedures are used as a means of understanding the business and identifying audit risk.





1 Figures have increased slightly.



2 Figures have increased dramatically.



3 Figures have increased steadily.



4 This is a significant drop.



5 This is a gradual drop.



6 The situation is stable.



7 There have been some fluctuations.



8 The situation was pretty bad, but is now improving slowly.



9 Profits have been falling since the fire.



10 We're hovering at around 3%.

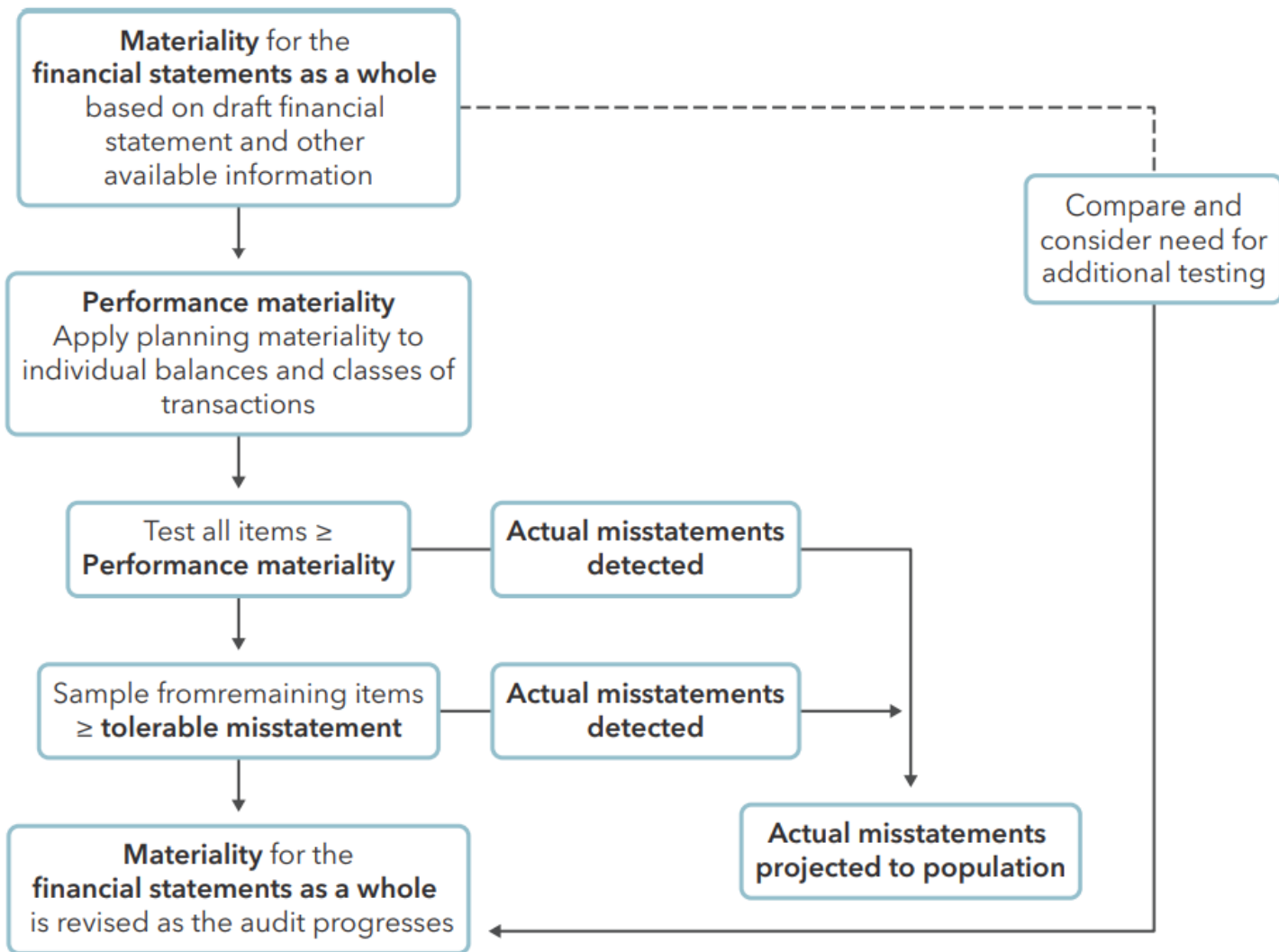


Materiality



Materiality: An expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. The IFRS Conceptual Framework for Financial Reporting states that a matter is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Performance materiality: The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.



Audit risk

Audit risk: The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.



Audit risk

Audit risk = Risk of material misstatement + Detection risk



Audit risk



Inherent risk: The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

Control risk: The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.



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Fraud



- **Fraud:** An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- **Error:** An unintentional misstatement in financial statements, including the omission of an amount or a disclosure





Vocabulary

- Planning an assignment: lên kế hoạch kiểm toán
- Analytical procedures: thủ tục phân tích
- Materiality: mức độ trọng yếu
- Audit risk: rủi ro kiểm toán
- Ethical requirement: yêu cầu về đạo đức
- Audit strategy: chiến lược kiểm toán
- Audit plan: kế hoạch kiểm toán
- Performance materiality: Mức trọng yếu thực hiện
- Tolerable misstatement/error: sai sót có thể bỏ qua
- Inherent risk: rủi ro tiềm ẩn
- Control risk: rủi ro kiểm soát
- Detection risk: rủi ro phát hiện
- Fraud: gian lận
- Error: lỗi





Evidence and reporting



Vocabulary



- Audit documentation/working paper: chứng từ kiểm toán
- Sampling: chọn mẫu
- Control test: kiểm tra kiểm soát
- Substantive procedures: kiểm tra chi tiết
- Written representation: thư giải trình (từ ban điều hành)
- Audit opinion: ý kiến kiểm toán



Financial statement assertions

Assertions about **classes of transactions and events, and related disclosures**, for the period under audit

(For income statement transactions/items)

Occurrence: transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity

Completeness: all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included

Accuracy: amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described

Cut-off: transactions and events have been recorded in the correct accounting period

Classification: transactions and events have been recorded in the proper accounts

Presentation: transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework

Financial statement assertions

Assertions about
account balances,
and **related**
disclosures, at the
period end

(For BS
transactions/
items)

Existence: assets, liabilities and equity interests exist

Rights and obligations: the entity holds or controls the rights to assets, and liabilities are the obligations of the entity

Completeness: all assets, liabilities and equity interests that should have been recorded have been recorded and all related disclosures that should have been included in the financial statements have been included

Accuracy, valuation and allocation: assets, liabilities, and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described

Classification: assets, liabilities, and equity interests have been recorded in the proper accounts

Presentation: assets, liabilities, and equity interests are appropriately aggregated or disaggregated and clearly described, and related

Vocabulary .

- Assertions: cơ sở dẫn liệu
- Occurrence: Sự xảy ra
- Completeness: tính đầy đủ
- Accuracy: tính chính xác
- Cut-off: tính phân kỳ
- Classification: phân loại
- Presentation: trình bày
- Rights and obligations: quyền lợi và trách nhiệm
- Accuracy, valuation and allocation: định giá và phân bổ
- Qualified opinion: ý kiến có điều kiện (KTV không thể xác nhận)
- Unqualified opinion: ý kiến chấp nhận toàn phần



4. Communicating auditing issues

Practice 1

Janet Hendley, a partner in an audit firm, calls Claude Bernaud, the CFO of a French company. Listen to the dialogue, and then decide if the statements which follow are true ☒ or false ☐.

- 1 Janet wants to talk to Claude about a report. ☐
- 2 Janet thinks that capitalization of costs should be expenses in the P&L. ☐
- 3 Claude agrees with Janet on this point. ☐
- 4 Claude thinks capitalization of costs should be classed under machine upgrades. ☐
- 5 Claude's reasoning is that the upgrades are really investments in the future. ☐
- 6 Janet agrees to reconsider her opinion. ☐



Practice 1

Janet Hendley, a partner in an audit firm, calls Claude Bernaud, the CFO of a French company. Listen to the dialogue, and then decide if the statements which follow are true ☒ or false ☒.

- 1 Janet wants to talk to Claude about a report. ☐ X
- 2 Janet thinks that capitalization of costs should be expenses in the P&L. ☐ V
- 3 Claude agrees with Janet on this point. ☐ X
- 4 Claude thinks capitalization of costs should be classed under machine upgrades. ☐ V
- 5 Claude's reasoning is that the upgrades are really investments in the future. ☐ V
- 6 Janet agrees to reconsider her opinion. ☐ V



Practice 2

Two colleagues from an auditing firm are discussing the latest financial scandal. Listen to part of the dialogue and answer the following questions.

- a What is Heidi worried about?
- b What does Phillip think?
- c What does Heidi think investors should get?
- d What example of inaccurate information does she give?



Practice 2

Two colleagues from an auditing firm are discussing the latest financial scandal. Listen to part of the dialogue and answer the following questions.

- a What is Heidi worried about?
- b What does Phillip think?
- c What does Heidi think investors should get?
- d What example of inaccurate information does she give?

- a That the scandals with Megacorp PLC will mean that they are going to have to change the way they do their job.
- b That their role is only to give an opinion based on estimates, and that they can't review every detail.
- c Correct financial information
- d Overstating assets by 50%



Practice 2

Now listen to part 2 of the dialogue and complete the gaps.

Philip We don't overstate¹ anything.

Heidi But we're expected to find these things. That's what we're paid to do.

Philip Hang on a minute. Our job is to review² the information provided to us by the management of a company. We have to assume that they're being honest³. We're not police officers.

Heidi But ...

Philip Let me finish. Look, there are legal⁴ mechanisms to deal with people who commit fraud⁵. The auditing profession has its own regulations⁶ and investors trust this. It's tried and tested.

Heidi All I'm saying is that investors have a right to rely⁷ on the financial information they read, and we're paid to check⁸ exactly that. self-regulation⁹ may not be enough. And the trend is ...

Philip I agree that it's a bit strange that we're paid by the same people who we audit¹⁰, but it's always been this way and I don't see how that can be changed, do you?



WISHING YOU
Luck

And all the best to you^m

