Advanced auditing is a capstone subject for students undertaking an accountancy major. It integrates accounting standards, accounting systems, internal controls, and the auditing functions of obtaining and evaluating evidence, and reporting - all within the context of a professional environment. This subject begins with an overview of auditing and continues through the audit process with emphasis on financial statement audit under the Corporations Law. In addition, the programme addresses issues related to Electronic Data Interchange audit.

**Performance Objectives**

Through participation in the activities of this subject students will be able to:

- evaluate the role and regulation of modern audit with an appreciation of demand for and supply of audit services;
- describe the appointment, rights, duties and liabilities of company auditors;
- identify management assertions with regard to financial information and decide appropriate ways of collecting required evidence;
- design an audit plan appropriate to the risks surrounding the engagement;
- design and perform appropriate audit tests to obtain sufficient appropriate evidence on each segment of financial statements;
- integrate evidence separately collected on each segment of the financial statements to form an overall opinion;
- write an audit report in accordance with the Australian corporate requirements;
- describe essential aspects of an internal audit, an operational audit and a public sector audit.

**Learning Modes**

Lectures, interactive tutorials, self study and practical projects.
PRESCRIBED TEXTS


Department of Accountancy, *Readings in Advanced Auditing*, (*Readings*)

REFERENCE TEXTS


Vallabhaneni, R.S. *Information Systems Audit Process*, EDP Auditors Foundation


RECOMMENDED JOURNALS

- Accounting and Business Research
- Accounting Enquiry
- Accounting & Finance
- Accounting Review
- Auditing: A Journal of Practice and Theory
- Australian Accounting Review
- Charter
- Journal of Accounting Research
- Journal of Accounting and Economics
- Critical Perspectives in Accounting
- Accounting, Auditing and Accountability Journal
- Accounting Forum
## Lecture and Tutorial Schedule

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**Essay due by 8.00pm Thursday 15 August 1995**

**Mid Term Test - Date, Time and Venue to be Advised**

| 09     | 09 Sep 96     | EDI risk based audit approach | See page 15 | To be advised |
| 10     | 16 Sep 96     | Audit of expenditure cycle | 16        | To be advised |
|        |               | Audit of production cycle | 17        |                    |
|        |               | Audit of cash balances | 19        |                    |

**Two Weeks Recess 23 September 1996 to 4 October 1996**

| 11     | 07 Oct 96     | Completing the audit | 20        | 16.27, 16.32, 16.33 |
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|        |               |                           |           | 20.05, 20.06, 20.16, 20.23, 20.26, 20.28 |

**Computer Assignment due by 8.00pm Thursday 17 October 1996**
SUBJECT REQUIREMENTS AND ASSESSMENT

Any student failing to complete the following compulsory requirements WILL FAIL the subject. The COMPULSORY subject requirements are:

• active participation in tutorials. Tutors will award the participation mark based on the level of knowledge, contribution and presentation skill displayed in the tutorial class;

• a satisfactory completion of essay and computer assignment;

• a satisfactory mark in the mid-term examination;

• a minimum of 40% marks in the final examination;

The composite mark will be made up as follows:

a. Essay 10%
b. Computer assignment 15%
c. Mid term examination 15%
d. Tutorial participation 10%
e. Final examination (three hours) 50%

100%

ESSAY

Discuss critically why auditing is considered as one of the popular professions in today’s society. Do you consider such a professional status is important for the professional auditors?

Special requirements for preparation and presentation of essay.

Due date:

Submit TWO copies of your essay on 15 August 1996. A collection box will be placed in front of room 40.310 between 11.00AM to 6.00PM. The collection box will be removed immediately after 6.00PM.

Length Around 3000 words

Assessment Criteria:
The markers will consider the following aspects, among others, in the assessment of the essay - (a) synopsis, (b) structure and presentation, (c) content, (d) style, and (e) reference and citation. The essay must be TYPED and include a list of references containing only those works cited. The Accounting Review method of citation and reference must be used (Refer to April 1995 copy of Accounting Review, pages 359 - 362).

Penalties

No synopsis 1
Incorrect citation 1
No reference list 1
Late penalty per day 1

For plagiarism ALL MARKS will be deducted. Refer to the University of Wollongong General Information Calendar 1996 pages 85-86 on plagiarism.

COMPUTER ASSIGNMENTS
The details of the computer assignments will be announced in the lecture. This assignment is due on Thursday 19 October 1995. A collection box will be placed in front of room 40.310 between 11.00AM - 6.00PM. The collection box will be removed immediately after 6.00PM.

**COMPUTER LABORATORY**

ACCY 342 students may use laboratories for completion of computer and other assignments. There will, however, be no supervision in the computer laboratories.

Students **SHOULD NOT** leave completion of the assignments to the last moment as there are only a limited number of computers available in the laboratories.

**LATE SUBMISSION OF ESSAYS OR COMPUTER ASSIGNMENTS COUNTING TOWARDS COMPOSITE MARK**

The Essay or the Computer Assignment, which count towards the composite mark and are submitted after the due date, will, unless special exemption has been given for a substantial reason properly documented by the lecturer in charge, incur a penalty of one mark per day or part thereof.

Essays or computer assignments submitted **TEN DAYS** after the due date will receive a mark of **ZERO**.

**TUTORIAL ASSIGNMENTS**

Tutorial assignments have been listed in the detailed weekly study and practice programme, and lecture and tutorial schedule on Page 3 of the Subject Programme. Students are required to have prepared answers to all the questions prior to the tutorial class. The tutors will check the tutorial solutions and give you credit for the quality of work done.

**MID-TERM EXAMINATION**

The mid term examination will be a multiple choice test covering contents to week eight of the subject schedule. The result of this examination will be displayed on the departmental **NOTICE BOARD** as soon as they are available.

**FINAL EXAMINATION**

The final examination consisting of short essay questions will cover the entire subject.

**LECTURES**

The subject has lectures totalling two hours per week one hour 3.30-4.30 PM on **Tuesdays** in room 67.104 and another one hour 3.30-4.30PM on **Thursdays** in room 67.104. The 5.30-7.30PM lecture in room 18.G031 on **Tuesdays** is a repeat class.

The lecturers will teach on the core areas and provide general guidance in the lecture. The lecturers may also distribute additional study materials at some lectures. Attendance at the lecture is highly recommended but not compulsory.

**INSTITUTE OF CHARTERED ACCOUNTANTS STUDENT SOCIETY & AUSTRALIAN SOCIETY of CPA’s ACCOUNTING STUDENTS REGISTER**

Students are strongly advised to join one of these student societies. Benefits include one year subscription to the respective bodies journal, access to library facilities, and a free copy of Accounting and Auditing Handbook 1995 published by Prentice Hall Australia.

**COOPERS & LYBRAND PRIZE**
Coopers and Lybrand, Chartered Accountants, offer a cash prize of $400 to the student securing the highest aggregate mark in ACCY 342 Advanced Auditing at his/her first attempt, providing the student has attained a sufficient academic standard.

**QUERIES AND QUESTIONS**

Students encountering difficulties with aspects of the course should first raise the matter with their tutors. If there is still a problem, contact the subject co-ordinator/lecturer.

**PAST EXAMINATION PAPERS**

Past examination papers included as part of the subject programme **SHOULD** only be used as a guide. The final examination this year could have an entirely different format or emphasis.

**SPECIAL CONSIDERATION AND SUPPLEMENTARY EXAMINATION**

Refer to the University of Wollongong General Information Calendar 1996 for procedures on supplementary examination and special consideration Pages 74-76.

If a supplementary examination is granted it may be written, oral or computer generated and will be held under examination conditions soon after the last date of the formal examination period. Only **one supplementary** exam will be held.

If a student requests a supplementary examination or special consideration, then it is the student's responsibility to be available during the above period, in case a supplementary examination is granted.

Students should note that all final examination papers will not be allowed to be taken from the examination room and hence will not be available to students taking supplementary examination.

**SUCCESS AND HARD WORK**

Success in this subject requires hard work throughout the session. Back loading of studies does not normally produce a good result in this course. We shall provide you full support but the hard work **MUST** be done by you.

Good luck

**ANWAR CHOWDHURY**

16 July 1996

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**DETAILED WEEKLY STUDY AND PRACTICE PROGRAMME**
LEARNING OBJECTIVES

At the end of this lesson students will be able to:

01. define auditing
02. distinguish between auditing and accounting
03. describe the way audit service is supplied
04. explain why there is a demand for audit
05. describe the nature, structure and functions of audit firms
06. describe the importance of audit independence

MAIN LEARNING AREAS

01. Auditing - definition
02. Auditing and accounting
03. Types of audits and auditors
04. Services provided by public accounting firms
05. Professional accounting bodies
06. Audit regulation and quality control
07. Demand for and supply of audit and its limitations
08. Management and auditor responsibility with respect to financial report audit
09. Auditing standards
10. Audit report

COMPULSORY READINGS

You SHOULD complete the following readings prior to this lecture:

Textbook Chapters 1 and 2
Handbook Pp 1-30, AUS 102, AUS 104, AUS 106, APS 1, APS 1.1

TUTORIAL PRACTICES

You SHOULD complete these questions prior to the tutorial class in week two:

01 - 19 Types of audits and auditors
02 - 25 Misconceptions about auditing
02 - 27 Audit committees
02 - 30 Responsibility of management and auditors
01 - 17 Multiple choice
01 - 18 Multiple choice
02 - 21 Multiple choice
02 - 23 Multiple choice
LEARNING OBJECTIVES

At the end of this week students will be able to:

01. explain the nature, role and means of professional ethics
03. explain the nature, role and means of professional independence
04. describe the procedures of enforcing professional ethics
05. explain auditor’s liability to third parties and precautions against litigation
06. describe the auditor’s liability under statute

MAIN LEARNING AREAS

01. Professional ethics
02. Professional code of ethics
03. Audit independence
04. Investigation and discipline
05. Legal environment of audit
06. Limiting auditor’s liability
07. Auditors’ liability to third parties
08. Avoidance of litigation

COMPULSORY READINGS

You SHOULD complete these readings prior to this lecture.

Textbook Chapters 3 and 4
Handbook REC 1, REC 3, REC 5, REC 7

TUTORIAL PRACTICE

You SHOULD complete these questions prior to the tutorial class in week three:

03 - 33 Incompatible duties
03 - 34 Professional ethics
04 - 27 Auditors liability to third parties
04 - 29 Avoidance of audit litigation
03 - 21 Multiple choice
03 - 23 Multiple choice
04 - 21 Multiple choice
04 - 22 Multiple choice

WEEK THREE - AUDIT EXPECTATION GAP, CLIENT ACCEPTANCE AND AUDIT PLANNING
LEARNING OBJECTIVES

At the end of this week students will be able to:

01. explain the nature of audit expectation gap and the profession’s response
02. explain the proposals to improve audit quality
03. describe auditor’s responsibilities for fraud and illegal acts
04. describe management assertions
05. develop specific audit objectives from management assertions
06. design appropriate audit procedures to obtain evidence to support the specific audit objectives
07. explain the nature and purpose of audit working papers
08. explain the procedures involved in accepting an audit engagement
09. state the purpose and content of an engagement letter
10. describe procedures involved in obtaining an understanding of the client’s business
11. describe the role of analytical review in audit planning

MAIN LEARNING AREAS

01. Audit expectation gap
02. Corporate governance
03. Audit quality
04. Fraud and illegal acts
05. Audit objectives
06. Audit evidence
07. Audit procedures
08. Audit working papers
09 Accepting the engagement
10. Engagement letter
11. Planning the audit
12. Analytical review

COMPELSORY READINGS

You SHOULD complete these readings prior to this lecture

Textbook Chapters 5, 6 and 7
Handbook AUS 202, AUS 204, AUS 206, AUS 208, AUS 212
AUS 214, AUS 302, AUS 304, AUS 502

TUTORIAL PRACTICE

You SHOULD complete these questions prior to the tutorial class in week four

05 - 03 Expectation gap
05 - 26 Quality assurance over audit work
06 - 27 Audit evidence
06 - 34 Audit working papers
07 - 23 Accepting the engagement
07 - 24 Engagement
05 - 21 Multiple choice
05 - 22 Multiple choice
06 - 21 Multiple choice
06 - 22 Multiple choice
07 - 21 Multiple choice
07 - 22 Multiple choice

WEEK FOUR - MATERIALITY, RISK, AUDIT STRATEGIES AND INTERLAL CONTROL STRUCTURE
LEARNING OBJECTIVES

At the end of this week students will be able to

01. explain the role of materiality in audit
02. describe the components of audit risk
03. explain the relationship among materiality, audit risk and audit evidence
04. distinguish between alternative audit strategies
05. explain the elements of internal control
06. describe and document accounting systems and related internal controls of the auditee

MAIN LEARNING AREAS

01. Materiality
02. Audit risks
03. Preliminary audit strategies
04. Risk-based audit
05. Systems-based audit
06. Components of internal control
07. understanding and documenting internal control

COMPULSORY READINGS

You SHOULD complete the following readings prior to this lecture:

Textbook Chapters 8 and 9
Handbook AUS 306, AUS 402, AUS 404

TUTORIAL PRACTICE

You SHOULD complete these readings prior to the tutorial class in week five

08 - 24 Audit risk and materiality
08 - 29 Risk component relationship
09 - 24 Internal control fundamentals
09 - 31 Control activities and related assertions
08 - 21 Multiple choice
08 - 22 Multiple choice
09 - 22 Multiple choice
09 - 23 Multiple choice

WEEK FIVE - COMPLIANCE TESTING

LEARNING OBJECTIVES
At the end of this week students will be able to

01. explain the nature, extent and timing of test of controls
02. describe the steps in assessing control risk
03. communicate with auditee on the weaknesses in accounting systems and related internal controls
04. apply attribute sampling in tests of controls

MAIN LEARNING AREAS

01. Assessing control risks
02. Tests of controls
03. Timing of tests of controls
04. Use of the work of internal auditors
05. Reporting weaknesses in accounting systems and related internal control
06. Basic audit sampling concepts
07. Statistical attribute sampling

COMPULSORY READINGS

You SHOULD complete these readings prior to this lecture

Textbook Chapters 10 and 12
Handbook AUS 402, AUS 504, AUS 214, AUS 602, AUS 604

TUTORIAL PRACTICE

You SHOULD complete these questions prior to the tutorial class in week six

10 - 28 Controls and tests of controls
10 - 29 Misstatements and necessary controls
12 - 27 Attribute sampling
12 - 28 Determination of sample size
10 - 21 Multiple choice
10 - 22 Multiple choice
12 - 23 Multiple choice
12 - 24 Multiple choice
LEARNING OBJECTIVES

At the end of this week students will be able to:

01. determine the detection risk
02. describe the nature, extent and timing of substantive tests
03. apply variable sampling in substantive testing
04. design and perform substantive tests on sales and collection
05. design and perform substantive test on accounts receivable
06. explain the form, extent and timing of confirmation of receivable
07. use analytical review in the audit of sales, receivables and collection

MAIN LEARNING AREAS

01. Detection risk
02. Substantive tests - nature and types
03. Timing of substantive tests
04. Audit programs - substantive tests
05. Basic sampling concepts
06. Probability-proportional -to-size sampling
04. Variable sampling
05. Revenue cycle audit
06. Accounts receivable audit

COMPULSORY READINGS

You SHOULD complete these readings prior to this lecture

Textbook Chapter 11, 13 and 15
Handbook AUS 402,AUS 502,AUS504,AUS 510,AUS 512,AUS 516,AUS 518

TUTORIAL PRACTICE

You SHOULD complete these questions prior to the tutorial class in week seven

11 - 25 Designing substantive procedures
11 - 29 Audit procedures, evidence and assertions
13 - 24 PPS sampling
15 - 32 Confirmation of receivables
11 - 22 Multiple choice
11 - 23 Multiple choice
13 - 21 Multiple choice
13 - 22 Multiple choice
15 - 21 Multiple choice
15 - 22 Multiple choice

WEEK SEVEN - EDI AUDIT FUNDAMENTALS

LEARNING OBJECTIVES
At the end of this week the students will be able to

01. explain the technological changes of the 1990s
02. distinguish between various types of EDI audit and their purposes
03. explain distributed computing concepts
04. describe the Information Superhighway and the World Wide Web (WWW)

**MAIN LEARNING AREAS**

01. Information technology developments
02. Information Security Fundamentals
03. EDP audit fundamentals

**COMPULSORY READINGS**

You **SHOULD** complete the following readings prior to this lecture:


**TUTORIAL PRACTICE**

Practice questions to be advised in the lecture. You **SHOULD** complete these questions prior to the tutorial class in week eight:

14 - 02 Nature and function of computer software
14 - 04 Three methods of data processing
14 - 20 EDI risks and control
14 - 21 Multiple choice
14 - 22 Multiple choice

**WEEK EIGHT - EDI AND ELECTRONIC COMMERCE: CONTROL AND SECURITY**

**LEARNING OBJECTIVES**
At the end of this lesson students will be able to:

01. describe how Electronic Data Interchange (EDI) works
02. describe how EDI is utilised in Electronic Commerce on the World Wide Web
03. characterise the EDI control structure
04. describe general approaches to analysing vulnerabilities and threats in EDI systems
05. identify active and passive risks in EDI systems

**Main Learning Areas**

1. Internal controls in EDI Systems
2. Risk analysis of EDI Systems
3. EDI Security Fundamentals

**Compulsory Readings**

You **SHOULD** complete these readings prior to this lecture


**Tutorial Practice**

Practice questions will be advised in the lecture. You **SHOULD** complete these questions prior to the tutorial class in week nine

**Week Nine - EDI Risk Based Audit Approach**

**Learning Objectives**

At the end of this week students will be able to:

01. explain the EDI risk based audit approach
02. identify the EDI systems components for investigation
03. evaluate the EDI control risk structure of the identified system components

**Main Learning Areas**

01. EDI risk based audit approach
02. Risk evaluation techniques

**Compulsory Readings**

The compulsory readings to be advised by the lecturers. You **SHOULD** complete these compulsory readings prior to this lecture.

**Tutorial Practice**

Practice questions will be advised in the lecture. You **SHOULD** complete these questions prior to the tutorial class in week eleven

**Week Ten - Auditing Expenditure Cycle, Inventories and Cash Balances**

**Learning Objectives**

At the end of this lesson students will be able to:
01. obtain and document understanding of auditee's accounting systems and related internal controls for accounts payable, inventories and cash balance
02. determine the control and detection risks with respect to accounts payable, inventories and cash balance
03. design and perform substantive tests on accounts payable, cash balance and inventories including observation of physical inventories
04. design and perform analytical review procedures on inventories
05. design and perform confirmation of bank balance
06. design and perform audit tests of petty cash

**MAIN LEARNING AREAS**

01. Expenditure cycle audit
02. Substantive procedures for accounts payable
03. Substantive procedures for property, plant and equipment
04. Substantive procedures for inventories
07. bank balance audit
08. Petty cash audit

**COMPULSORY READINGS**

You **SHOULD** complete these readings prior to this lecture:

Textbook Chapters 16, 17 and 19
Handbook AUS 506, AUS 510, AUS 516, AUS 606, AGS 1002

**TUTORIAL PRACTICE**

You **SHOULD** complete these questions prior to the tutorial class in week twelve.

16 - 27 Internal control evaluation
16 - 32 Search for unrecorded liabilities
16 - 33 Audit of trade and other creditors
17 - 26 Substantive tests and related assertions - inventory balances
17 - 27 Physical count of inventories and test of cut-off
17 - 32 Sampling in inventories audit
19 - 24 Bank confirmation
19 - 25 Bank balance audit

**WEEK ELEVEN - COMPLETING AN AUDIT**

**LEARNING OBJECTIVES**

At the end of this lesson students will be able to
01. describe and perform procedures to audit contingent liabilities
02. describe and perform procedures to audit events occurring after balance date
03. describe the role and contents of letter of representations
04. design and perform going-concern review
05. integrate the audit results obtained on each audit segment and form the overall audit opinion
06. communicate effectively with audit committee and management

MAIN LEARNING AREAS

01. Audit of post balance date events
02. Audit of minutes of meetings
03. Audit of contingencies
04. Going concern audit
05. Management representation letter
06. Overall analytical review
07. Communication with audit committee
08. Post-audit responsibilities

COMPULSORY READINGS

You **SHOULD** complete these readings prior to this class:

Textbook        Chapter 20
Handbook       AUP 508, AUS 512, AUS 520, AUS 706, AUS 708, AUS 710

TUTORIAL PRACTICE

You **SHOULD** complete these question prior to the tutorial class in week thirteen.

20 - 05  Contingent liabilities and solicitors Letter
20 - 06  Management representation letter
20 - 16  Communication with audit committee
20 - 23  Post balance sheet events audit
20 - 26  Analytical review
20 - 28  Post audit discovery of facts

WEEK TWELVE - AUDIT REPORTING

LEARNING OBJECTIVES

At the end of this lesson students will be able to
01. explain Australian reporting requirements of companies registered under Corporations Law
02. describe the circumstances that result in the issue of an unqualified report
03. describe the circumstances that results in the issue of qualified audit report
04. explain the appropriate format of qualified and unqualified audit reports

M A I N   L E A R N I N G   A R E A S

01. Legal requirements of audit report
02. Professional requirements of audit report
03. Circumstances of unqualified report
04. Format of unqualified audit report
05. Disagreement reporting
06. Reporting conflict with financial reporting framework
07. Reporting scope limitation
06. Reporting emphasis of matter including uncertainty, subsequent events and inconsistency with other information
07. Reporting for corporations with going concern problem

C O M P U L S O R Y   R E A D I N G S

You SHOULD complete these readings prior to this lecture.

Textbook    Chapter 21
Handbook    AUS 212, AUS 510, AUS 602, AUS 702
            AUS 704, 1US 708, APS 1, AGS 1016

T U T O R I A L   P R A C T I C E

You SHOULD complete the following questions before the tutorial class in week 13:

21 - 05    Unqualified and qualified audit opinion
21 - 07    Disagreement reporting
21 - 10    Scope limitation reporting
21 - 13    Inherent uncertainty reporting
21 - 27    Reporting under specific circumstances
21 - 30    Preparation of audit report

W E E K   T H I R T E E N   -   I N T E R N A L   A N D   P U B L I C   S E C T O R   A U D I T

L E A R N I N G   O B J E C T I V E S

At the end of this lesson students will be able to
01. distinguish between internal and external audit
02. distinguish between operational and financial audit
03. distinguish between internal audit and operational audit
04. describe the appointment, powers and duties of Auditor General’s Dept.
04. discuss the history, scope and problems of efficiency audits

MAIN LEARNING AREAS

01. Internal audit
02. Operational audit
03. Public sector accountability
04. Comprehensive auditing
05. Economy audit
06. Efficiency audit
07. Effectiveness audit
08. Public sector audit standards

COMPULSORY READINGS

You SHOULD complete these readings prior to this lecture:

Textbook        Chapter 23, 24
Handbook       AUS 106, AUS 806, AUS 808

TUTORIAL PRACTICE

You SHOULD complete these questions prior to the tutorial class in week fourteen:

23 - 16    Role of internal auditor
23 - 20    Usefulness of internal audit function to external auditors
23 - 22    Operational auditing
24 - 24    Performance auditing
24 - 25    Comprehensive auditing