Advanced Auditing

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**Key objectives**

- explain what is meant by ethics and independence from an auditor’s perspective, as well as
- explain approaches used to identify and resolve independent issues under the Swedish and IFAC rules;
- identify the steps that are involved in audit planning as well as different types of audit tests;
- explain what internal control is, discuss why internal controls are important and describe how control risks are assessed;
- examine what type of audit procedures are suitable for auditing different financial statement items, such as, accounts receivables, inventories, liabilities or property plant and equipment;
- apply auditing standards and procedures in order to propose the contents and form of the auditor’s report

**Schedule**

- Introduction to Financial Statement Auditing Basic Concepts (1-4)
- Planning the Audit and Internal Control (5-9)
- Auditing Business Process (10-16)
- Reporting and Professional Responsibilities (17-19)
- Assurance, Related Services and Internal Auditing Services (20)
- Swedish Auditing Market
Workshops
- Planning and Risk Analysis
- Use of authentic audit software GT Explorer
- Compulsory
- Groups in website

Introduction to Financial Statement Auditing Basic Concepts
Objectives
to understand;
- the demand for auditing and assurance service
- the basic definitions and fundamental concepts
- the concept of audit risk
- the concept of materiality
- the relationship between audit evidence and the auditor’s report

Why Auditing
Principal and Agents

A public company is a company that sells its stocks or bonds to the public, giving the public a valid interest in the proper use, or stewardship, over the company’s resources.

Managers

Stockholders

Agents

Principals

The Role of Auditing

Accounting

This process is called Accounting

Entity is reproduced in financial reports, income statement, balance sheet

Auditing Control of this process
Auditing and Assurance Defined

Auditing
A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

Assurance Services

Auditing and Assurance Defined

An engagement in which practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Fundamental Concepts in Conducting a Financial Statement Audit
Audit Risk

Audit risk is the risk that the auditor express an inappropriate audit opinion when the financial statements are materially misstated.

The auditor’s standard report states that the audit provides only reasonable assurance that the financial statements do not contain material misstatements. Reasonable assurance implies some risk that a material misstatement could be present in the financial statements and the auditor will fail to detect it.

Materiality (IASB)

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Evidence Regarding Management Assertions

Evidence that assists the auditor in evaluating management’s financial statement assertions consists of the underlying accounting data and any corroborating information available to the auditor.

Relevance Reliability
During the economic boom of the late 1990s and the early 2000s, accounting firms aggressively sought opportunities to market a variety of high-margin non-audit services to their audit clients.
An Explosion of Scandals

Enron
WorldCom
Ahold
Parmalat
Xerox

Regulatory Pressure

Self-regulation for the profession versus government regulation
End of the era of self-regulation?

Stronger elements of external oversight and regulation
International Standards on Auditing more restrictive

A Model of Business

Business organizations exist to create value for their stakeholders. Due to the way resources are invested and managed in the modern business world, a system of corporate governance is necessary, through which managers are overseen and supervised.

Board of Directors
Audit Committee
Management Assertions

Financial statements issued by management contain explicit and implicit assertions.

- **Transactions**
  - Management asserts that transactions related to inventory actually occurred.

- **Account Balances**
  - Management asserts that the entity owns the inventory represented in the inventory account.

- **Presentation & Disclosure**
  - Management asserts that the financial statements properly classify and present the inventory.
<table>
<thead>
<tr>
<th>Table 2-1</th>
<th>Summary of Management Assertions by Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assertions about transactions and events for the period under audit</td>
<td></td>
</tr>
<tr>
<td>- Occurrence - transactions and events that have occurred and pertain to the entity.</td>
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</tr>
<tr>
<td>- Completeness - all transactions and events that should have been recorded have been recorded.</td>
<td></td>
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<tr>
<td>- Authorization - all transactions and events have been properly authorized.</td>
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<tr>
<td>- Accuracy - amounts and other data relating to recorded transactions and events have been recorded appropriately.</td>
<td></td>
</tr>
<tr>
<td>- Classification - transactions and events have been recorded in the correct accounting period.</td>
<td></td>
</tr>
<tr>
<td>Assertions about account balances at the period end</td>
<td></td>
</tr>
<tr>
<td>- Existence - assets, liabilities, and equity items exist.</td>
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</tr>
<tr>
<td>- Rights and obligations - the entity has both the rights to assets, and liabilities are the obligations of the entity.</td>
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</tr>
<tr>
<td>- Completeness - all assets, liabilities, and equity items that should have been recorded have been recorded.</td>
<td></td>
</tr>
<tr>
<td>- Valuation and allocation - assets, liabilities, and equity items are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.</td>
<td></td>
</tr>
<tr>
<td>Assertions about presentation and disclosures</td>
<td></td>
</tr>
<tr>
<td>- Uncertainty and risks and uncertainties - disclosed events, transactions, and other matters have occurred and pertain to the entity.</td>
<td></td>
</tr>
<tr>
<td>- Completeness - all disclosures that should have been included in the financial statements have been included.</td>
<td></td>
</tr>
<tr>
<td>- Classification and structurability - financial information is appropriately presented and described, and disclosures are clearly expressed.</td>
<td></td>
</tr>
<tr>
<td>- Accuracy and valuation - financial and other information are disclosed fairly and in appropriate amounts.</td>
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</tbody>
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**International Organizations That Affect the Accounting Profession**

- International Federation of Accountants (IFAC)
- International Accounting Standards Board (IASB)
- International Organization of Securities Commissions (IOSCO)
- European Union (EU)
- EU 8th Company Law Directive
- United States
  - Securities and Exchange Commission (SEC)
  - Public Company Accounting Oversight Board (PCAOB)
  - Financial Accounting Standards Board (FASB)
- Sweden
  - FAR SRS
  - Bokföringsnämnden
  - Revisornsämnden

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**Auditing Standards**

Auditing standards serve as guidelines for and measures of the quality of the auditor’s performance.

- IAASB
- IFAC members
General Principles and Responsibilities

- ISA 200  Objective and General Principles Governing an Audit of Financial Statements
- ISA 210  Terms of Audit Engagements
- ISA 220  Quality Control for Audits of Historical Financial Information
- ISA 230  Audit Documentation
- ISA 240  The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements
- ISA 250  Consideration of Laws and Regulations in an Audit of Financial Statements
- ISA 260  Communications of Audit Matters with Those Charged with Governance

Risk Assessment and Response to Assessed Risks

- ISA 300  Planning an Audit of Financial Statements
- ISA 315  Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- ISA 320  Audit Materiality
- ISA 330  The Auditor’s Procedures in Response to Assessed Risks
- ISA 402  Audit Considerations Relating to Entities Using Service Organizations

Audit Evidence

- ISA 500  Audit Evidence
- ISA 501  Audit Evidence - Additional Considerations for Specific Items
- ISA 505  External Confirmations
- ISA 510  Initial Engagements - Opening Balances
- ISA 520  Analytical Procedures
- ISA 530  Audit Sampling and Other Means of Testing
Audit Evidence (cont.)

- ISA 540 Audit of Accounting Estimates
- ISA 545 Auditing Fair Value Measurements and Disclosures
- ISA 550 Related Parties
- ISA 560 Subsequent Events
- ISA 570 Going Concern
- ISA 580 Management Representations

Using Work of Others

- ISA 600 Using the Work of Another Auditor
- ISA 610 Considering the Work of Internal Auditing
- ISA 620 Using the Work of an Expert

Audit Conclusions and Reporting

- ISA 700 The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements
- ISA 701 Modifications to the Independent Auditor’s Report
- ISA 710 Comparatives
- ISA 720 Other Information in Documents Containing Audited Financial Statements
Ethics, Independence, and the IFAC Code of Ethics for Professional Accountants

Ethics refers to a system or code of conduct based on moral duties and obligations that indicates how we should behave.

Professionalism refers to the conduct, aims, or qualities that characterize or mark a profession or professional person. All professions operate under some type of code of ethics or code of conduct.

IFAC Code of Ethics for Professional Accountants

- Conceptual framework approach
  - Threats, safeguards, and residual risk

- Fundamental principles
  - Integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour

- Independence
  - Independence of mind and independence in appearance

The Auditor's Responsibility for Errors and Fraud

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected.

The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements will be detected.
Audit Firms

Audit firms range in size from a single proprietor to thousands of owners (or ‘partners’) and thousands of professional and administrative staff employees.

**Big 4 Audit Firms**

- Deloitte
- Ernst & Young
- KPMG
- Pricewaterhouse Coopers

**Table 2-3: Selected Duties of Audit Team Members**

<table>
<thead>
<tr>
<th>Role</th>
<th>Duties</th>
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<tbody>
<tr>
<td>Partner</td>
<td>Reaching agreement with the client on the scope of the service to be performed</td>
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<tr>
<td></td>
<td>Ensuring that the audit is properly planned.</td>
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<td></td>
<td>Ensuring that the audit team has the required skills and experience.</td>
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<td></td>
<td>Supervising the audit team and reviewing the working papers.</td>
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<tr>
<td>Manager</td>
<td>Signing the audit report.</td>
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<tr>
<td></td>
<td>Ensuring that the audit is properly planned, including scheduling of team members.</td>
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<tr>
<td></td>
<td>Supervising the preparation of and approving the audit program.</td>
</tr>
<tr>
<td>Senior/In-Charge</td>
<td>Reviewing the working papers, financial statements, and audit report.</td>
</tr>
<tr>
<td>Associate/Staff</td>
<td>Assisting in the development of the audit plan.</td>
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<td></td>
<td>Preparing budgets.</td>
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<td></td>
<td>Assigning audit tasks to associates and directing the day-to-day performance of the audit.</td>
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<tr>
<td></td>
<td>Supervising and reviewing the work of the associate.</td>
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<tr>
<td></td>
<td>Performing the audit procedures assigned to them.</td>
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<td></td>
<td>Preparing adequate and appropriate documentation of procedures and results.</td>
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<tr>
<td></td>
<td>Informing the senior about any auditing or accounting problems encountered.</td>
</tr>
</tbody>
</table>

Types of Assurance, Related and Other Services

**Assurance Services**

- Sustainability Reporting
- Internal Control Reporting
- Compliance
- Operational Performance
### Types of Assurance, Related and Other Services

#### Assurance Services
- Financial Forecasts and Projections
- Information System Reliability & E-Commerce
- Forensic

#### Related Services
- Agreed-Upon Procedures
- Compilations

#### Other Services
- Tax Services
- Management Advisory Services
- Accounting Services
Types of Auditors

- External Auditors
- Internal Auditors
- Government Auditors
- Forensic Auditors