

Welcome to 22522

Assurance Services and Audit

Expectations

- What you can expect of me and the teaching team
 - Learning content
 - Support in class and online
 - Provide a safe and welcoming learning environment

- What we expect of students
 - To prepare for class
 - Respect the teaching team and your fellow class mates
 - Have an open mind to try each exercise

MODULE 1

Topic 1. Introduction to audit

Overview of audit and the profession

The ethics of auditing

Overview of audit and the profession

What are audits?

ASA 200.3 says

The purpose of an audit is to enhance the degree of confidence of intended users in the financial report. This is achieved by the expression of an opinion by the auditor on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.

Audits are a part of corporate governance

- The phrase “corporate governance” describes “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.”
 - Justice Owen in the HIH Royal Commission, The Failure of HIH Insurance Volume 1: A Corporate Collapse and Its Lessons, Commonwealth of Australia, April 2003 at page xxxiv

Corporate governance structures are multi-party

Auditors work closely with audit committees

- Audit committee is comprised of _____ directors
- Responsible for oversight of the financial reporting process
- Common responsibilities
 - Ensure corporate reporting processes and internal controls are adequate
 - Review the appropriateness of accounting judgements made during the preparation of the financial report
 - Scope, adequacy and fees for the audit
 - Receive reports from the internal auditors

Why do we have audits?

- Companies provide information to users to help them make business decisions.
- What sort of decisions
- Users want the report to be checked by having an **independent expert** examine it (to enhance its **credibility**)
- Users are not themselves in a position to establish the credibility of the information they are presented with.

- The purpose of assurance is to overcome the issues of:
 - **Conflict of interest:** Managers may present biased information as they are also evaluated on the information.
 - **Consequence:** Information provided forms the basis of many users' decisions.
 - **Complexity:** Many users do not have the expertise required to determine the quality of information presented.
 - **Remoteness:** The separation of owners from management prevents users from assessing information quality.

What is the output of an audit?

Audit opinion

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Building a better working world

Independent Auditor's Report to the Members of Coles Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of Coles Group Limited (the Company) and its subsidiaries (collectively, the Group), which comprises the Consolidated Statement of Financial Position as at 30 June 2019, the Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Coles Group Limited, would be in the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Do audits have value?

3 Hypotheses Explaining Demand for Assurance

1. Agency **Theory** between managers and investors (stewardship hypothesis).
2. Reliability **Hypothesis** – Investors and other stakeholders want to know that the information prepared by management is reliable (i.e. “true and fair”).
3. Liability **Hypothesis** – Shifting the financial responsibility onto auditors if there are losses from litigation.

What the profession says

- Auditors are independent and objective
- Auditors have significant expertise and produce a high quality audit

Let's hear from a regulator - Prof Roger Simnett

What does the media say?

FINANCIAL REVIEW

Accounting

Deloitte reveals eight audit clients folded

Hannah Wootton

605 words

29 January 2020

[The Australian Financial Review](#)

AFNR

First

34

English

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Deloitte was the auditor of eight collapsed listed companies in the past decade and failed to flag problems in the financial statements in three of the cases, the firm has revealed to parliament.

The eight collapsed companies' annual reports show that Deloitte was also providing lucrative **non-audit** work to six of them while it was auditing their books.

FINANCIAL REVIEW

Accounting

Audit experts urge big four rule changes, warn of collapses

Hannah Wootton

811 words

6 November 2019

[The Australian Financial Review](#)

AFNR

First

34

English

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High-profile accounting experts are pushing the parliamentary inquiry into audit quality to separate the audit and **non-audit** divisions of professional services firms and introduce regulations in an attempt to weaken the market dominance of the big four.

This counters submissions from the big four consulting firms and member associations that advocate the

FINANCIAL REVIEW

Accounting

Split up big four firms: ex-partner

Hannah Wootton

299 words

27 November 2019

[The Australian Financial Review](#)

AFNR

First

13

English

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A former EY audit partner has called for the government to "consider mandating at least an operation of firms into separate audit and **non-audit** outfits.

In a submission to the parliamentary inquiry into audit quality, ex-Ernst & Young partner Denis Thorn changes were needed as "audit quality needs to improve".

FINANCIAL REVIEW

News

Auditor independence enters theatre of absurd

James Thomson

650 words

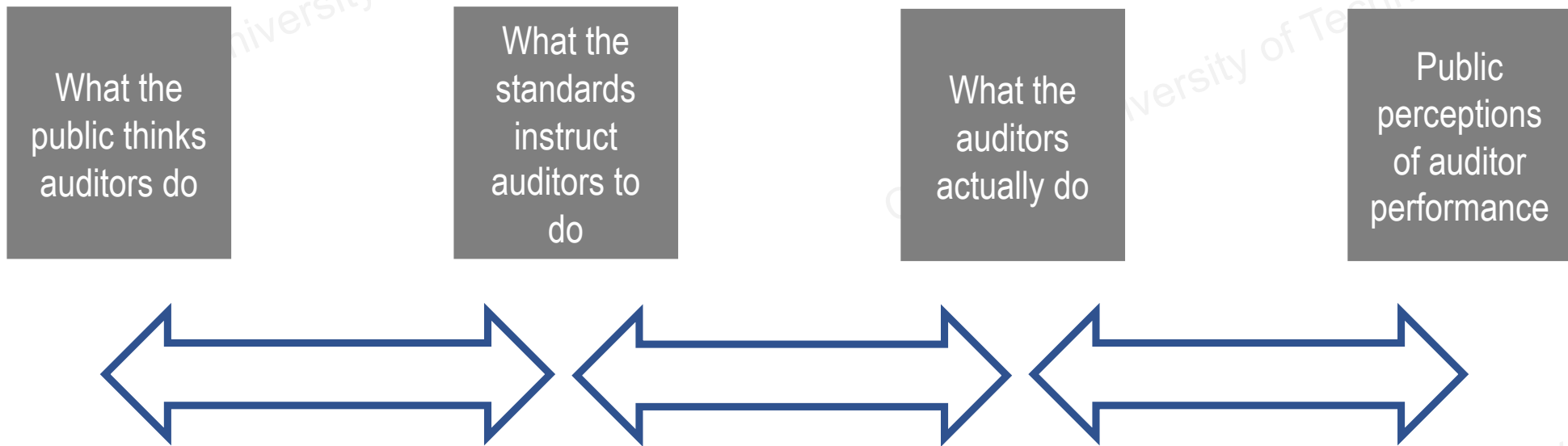
10 December 2019

[The Australian Financial Review](#)



What drives these different opinions?

The audit expectation gap



What are the auditor's legal obligations?

Responsibilities under the Corporations Act 2001

- **Management** is responsible for the preparation and fair representation of appropriate accounts (i.e. the Financial Report).
- **Auditors** are responsible for the **Auditor's Report** which assures members that the Financial Report:
 - Is in accordance with the law, including compliance with Accounting Standards (**s 296**)
 - Provides a true and fair view of the company (**s 297**).
- **Section 307A** of the Corporations Act requires auditors to conduct audits and reviews of financial reports in accordance with Auditing Standards (ASAs).

What are the auditing standards?



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Australian Auditing Standards

Auditor's Responsibilities

[Click here](#) for more information.

Australian Auditing Standards

Australian Auditing Standards establish requirements and provide application and other explanatory material on:

- > the responsibilities of an auditor when engaged to undertake an audit of a financial report, or complete set of financial statements, or other historical financial information; and
- > the form and content of the auditor's report

Previous versions of Australian Auditing Standards can be found in the [Archive](#) section of this website.

Click on the "Extra" links to access:

- > [Explanatory Guides](#)

Auditing Standards Made Under Section 336 of the *Corporations Act 2001*

No.	Title	Notes	Approval Date	Operative Date
ASQC 1	<i>Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (Compiled)</i>		11 Nov 2013	1 Jan 2010*
ASQC 1	<i>Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements (Compiled)</i>		30 May 2017	1 Jan 2018 early adoption permitted
ASA 100	<i>Preamble to AUASB Standards</i>		28 Apr 2006	1 Jul 2006
ASA 101	<i>Preamble to Australian Auditing Standards (Compiled)</i>		27 Jun 2011	1 Jan 2010

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- [Focus on Audit Quality](#)

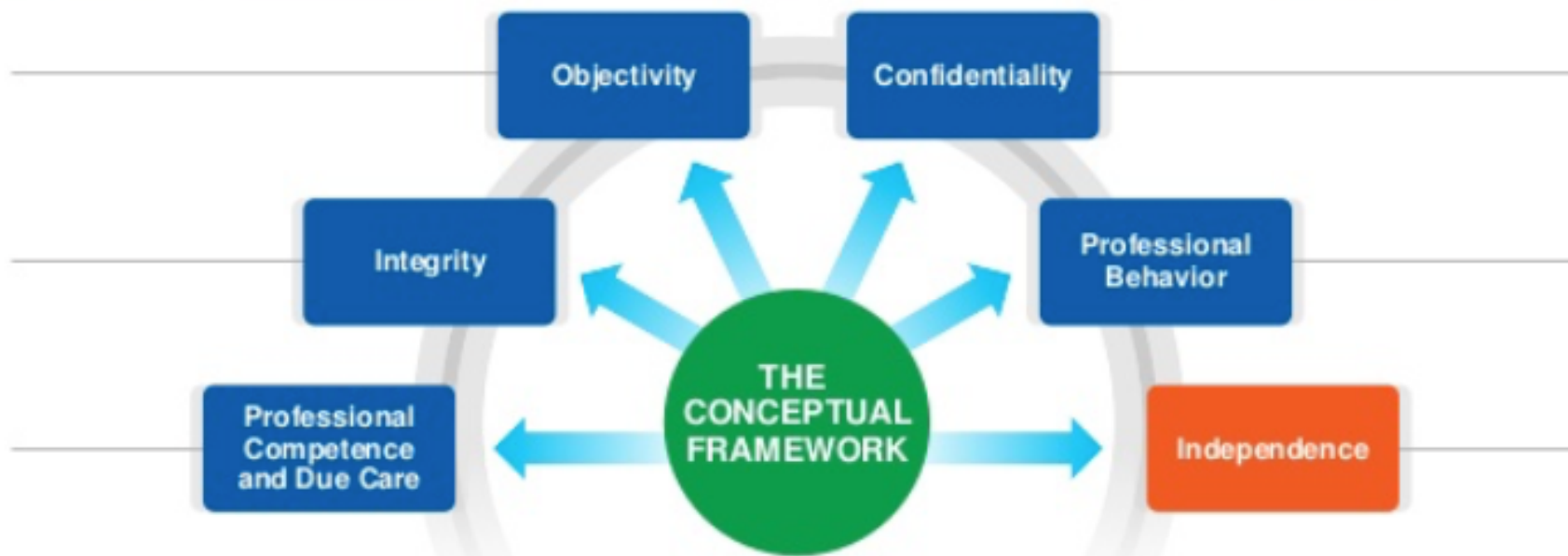
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The ethics of audit

Fundamental Principles of Professional Ethics

About the New Code

Overarching Requirements



Auditor Independence

- *“Independence is the cornerstone of the Auditing profession”*
- It is a **key characteristic** of an Auditor.
- In order for auditors to **add credibility** to financial reports or other subject matter, they **need to remain independent**.
- Independence is one of the fundamental ethical virtues or principles required by **The Code**. Auditors are required to have independence of _____ and in _____.

Auditor Independence: Ethical Requirements

- The test for independence is a **reasonable person test**. Would a reasonable person having access to all facts consider that the auditor was independent?
- Ethical rules emphasise both (**The Code, 120.12 A1 & 400.5**):
 - **Independence of Mind (Actual independence)**: State of mind that permits the expression of a conclusion without being affected by bias and personal interest; to allow the exercise of professional judgement without undue pressures or influences. Related to integrity, objectivity and strength of character.
 - **Independence in Appearance (Perceived)**: How others will view the auditor. The avoidance of facts and circumstances that would lead to others concluding the Auditor's integrity and objectivity has been compromised.



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Auditors also have legal obligations to be independent

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Other Corporations Act requirements

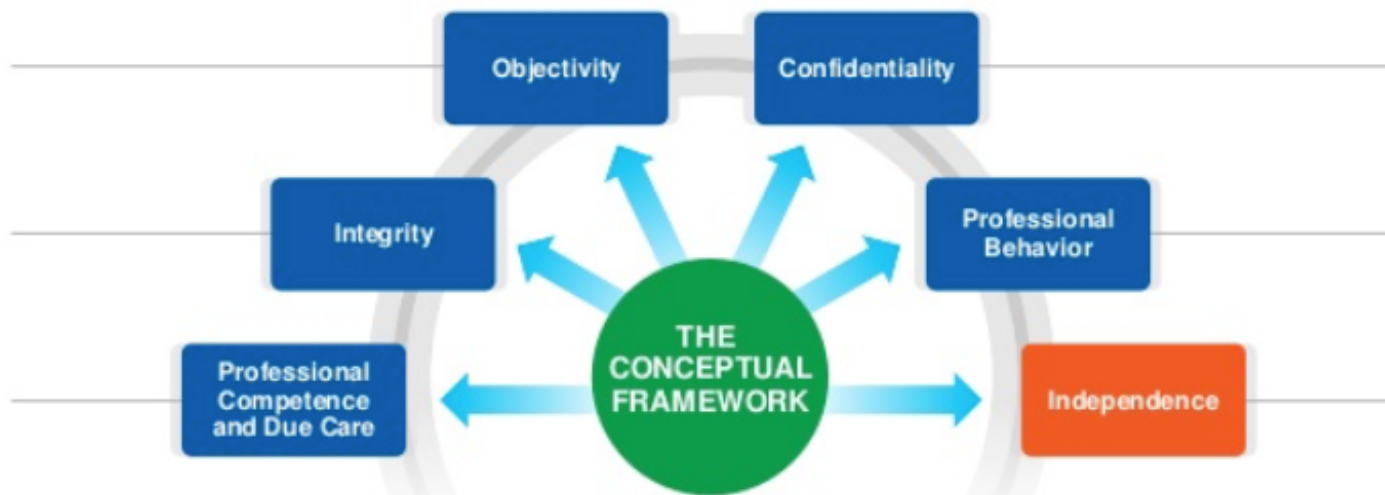
- s324CA – ensure no conflicts of interest exist
- s324CI – key audit personnel cannot become a director, company secretary or member of senior management of a client until a 2 year cooling off period has been held
- s324FA – audit partners can only stay on the audit for 5 years – must rotate to another partner. They cannot be involved for at least 2 successive years.
- S300(11)(b) – companies must disclose fees paid to the auditor for audit and non-audit services

Threats to Independence

(The Code, section 120.6 A3)

About the New Code

Overarching Requirements

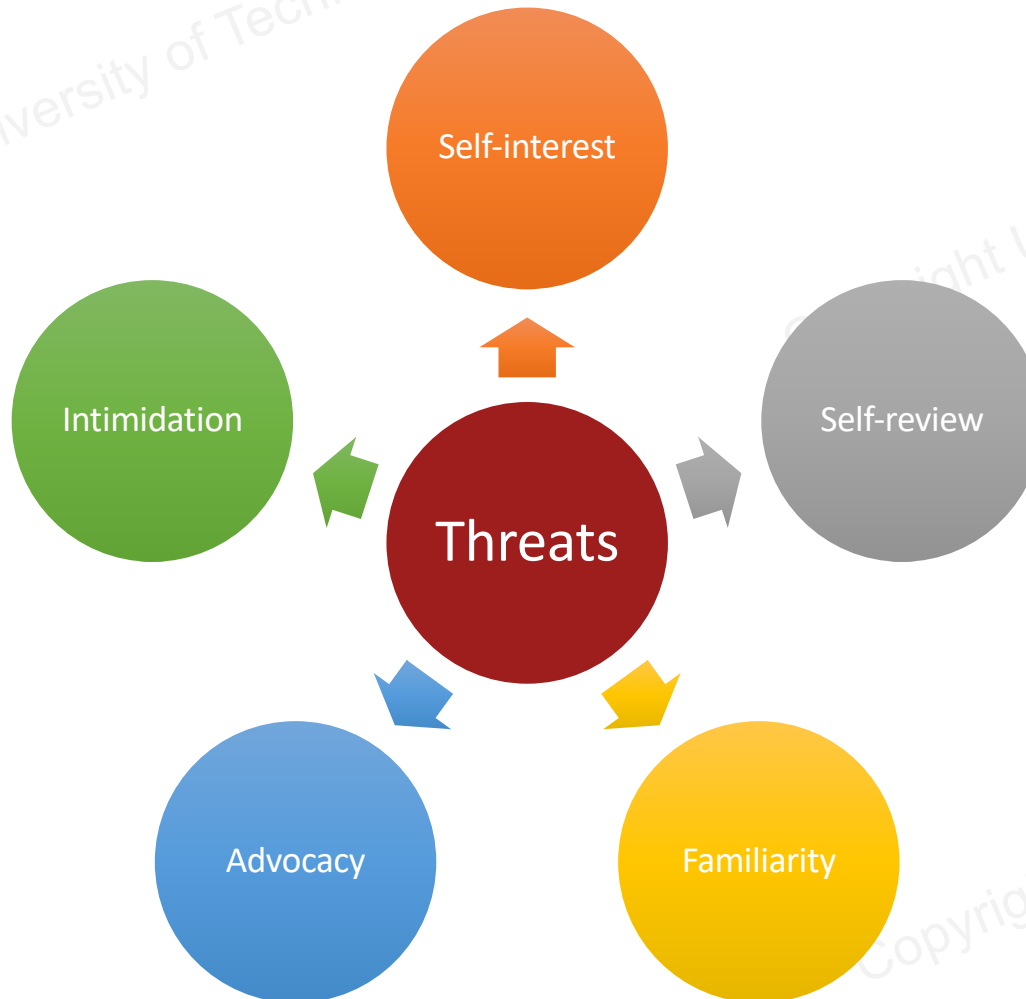


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Threats to auditor independence

APES110
Para 120.6 A3



Major Threats to Auditor Independence

APES 110 Part 4A (p 108 onwards) provides specific guidance on **independence requirements** for audit engagements including areas such as:

- **Auditor employment relationships:** A member of the assurance team cannot be employed by the client.
- **Financial and business relationships** are a threat, including:
 - Investments in audit clients and Loans to and from clients
- **When total fees generated from a client represent a large proportion of the auditor's total revenue**, real or perceived financial dependency on the client may create self-interest/intimidation threat.
- **Fees from clients must be collected promptly.** Overdue fees may create a self-interest threat.
- **Provision of non-audit services** can be threats, including:
 - Preparing accounting records and financial reports
 - Internal audit or Valuation services
 - Taxation services
 - Design and implementation of financial IT systems
 - Recruitment of senior management

Safeguards

- **Safeguards** fall into two broad categories.
For an auditor these are:
 - **Safeguards created by the profession, legislation or regulation** - education, professional standards, monitoring and disciplinary processes, and inspections and reviews.
 - **Safeguards within the work environment** (firm wide and engagement specific) - independence and quality control policies and procedures.
- Safeguards are intended to **eliminate or reduce threats** to an **acceptable and reasonable level**.
- APES110 Part 4A discusses safeguards for specific types of threats – but auditors may design any safeguard that they believe reduces the risk to a reasonable level