

Module 1: Assurance Services Framework

| <i>Item</i> | <i>Comment</i> | <i>Page</i> |
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| ASRE 2415 | <ul style="list-style-type: none"> ✚ Companies in 1st tier are exempt from preparing a financial report ✚ 2nd tier company (annual revenue between \$0.25M and \$1M or revenue below \$0.25M) must prepare financial report and have it reviewed ✚ 3rd tier companies (limited by guarantee with annual revenue of \$1M or more) must prepare audited financial report | ✚ SG 21 |
| Assurance Engagement | ✚ 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 | ✚ SG 15 |
| Assurance engagement – elements | <ul style="list-style-type: none"> ✚ 3 party relationship (practitioner, responsible party, users) → p.37 ✚ Subject matter ✚ Criteria ✚ Sufficient appropriate evidence ✚ Written assurance report | <ul style="list-style-type: none"> ✚ SG 36-37 ✚ Q1.10 (IC as a separate engagement from FS audit) |
| Assurance Standard | ✚ Concerned with all other types of assurance engagements | ✚ SG 15 |
| Attestation engagement | <ul style="list-style-type: none"> ✚ Party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria ✚ “measure or evaluate the underlying subject matter” → prepares the report ✚ Practitioner’s conclusion addresses whether the subject matter information is free from material misstatement | ✚ SG 34 |
| Audit | ✚ Assurance engagement that focuses on historical financial information | ✚ SG 15 |
| Auditing Standards | ✚ Concerned ONLY with audits and reviews of historical financial info | ✚ SG 15 |
| Conflicts of interest | ✚ Auditor perform services for clients whose interests are in conflict | ✚ SG 26 |
| Contextual factors affecting audit quality | <ul style="list-style-type: none"> ✚ Business practices and commercial law ✚ Laws and regulations relating to FR ✚ Applicable FR framework ✚ Corporate governance ✚ Information system ✚ FR timetable ✚ Broader cultural factors | <ul style="list-style-type: none"> ✚ SG 32 ✚ Q1.6 (quality peer review) |
| Direct engagement | <ul style="list-style-type: none"> ✚ Assurance practitioner measures or evaluates the underlying subject matter against the criteria ✚ Report and the assurance on that report are both provided by the practitioner ✚ Reduce the appearance of any bias or measurement error in the report → additional assurance to users | <ul style="list-style-type: none"> ✚ SG 34-35 ✚ Performance audit |
| Engagement risk | ✚ Risk that the practitioner conclusion is wrong | ✚ SG 45 |

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| | <ul style="list-style-type: none"> ✚ At the planning stage, the assessment of engagement risk is important ✚ <u>Inherent risk</u>: susceptibility of the subject matter info to a material misstatement and is therefore determined by the subject matter ✚ <u>Control risk</u>: risk that material misstatement will NOT be prevented, or detected and corrected, by the internal control system ✚ <u>Detection risk</u>: risk that the practitioner's evidence gathering procedures will NOT detect a material misstatement. It is affected by the quantity, reliability and relevance of evidence | ✚ Case Study 1.3 |
| Evidence gathering procedure in a review | <ul style="list-style-type: none"> ✚ NOT ordinarily require tests of accounting records through inspection, confirmation and observation ✚ Limited to making enquires, applying analytical and review procedures ✚ Ordinarily do NOT involve TOC | ✚ SG 46 |
| Evidence gathering procedures | <ul style="list-style-type: none"> ✚ Procedures to obtain evidence: <ul style="list-style-type: none"> ▪ Obtaining an understanding the engagement circumstances ▪ Assessing risks ▪ Responding to these risk ▪ Perform further procedures including substantive procedures ▪ Evaluating evidence obtained | ✚ SG 34 |
| Evidence gathering procedures – extent | <ul style="list-style-type: none"> ✚ Refers to the quantity of info collected and tested ✚ Equivalent to sufficiency | ✚ SG 46 |
| Evidence gathering procedures – nature | <ul style="list-style-type: none"> ✚ Types of evidence: <ul style="list-style-type: none"> ✓ Enquiry ✓ Observation ✓ Documentary evidence ✓ Physical evidence ✚ Sources of evidence: <ul style="list-style-type: none"> ✓ Third parties ✓ Auditor ✓ Management | ✚ SG 46 |
| Evidence gathering procedures – timing | <ul style="list-style-type: none"> ✚ Refers to when the evidence is collected ✚ Evidence collected at year end, close to the date of the subject matter information, is the most reliable | ✚ SG 46 |
| Fees and other types of remuneration | <ul style="list-style-type: none"> ✚ Fees from particular client exceeds 15% of firm's total fee → additional independent accountant to review work done ✚ Fee represent substantial part of gross income → refuse or withdraw from engagement | ✚ SG 26 |
| Financial Statement Audit Process | <ol style="list-style-type: none"> 1. Client acceptance 2. Planning 3. Evidence gathering 4. Reporting | ✚ SG 16 |
| Fundamental Principles in Code of Ethics | <ul style="list-style-type: none"> ✚ Integrity ✚ Objectivity ✚ Professional competence and due care ✚ Confidentiality ✚ Professional behaviour | ✚ SG 23 – 24 |

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| Gifts and hospitality | <ul style="list-style-type: none"> ✚ Accept or reject depends on nature, value and intent behind the offer | ✚ SG 26 |
| IAASB | <ul style="list-style-type: none"> ✚ ISA: audit of historical financial info ✚ ISRE: review of historical financial info ✚ ISAE: assurance engagement with info OTHER than historical financial info ✚ ISRS: tax, consulting, compilation, etc | ✚ SG 16 |
| Independence | <ul style="list-style-type: none"> ✚ Must avoid circumstances that a reasonable and informed third party might think that a member's compliance to fundamental principles is compromised ✚ Identify threats → apply safeguards → decline or terminate if NO appropriate safeguard | <ul style="list-style-type: none"> ✚ SG 27 ✚ Q1.2 |
| Limited assurance | <ul style="list-style-type: none"> ✚ where the risk is greater than for a reasonable assurance engagement ✚ Provides less confidence to users ✚ Negative form of expression "Nothing has come to our attention that would lead us to believe that the statements are NOT..." ✚ Procedures in obtaining sufficient appropriate evidence are deliberately limited ✚ Commonly only analytical procedures and enquiries are performed | ✚ SG 33 |
| Materiality | <ul style="list-style-type: none"> ✚ Relevant when the practitioner: <ul style="list-style-type: none"> ▪ Plans the engagement ▪ Determines their procedures for gathering evidence ▪ Assess whether the subject matter info is free from misstatement ✚ 10% of operating profit | ✚ SG 44 |
| Planning of evidence gathering procedures | <ul style="list-style-type: none"> ✚ Main outcome of the planning stage of an assurance engagement is determining the nature, timing and extent of the evidence gathering procedures ✚ Planning of evidence collection depends on: <ul style="list-style-type: none"> ✓ Assessment of inherent risk ✓ Intention to use selective testing and sampling ✓ Limitations of internal control system ✓ Assessed control risk ✓ Evidence available being persuasive rather than conclusive (eg. observation vs documentary evidence) ✓ Judgement in gathering evidence, and evaluating and forming conclusions | ✚ SG 46 |
| Professional appointment | <ul style="list-style-type: none"> ✚ NO appointment if work as an officer or audit-critical employee 12 months before ✚ Replacing auditor must request prospective client's permission to communicate with existing auditor → NO permission → decline the appointment | ✚ SG 25 |
| Professional judgement | <ul style="list-style-type: none"> ✚ 'application of relevant training, knowledge and experience,...., in making informed decisions about the course of action that are appropriate in the circumstances of the audit engagement' ✚ Needs to be exercised in considering materiality, engagement risk, and the sufficiency and | <ul style="list-style-type: none"> ✚ SG 41-43 ✚ Q1.12 (judgements in assurance engagement) |

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| | <p>appropriateness of evidence when determining the nature , timing and extent of evidence gathering procedures</p> <ul style="list-style-type: none"> + Complexity of transactions, expended use of fair values and subjective estimates, and the move to more principle-based accounting standards heighten the degree of professional judgement | |
| Professional scepticism | <ul style="list-style-type: none"> + Practitioner approaches an assurance engagement without bias, being equally open to the idea that the subject matter information may be properly or improperly prepared + With a questioning mind, of the validity of evidence obtained and is especially alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party + Reduce the risk of overlooking suspicious circumstances, of over-generalising when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof | + SG 41 |
| Public sector auditing | <ul style="list-style-type: none"> + Elements: <ul style="list-style-type: none"> ✓ Parliament ✓ Treasurer ✓ Audit acts and finance regulations ✓ Auditor – general ✓ Public accounts committees + Note: accounting and auditing standards issued by standard-setting bodies apply to public sector accounting + Auditor-General is an independent officer of parliament + Parliament does NOT appoint Auditor-General + Appointment is done through Australia National Audit Office + Financial audit output: <ul style="list-style-type: none"> ▪ Audit opinion ▪ Letter sent to governing body of the auditee on matters arising from the audit ▪ Reports to parliament on significant issues arising from audits | + SG 48-49 |
| Quality Control | <ul style="list-style-type: none"> + Areas that firms should have QC policies in place: <ul style="list-style-type: none"> ✓ Leadership responsibility ✓ Ethical requirements ✓ Acceptance and continuance of client relationships ✓ Human resources ✓ Engagement performance: <ul style="list-style-type: none"> ▪ Engagement support materials ▪ Supervision and review ▪ Consultation ▪ Engagement QC review ✓ Monitoring | <ul style="list-style-type: none"> + SG 28-31 + Q1.3 (commitment to quality above commercial consideration) + Q1.4 (client acceptance considerations) + Q1.5 (supervision & review) + Q1.6 (quality peer review program) |
| Reasonable assurance | + "Practitioner reduces engagement risk to an | + SG 33 |