

Debre Tabor University

Faculty of Business and Economics

Department of Accounting and Finance

Course Title: Advanced Auditing and Assurance

Course Code: ACFN4013

Credit Hours: 3

Course Instructor: Amelaku B.

Course Description

The Advanced Audit and Assurance syllabus is essentially divided into seven areas. The syllabus starts with the legal and regulatory environment including money laundering, and professional and ethical considerations, including the Code of Ethics and professional liability. This then leads into procedures in practice management, including quality control and the acceptance and retention of professional engagements.

The syllabus then covers the audit of financial statements, including planning, gathering evidence and review. It then covers other assignments including prospective financial information, and other assurance assignments, as well as the reporting of these assignments.

The final section covers current issues and developments relating to the provision of audit-related and assurance services.

General Objective of the course

To analyze, evaluate and conclude on the assurance engagement and other audit and assurance issues in the context of best practice and current developments.

Specific objectives of the course

On successful completion of this course students' should be able to:

- Explain the concept of audit and assurance and the functions of audit, corporate governance, including ethics and professional conduct, describing the scope and distinguishing between the functions of internal and external audit
- Recognize the legal and regulatory environment and its impact on audit and assurance practice
- Demonstrate the ability to work effectively on an assurance or other service engagement within a professional and ethical framework
- Assess and recommend appropriate quality control policies and procedures in practice management and recognize the auditor's position in relation to the acceptance and retention of professional appointments
- Identify and formulate the work required to meet the objectives of audit assignments and apply the International Standards on Auditing (UK and Ireland)
- Identify and formulate the work required to meet the objectives of non-audit assignments
- Evaluate findings and the results of work performed and draft suitable reports on assignments

- Understand the current issues and developments relating to the provision of audit-related and assurance services.

Contents	Objectives
Chapter 1	Audit framework and regulation
1. The concept of audit and other assurance engagements	<ul style="list-style-type: none"> a) Identify and describe the objective and general principles of external audit engagements. b) Explain the nature and development of audit and other assurance engagements. c) Discuss the concepts of accountability, stewardship and agency. d) Define and provide the objectives of an assurance engagement. e) Explain the five elements of an assurance engagement. f) Describe the types of assurance engagement. g) Explain the level of assurance provided by an external audit and other review engagements and the concept of true and fair presentation.
2. External audits	<ul style="list-style-type: none"> a) Describe the regulatory environment within which external audits take place. b) Discuss the reasons and mechanisms for the regulation of auditors. c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors. d) Explain the regulations governing the rights and duties of auditors e) Describe the limitations of external audits. f) Explain the development and status of International Standards on Auditing (ISAs). g) Explain the relationship between International Standards on Auditing and national standards.
3. Corporate governance	<ul style="list-style-type: none"> a) Discuss the objectives, relevance and importance of corporate governance. b) Discuss the provisions of international codes of corporate governance (such as OECD) that are most relevant to auditors. c) Describe good corporate governance requirements relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors. d) Evaluate corporate governance deficiencies and provide recommendations to allow compliance with international codes of corporate governance. e) Analyze the structure and roles of audit committees and discuss their benefits and limitations. f) Explain the importance of internal control and risk management. g) Discuss the need for auditors to communicate with those charged with governance.
4. Professional ethics and Code of Ethics and Conduct	<ul style="list-style-type: none"> a) Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation. c) Discuss the safeguards to offset the threats to the fundamental principles. d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.
5. Internal audit and governance and the differences between external audit and internal audit	<ul style="list-style-type: none"> a) Discuss the factors to be taken into account when assessing the need for internal audit. [2] b) Discuss the elements of best practice in the structure and operations of internal audit with reference to appropriate international codes of corporate governance. c) Compare and contrast the role of external and internal audit.

6.The scope of the internal audit function, outsourcing and internal audit assignments	<p>a) Discuss the scope of internal audit and the limitations of the internal audit function.</p> <p>b) Explain outsourcing and the associated advantages and disadvantages of outsourcing the internal audit function.</p> <p>c) Discuss the nature and purpose of internal audit assignments including value for money, IT, financial, regulatory compliance, fraud investigations and customer experience.</p> <p>d) Discuss the nature and purpose of operational internal audit assignments</p> <p>e) Describe the format and content of audit review reports and make appropriate recommendations to management and those charged with governance</p>
Chapter 2	Regulatory Environment
1. International regulatory frameworks for audit and assurance services	<p>a) Explain the need for laws, regulations, standards and other guidance relating to audit, assurance and related services.</p> <p>b) Outline and explain the legal and professional framework including:</p> <p>i) public oversight of audit and assurance practice</p> <p>(ii) the impact of the UK Corporate Governance Code and its impact on audit and assurance practice</p> <p>iii) the role of audit committees and impact on audit and assurance practice.</p>
2. Money laundering	<p>a) Define ‘money laundering’ and discuss international methods for combating money laundering.</p> <p>b) Explain the scope of criminal offences of money laundering and how professional accountants may be protected from criminal and civil liability.</p> <p>c) Explain the need for ethical guidance in this area.</p> <p>d) Describe how accountants meet their obligations to help prevent and detect money laundering including record keeping and reporting of suspicion to the appropriate regulatory body.</p> <p>e) Explain the importance of ‘know your customer’ (KYC) information and recommend the information that should be gathered as part of KYC.</p> <p>f) Recognize potentially suspicious transactions and assess their impact on reporting duties.</p> <p>g) Describe, with reasons, the basic elements of an anti-money laundering program.</p>
3. Laws and regulations	<p>a) Compare and contrast the respective responsibilities of management and auditors concerning compliance with laws and regulations in an audit of financial statements.</p> <p>b) Describe the auditors’ considerations of compliance with laws and regulations and plan audit procedures when possible non-compliance is discovered.</p> <p>c) Discuss how and to whom non-compliance should be reported.</p> <p>d) Recognize when withdrawal from an engagement is necessary.</p>
Chapter 3	Professional and Ethical Considerations
1. Code of Ethics and Conduct	<p>a) Explain the fundamental principles and the conceptual framework approach.</p> <p>b) Identify, evaluate and respond to threats to compliance with the fundamental principles.</p> <p>c) Discuss and evaluate the effectiveness of available safeguards.</p> <p>d) Recognize and advise on conflicts in the application of fundamental principles.</p> <p>e) Discuss the importance of professional skepticism in planning and performing an audit.</p> <p>f) Consider the ethical implications of the external auditor providing non-audit services to a client including an internal audit service.</p> <p>g) Assess whether an engagement has been planned and performed with an attitude of professional skepticism, and evaluate the implications.</p>
2. Fraud and error	<p>a) Identify and develop an appropriate response to circumstances which indicate a</p>

	<p>high risk of error, irregularity, fraud or misstatement in the financial statements or a given situation</p> <p>b) Compare and contrast the respective responsibilities of management and auditors for fraud and error.</p> <p>c) Describe the matters to be considered and procedures to be carried out to investigate actual and/or potential misstatements in a given situation.</p> <p>d) Explain how, why, when and to whom fraud and error should be reported and the circumstances in which an auditor should withdraw from an engagement.</p> <p>e) Discuss the current and possible future role of auditors in preventing, detecting and reporting error and fraud.</p>
3. Professional liability	<p>a) Recognize circumstances in which professional accountants may have legal liability and the criteria that need to be satisfied for legal liability to be recognized.</p> <p>b) Describe the factors to determine whether or not an auditor is negligent and discuss the auditor's potential liability in given situations.</p> <p>c) Compare and contrast liability to client with liability owed to third parties (ie contract vs establishing a duty of care).</p> <p>d) Evaluate the practicability and effectiveness of ways in which liability may be restricted including the use of liability limitation agreements</p> <p>e) Discuss and appraise the principal causes of audit failure and other factors that contribute to the 'expectation gap' (e.g. responsibilities for fraud and error) and recommend ways in which the expectation gap might be bridged.</p>
Chapter 4	Practice Management
1. Quality control	<p>a) Explain the principles and purpose of quality control of audit and other assurance engagements.</p> <p>b) Describe the elements of a system of quality control relevant to a given firm.</p> <p>c) Select and justify quality control procedures that are applicable to a given audit engagement.</p> <p>d) Assess whether an engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances.</p>
2. Advertising, publicity, obtaining professional work and fees	<p>a) Recognise situations in which specified advertisements are acceptable.</p> <p>b) Discuss the restrictions on practice descriptions, the use of the ACCA logo and the names of practicing firms.</p> <p>c) Discuss the extent to which reference to fees may be made in promotional material.</p> <p>d) Outline the determinants of fee-setting and justify the bases on which fees and commissions may and may not be charged for services.</p> <p>e) Discuss the ethical and other professional problems, for example, lowballing, involved in establishing and negotiating fees for a specified assignment.</p>
3. Tendering	<p>a) Discuss the reasons why entities change their auditors/professional accountants.</p> <p>b) Recognise and explain the matters to be considered when a firm is invited to submit a proposal or fee quote for an audit or other professional engagement.</p> <p>c) Identify the information to be included in a proposal.</p>
4. Professional appointments	<p>a) Explain the matters to be considered and the procedures that an audit firm/professional accountant should carry out before accepting a specified new client/engagement or continuing with an existing engagement, including:</p> <p>i) client acceptance</p> <p>ii) engagement acceptance</p> <p>iii) establish whether the preconditions for an audit are present</p> <p>iv) agreeing the terms of engagement.</p>

	b) Recognise the key issues that underlie the agreement of the scope and terms of an engagement with a client.
Chapter 5	Audit of historical financial information
1. Planning, materiality and assessing the risk of misstatement	<ul style="list-style-type: none"> a) Define materiality and performance materiality and demonstrate how it should be applied in financial reporting and auditing. b) Identify and explain business risks for a given assignment. c) Identify and explain audit risks for a given assignment. d) Identify and explain risks of material misstatement for a given assignment. e) Discuss and demonstrate the use of analytical procedures in the planning of an assignment. f) Explain how the result of planning procedures determines the relevant audit strategy. g) Explain the planning procedures specific to an initial audit engagement. h) Identify additional information that may be required to assist the auditor in obtaining an understanding of the entity. i) Recognise matters that are not relevant to the planning of an assignment.
2. Evidence	<ul style="list-style-type: none"> a) Identify and describe audit procedures (including substantive procedures and tests of control) to obtain sufficient, appropriate audit evidence from identified sources including an assessment of the use of IT to assist the auditor and the use of Computer-assisted audit techniques (CAATs) where appropriate. b) Identify additional information that may be required to effectively carry out a planned assignment. c) Identify and evaluate the audit evidence expected to be available to <ul style="list-style-type: none"> i) support the financial statement assertions and accounting treatments (including fair values) ii) support disclosures made in the notes to the financial statements. d) Apply analytical procedures to financial and non-financial data. e) Explain the specific audit problems and procedures concerning related parties and related party transactions. f) Recognise circumstances that may indicate the existence of unidentified related parties and select appropriate audit procedures. g) Evaluate the use of written representations from management to support other audit evidence. h) Recognise when it is justifiable to place reliance on the work of an expert (e.g. a surveyor employed by the audit client). i) Assess the appropriateness and sufficiency of the work of internal auditors and the extent to which reliance can be placed on it.
3. Evaluation and review	<ul style="list-style-type: none"> a) Evaluate the matters (e.g. materiality, risk, relevant accounting standards, audit evidence) relating to: <ul style="list-style-type: none"> i) inventory ii) standard costing systems iii) statement of cash flows iv) changes in accounting policy v) taxation (including deferred tax) vi) segmental reporting vii) non-current assets viii) fair values ix) leases x) revenue from contracts with customers xi) employee benefits

	<p>xii) government grants xiii) related parties xiv) earnings per share xv) impairment xvi) provisions, contingent liabilities and contingent assets xvii) intangible assets xviii) financial instruments xix) investment properties xx) share-based payment transactions xxi) business combinations xxii) assets held for sale and discontinued operations xxiii) events after the end of the reporting period xxiv) the effects of foreign exchange rates xxv) borrowing costs.</p> <p>b) Explain the use of analytical procedures in evaluation and review. c) Explain how the auditor’s responsibilities for corresponding figures, comparative financial statements, and ‘other information’, are discharged. d) Apply the further considerations and audit procedures relevant to initial engagements. e) Specify audit procedures designed to identify subsequent events that may require adjustment to, or disclosure in, the financial statements of a given entity. f) Identify and explain indicators that the going concern basis may be in doubt and recognize mitigating factors. g) Recommend audit procedures, or evaluate the evidence that might be expected to be available and assess the appropriateness of the going concern basis in given situations. h) Assess the adequacy of disclosures in financial statements relating to going concern and explain the implications for the auditor’s report with regard to the going concern basis.</p>
<p>4. Group audits</p>	<p>a) Recognise the specific matters to be considered before accepting appointment as group auditor to a group in a given situation. b) Explain the responsibilities of the component auditor before accepting appointment, and the procedures to be performed in a group situation. c) Identify and explain the matters specific to planning an audit of group financial statements including:</p> <ul style="list-style-type: none"> • assessment of group and component materiality, • the impact of non-coterminous year ends within a group, and • Changes in group structure. <p>d) Recognize the audit problems and describe audit procedures specific to:</p> <ul style="list-style-type: none"> • a business combination including the classification of investments, • the determination of goodwill and its impairment, • group accounting policies, • inter-company trading, • equity accounting for associates and joint ventures, • changes in group structure including acquisitions and disposals, and • accounting for a foreign subsidiary. <p>e) Identify and explain the audit risks, and necessary audit procedures relevant to the consolidation process. f) Identify and describe the matters to be considered and the procedures to be performed at the planning stage, when a group auditor considers the use of the work of</p>

	<p>component auditors.</p> <p>g) Consider how the group auditor should evaluate the audit work performed by a component auditor.</p> <p>h) Justify the situations where a joint audit would be appropriate.</p> <p>i) Explain the implications for the auditor's report on the financial statements of an entity where the opinion on a component is modified in a given situation.</p>
Chapter 6	Other assignments
1. Audit-related and assurance services	<p>a) Describe the nature of audit-related services and the comparative levels of assurance provided by professional accountants and distinguish between:</p> <p>i) audit-related services and an audit of historical financial statements</p> <p>ii) an attestation engagement and a direct engagement.</p> <p>b) Plan review engagements, for example:</p> <p>i) a review of interim financial information</p> <p>ii) a 'due diligence' assignment (when acquiring a company, business or other assets).</p> <p>c) Explain the importance of enquiry and analytical procedures in review engagements and apply these procedures.</p> <p>d) Describe the main categories of assurance services that audit firms can provide and assess the benefits of providing these services to management and external users.</p> <p>e) Describe the level of assurance (reasonable, high, moderate, limited, negative) for an engagement depending on the subject matter evaluated, the criteria used, the procedures applied and the quality and quantity of evidence obtained.</p>
2. Prospective financial information	<p>a) Define 'prospective financial information' (PFI) and distinguish between a 'forecast', a 'projection', a 'hypothetical illustration' and a 'target'.</p> <p>b) Explain the principles of useful PFI.</p> <p>c) Identify and describe the matters to be considered before accepting a specified engagement to report on PFI.</p> <p>d) Discuss the level of assurance that the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures.</p> <p>e) Describe examination procedures to verify forecasts and projections:</p> <p>f) Compare the content of a report on an examination of PFI with reports made in providing audit-related services.</p>
3. Forensic audits	<p>a) Define the terms 'forensic accounting', 'forensic investigation' and 'forensic audit'.</p> <p>b) Describe the major applications of forensic auditing (e.g. fraud, negligence, insurance claims) and analyse the role of the forensic auditor as an expert witness.</p> <p>c) Apply the fundamental ethical principles to professional accountants engaged in forensic audit assignments.</p> <p>d) Plan a forensic audit engagement.</p> <p>e) Select investigative procedures and evaluate evidence appropriate to determining the loss in a given situation.</p>
4. Internal audit	<p>a) Evaluate the potential impact of an internal audit department on the planning and performance of the external audit.</p> <p>b) Explain the benefits and potential drawbacks of outsourcing internal audit.</p> <p>c) Consider the ethical implications of the external auditor providing an internal audit service to a client.</p>
5. Outsourcing	<p>a) Explain the different approaches to 'outsourcing' and compare with 'insourcing'.</p> <p>b) Discuss and conclude on the advantages and disadvantages of outsourcing finance and accounting functions.</p> <p>c) Recognise and evaluate the impact of outsourced functions on the conduct of an</p>

	audit.
6. Auditing aspects of insolvency (and similar procedures)	<ul style="list-style-type: none"> a) Explain the meaning of, and describe the procedures involved in placing a company into voluntary or compulsory liquidation or administration. b) Explain the consequences of liquidation or administration for a company and its stakeholders. c) Advise on the differences between fraudulent and wrongful trading and the consequences for company directors. d) Examine the financial position of a company and determine whether it is insolvent. e) Identify the circumstances where administration could be adopted as an alternative to liquidation, and explain the benefits of administration compared to liquidation. f) Explain and apply the priority for the allocation of company assets.
Chapter 7	Reporting
1. Auditor's reports	<ul style="list-style-type: none"> a) Determine the form and content of an unmodified auditor's report and assess the appropriateness of the contents of an unmodified auditor's report. b) Recognise and evaluate the factors to be taken into account when forming an audit opinion in a given situation and justify audit opinions that are consistent with the results of audit procedures. c) Critically appraise the form and content of an auditor's report in a given situation. d) Assess whether or not a proposed audit opinion is appropriate. e) Advise on the actions which may be taken by the auditor in the event that a modified auditor's report is issued. f) Recognise when the use of an emphasis of matter paragraph, other matter paragraph and KAM disclosure would be appropriate. g) Discuss the courses of action available to an auditor if a material inconsistency or material misstatement exists in relation to other information such as contained in the integrated report.
2. Reports to those charged with governance and management	<ul style="list-style-type: none"> a) Critically assess the quality of a report to those charged with governance and management. b) Advise on the content of reports to those charged with governance and management in a given situation.
3. Other reports	<ul style="list-style-type: none"> a) Analyse the form and content of the professional accountant's report for an assurance engagement as compared with an auditor's report. b) Discuss the content of a report for an examination of prospective financial information. c) Discuss the effectiveness of the 'negative assurance' form of reporting and evaluate situations in which it may be appropriate to modify a conclusion.
Chapter 8	Current Issues and Developments
1. Professional and ethical developments	<ul style="list-style-type: none"> a) Discuss emerging ethical issues and evaluate the potential impact on the profession, firms and auditors. b) Discuss the content and impact of exposure drafts, consultations and other pronouncements issued by FRC and IFAC and its supporting bodies (including IAASB, IESBA and TAC).
2. Transnational audits	<ul style="list-style-type: none"> a) Define 'transnational audits' and explain the role of the Transnational Audit Committee (TAC) of IFAC. b) Discuss how transnational audits may differ from other audits of historical financial information (e.g. in terms of applicable financial reporting and auditing standards, listing requirements and corporate governance requirements).

3. The audit of social, environmental and integrated reporting	<p>a) Plan an engagement to provide assurance on integrated reporting (performance measures and sustainability indicators).</p> <p>b) Describe the difficulties in measuring and reporting on economic, environmental and social performance and give examples of performance measures and sustainability indicators.</p> <p>c) Explain the auditor’s main considerations in respect of social and environmental matters and how they impact on entities and their financial statements (e.g. impairment of assets, provisions and contingent liabilities).</p> <p>d) Describe substantive procedures to detect potential misstatements in respect of socio-environmental matters.</p> <p>e) Discuss the form and content of an independent verification statement of an integrated report .</p>
4. Other current issues	<p>a) Discuss current developments in auditing standards including the need for new and revised standards and evaluate their impact on the conduct of audits.</p> <p>b) Discuss current developments in business practices, practice management and audit methodology and evaluate the potential impact on the conduct of an audit and audit quality.</p> <p>c) Discuss current developments in emerging technologies, including big data and the use of data analytics and the potential impact on the conduct of an audit and audit quality.</p>

Mode of delivery: it should include lectures, seminars, case analysis and discussions, individual and group presentations, simulations and other modes which are more appropriate to the course.

ASSESSMENT METHODS

Details of the assessment techniques that will be applied in the course progress are summarized in the table below.

No	Mode of Assessment	Points to be allotted (weight)
1	Assignments, critical review, term papers and Presentations	20
2	Midterm Exam	20
2	Practical Audit Report (Project work)	30
3	Final Exam	30
	Total	100

Text/References:

- ACCA Study Text, Audit and Assurance (F8) and Advanced Audit and Assurance (UK) (P7)
- Arens, Elder and Beasley, Auditing and Assurance Services: An Integrated Approach, 15th Ed.
- Gray, I. and S. Manson the Audit Process. (Thomson)
- Porter, B., J. Simon and D. Hatherly Principles of external auditing. (Chichester: John Wiley & Sons)