	Module 1 THE AUDITING AND ASSURANCE FRAMEWORK	1
1	ASSURANCE ENVIRONMENT what are assurance services? -Definition - population of assurance services Fig.	4
	important influences on provision of assurance services - A. <u>THE</u> <u>INTERNATIONALISATION OF AUDITING</u>	5
	Regulatory agencies, what they want International Federation of Accountants (IFAC) International Forum of Independent Audit Regulators (IFIAR) International Ethics Standards Board for Accountants (IESBA) - (code of ethics) International Auditing and Assurance Standards Board (IAASB)	5-6- 7
	-Pronouncements issued by the IAASB Fig.	
В	REGULATION OF AUDITING IN AUSTRALIA - regulators and institutions that have an impact on the audit process, either directly or indirectly. They include -	7
	 Financial Reporting Council (FRC) Australian Securities and Investments Commission (ASIC) Accounting Professional and Ethical Standards Board (APESB) Auditing and Assurance Standards Board (AUASB) - similarities and differences with IAASB - The AUASB standard-setting process Fig. equivalent Australian pronouncements to the International pronouncements covering various aspects of audit and assurance engagements Table Companies Auditors and Liquidators Disciplinary Board (CALDB) Australian Securities Exchange (ASX) professional accounting bodies: CPA Australia Chartered Accountants Australia and New Zealand (CAANZ) Institute of Public Accountants (IPA). 	7 - 8
С	REGULATION OF AUDITING IN NEW ZEALAND - The External Reporting Board (XRB) consisting of New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAUASB) -The equivalent of the Australian regulator (ASIC) in New Zealand is the Financial Markets Authority (FMA)	10
2	ASSURANCE ENGAGEMENT FRAMEWORKA. ETHICAL PRINCIPLES - firms that perform assurance engagements must comply with the fundamental ethical principles outlined in IESBA's Code - (i) THE CODE - IESBA established by IFAC . (Code divided into 4 parts)	11
	1st Part -Fundamental principles (integrity, objectivity, professional competence and due care, confidentiality, professional behaviour) and Conceptual Framework (threats and safeguards)	12 - 13
	3rd Part - Professional Accountants in Public Practice - (conflicts of interest, professional appointments -additional requirements that apply to appointment of auditors in Australia, second opinions, Fees and other types of remuneration - threats and safeguards, Inducements - gifts and hospitality,	14 - 15

	Custody of client assets , Responding to Non-Compliance with Laws and Regulations (NOCLAR) - objectives of an accountant if they encounter or are made aware of NOCLAR	
	4th Part - Independence (Part 4A) Under the Corporations Act, ASIC has responsibility for the surveillance, investigation and enforcement of auditor independence	16
	Australian requirements - APES 110 issued by APESB and ASA 102	17
B.	QUALITY CONTROL STANDARDS - professional accountants subject to <u>ISQC 1</u> , -similarities and differences between <u>ISA 220</u> and <u>ISQC 1</u> , -IAASB issued a proposal of international standards on quality management , what is quality management?	18
(i)	Elements of Quality Control (a) <u>Leadership Responsibility</u> (b) <u>Ethical Requirements</u> (what does system that support ethical behaviour include?), ISA 220, what is important for the engagement partner to do ? at what level there can be non-compliance ?	19
(c)	Acceptance and Continuance of Client Relationships - risk checklist to assess the integrity of a client , what does the risk assessment affect?	
(d)	Human Resources , Assignment of Engagement Teams	20
(e)	Engagement Performance - Important policies and procedures that relate to engagement performance are- ~ Consistency in the Quality of Engagement Performance ~ Supervision and Review ~ Consultation (mentoring scheme) ~ Engagement Quality Control Review	21
(f)	Monitoring - monitoring of audit control , - INFO 222 'improving and maintaining audit quality' , - internal and external monitoring	22
	Transparency report by larger audit firms of significant entities	23
(ii)	A Framework for Audit Quality - Fig. , -what is included in a quality audit's input , process and output , - the 1st , 2nd and 3rd part of the audit quality framework	24
C.	DESCRIPTION OF ASSURANCE ENGAGEMENTS - Examples of assurance engagements - Table :	25
D.	ATTESTATION AND DIRECT ENGAGEMENTS - Assurance engagements include • Attestation engagements • Direct engagements (assurance engagements either an attestation engagement or direct engagement - no overlap) , -distinction between attestation engagements and direct engagements	
E.	REASONABLE AND LIMITED ASSURANCE ENGAGEMENTS - meaning of the term "reasonable assurance" -what Sufficient appropriate audit evidence includes:	26
	examples of conclusions provided in ISAE 3000 for an audit of the financial statements , how limited assurance engagements conclusions are conveyed	27

F.	SCOPE OF THE FRAMEWORK - assurance engagements that practitioners perform that are not covered by the framework	
G.	ELEMENTS OF AN ASSURANCE ENGAGEMENT - Elements of a generic assurance engagement Fig. ,Comparison of the elements of a generic assurance engagement and a financial statement audit : Table	28
	Explanation of the elements of assurance engagements(i) Three party relationship - - practitioner (the assurance practitioner) - responsible party (responsible for the underlying subject matter and the preparation of the subject matter information) - intended users (of the assurance report) , table of examples of different types of engagements and their intended users ,examples of assurance engagements performed for a specific purpose with only one user	29
(ii)	Underlying Subject Matter - what appropriate subject matter includes , Subject matter of an assurance engagement Table :	30
(iii)	Criteria - meaningcriteria can be formal,Characteristics and examples of suitable criteria Table:	31
(iv)	Evidence - Evidence gathered should be sufficient and appropriate , an assurance practitioner has to exercise professional scepticism (consisting of sceptical mindset and sceptical attitude) , information technology changes affects auditor's scepticism	32 - 35
	Professional Judgment (examples of audit judgements) , judgments pertaining to evidence collection and evaluation are made within the context of materiality	35- 36
	Engagement risk (assurance provider assesses the engagement risk during the planning stage of the engagement by assessing three components - inherent risk , control risk and detection risk)	37
	Nature, Timing and Extent of Procedures	38
(v)	Assurance Report - determination of level of assurance involves consideration of the relationships between underlying subject matter, the criteria, quantity and quality of evidence	
3.	TYPES OF ASSURANCE ENGAGEMENTS - (different types of assurance services that an assurance practitioner can provide)	39
Α.	AUDITS OF FINANCIAL STATEMENTS - financial statements free from material misstatements and prepared in accordance with financial reporting framework ,true and fair viewwhat directors must declare according to the corporations Act ,additional notes in the financial report if compliance with accounting standards doesn't give true and fair view.	40
	Sec. 301 of the Corporations Act ,requirements of the auditor in fulfilling their role	

(i)	Limitations of an Audit - reasons behind the limitations of audit , nature of financial reporting refers to the use of judgement ,nature of audit procedures refers to the reliance on evidence provided by the client and its management. ,sampling is used when testing transactions and account balances , what timeliness and cost of a financial report audit refer to	
В.	AUDITS OF SPECIALISED AREAS - • special purpose financial statements • single financial statements or components thereof • summary financial statements including concise financial reports	41
C.	REVIEW ENGAGEMENTS - assurance practitioner <u>engaged in performing review</u> of financial report rather than an audit ,how a <u>review differs from an audit</u>	
	reviews of historical financial information other than a complete financial report	
D.	HISTORICAL NON-FINANCIAL REPORTS ASSURANCE - ISAE 3000 an umbrella standard for other assurance engagements (which may be either 'reasonable' or 'limited'), assurance of non-financial information reports	
E.	FUTURE-ORIENTED INFORMATION ASSURANCE what it includes , what kind of opinion and report does the auditor give	42
F.	ASSURANCE ON SYSTEMS AND PROCESSES - 'Systems and processes' one of the categorisations of underlying subject matter for other assurance services , most common other assurance services relate to internal control - Sarbanes—Oxley Act 2002 , ISAE 3402 , ASAE 3150 , how does providing a report on internal controls help?	
	 kind of audits are included in assurance on systems and processes - internal audits internal controls audit - Engagements in relation to control procedures may be direct reporting engagements or assertion based engagements continuous auditing - on what are auditors asked to continuously audit an report on ,auditing issues related to continuous audit 	42- 43
G.	ASSURANCE ON ASPECTS OF BEHAVIOUR - include (i) Compliance Engagements - what assurance does compliance engagements provide,upon what is the level of work the auditor needs to carry on will be dependent, ensuring the suitability of the criteria against which the outcome is to be measured,what should the report prepared by the auditor identify and state	43
(ii)	Corporate Governance Assurance -	44
ı	PERFORMANCE OF AN ACTIVITY - Performance engagements are concerned with the economy, efficiency and effectiveness of an organisation's activities	
4	APPLICATION OF STANDARDS - Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (facilitates understanding of the scope and authority of the IAASB's pronouncements)	45

	what do IAASB pronouncements do?	
A.	APPLICATION OF ISAs - important points , Fig. overview of the categories of auditing standards, as well as the ISA number sequence used for each category, and the number of standards in each category	46
(i)	SME Perspective ISAs often have a special section entitled 'Considerations Specific to Smaller Entities' examples	47
	e.g. of ISAs that are less relevant to an SME - ISA 300 , ISA 402 , ISA 510 , ISA 600 , ISA 610 , ISA 800	
a.	Audit Requirements small proprietary company as a business form , small businesses choosing to either include key financial data in their annual returns to ASIC or having company's accounts audited ,ways in which an association can incorporate ,	
	A tiered approach to audit requirements for incorporated associations	48
b.	Future Developments - scalability and proportionality of the ISAs , challenges of applying ISAs - appropriate to focus on complexity of entities rather than size ,role of IFAC in context of SMEs	
c.	Differential Reporting IFRS for SMEs ,AASB introduced differential reporting for organisations that were required to apply full IFRS but found it burdensome (2nd tier) , Tier 1 reporting	
(ii)	Public Sector Perspectiveenvironment in which <u>public sector auditor</u> works, role of public sector and role of <u>auditor-general</u> , <u>Several</u> instrumentalities participate in the control of <u>public expenditures</u> which is one of the main responsibilities of the government,	49
a.	Mandate of the Auditor-General - the work of public sector auditors , AustraliaIn the public sector, auditors work for either the Australian National Audit Office (ANAO) or state audit offices, which support the various state auditors-general. ,core services provided by the Audit Office of NSW - an understanding of the audit work carried out by various state audit offices in Australia(Financial audits , Performance audits, Special reports)	
	Hong Kong	50
В.	APPLICATION OF ISREs - are international standards that cover the basic principles and essential procedures governing review engagements on historical financial information , - ISRE 2410 , ISRE 2400 ,points related to review engagements	51
C.	APPLICATION OF ISAEs - ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information, In addition, there are four international subject specific standards for these assurance engagements. They are: 1. ISAE 3400 The Examination of Prospective Financial Information 2. ISAE 3402 Assurance Reports on Controls at a Service Organisation 3. ISAE 3410 Assurance Engagements on Greenhouse Gas Statements	

	4. ISAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus.	
	five types of engagements and their specific international standards - 1. Historical non-financial reports — ISAE 3410 , 2. Future-oriented information — ISAE 3400 and 3420 , 3. Systems and processes — ISAE 3402 , 4. Aspects of behaviour , 5. Performance of activity — ASAE 3500 Performance Engagements	
D.	APPLICATION OF ISRSs - apply to non-assurance engagements involving related services - ISRS 4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information , ISRS 4410 (Revised) Compilation Engagements	52
E.	AUSTRALIAN PERSPECTIVE - ASA 100 Preamble to AUASB Standards , ASA 101 Preamble to Australian Auditing Standards , ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements require assurance practitioners to comply with all AUASB standards, Auditing standards and Ethical requirements respectively. , AUASB drafts Australian Auditing Standards (ASAs) equivalent to ISAs	
	Australian standards have the' force of law',ASAs are written in the context of an audit of a 'financial report' how the ASAs that diverge from the ISAs are identified,ASA standards that do not exist at the international level - ASRE 2415, ASAE 3100, ASAE 3450, ASAE 3500, ASAE 3610/AWAS 2, APES 310, ASRS 4450	
	changes in the Corporation Act led to issue of ASRE 2415 and the entities to which it applies	
5	CHANGING ENVIRONMENT - A. EVOLVING BUSINESS MODELS - over the time, the changes in the environment that leads entities to continually evolve their business models , ultimately may transform everything about the business model	53
	evolving of technologies impact an entity's business model	
В.	CLIMATE-RISK DISCLOSURE - The Task Force on Climate-related Financial Disclosures (TCFD) , - TCFD identified 2 main categories of climate- related risks - (i)Transition risks , (ii) Physical risks , examples of climate-risk-related and climate change disclosures	54
	ISA 315 (Revised) - auditors need to consider climate related risks during the risk assessment phase of an audit , ISA 540 (Revised) - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	
	Material climate-related disclosures if reflected in the financial statements, are audited as part of the annual audit.	
	ISAE 3000 (Revised) applicable when climate related disclosures made outside the annual report are assured	