



Course information 2011-12

AC3093 Auditing and assurance

This course introduces students to the principles of external auditing and other assurance services. Both theoretical and practical aspects of the audit process will be considered.

Prerequisite

If taken as part of a BSc degree, courses which must be passed before this course may be attempted:

AC1025 Principles of accounting.

Aims and objectives

The aims of this course are:

- to introduce students who have passed Elements of accounting and finance or Principles of accounting to the principles of external auditing and other assurance services
- to provide students with an understanding of the nature of the function of auditing and other assurance services and the principles of the related processes.

Essential reading

For full details please refer to the reading list.

Gray, I. and S. Manson *The Audit Process*. (Thomson)

Porter, B., J. Simon and D. Hatherly *Principles of external auditing*. (Chichester: John Wiley & Sons)

Assessment

This course is assessed by a three hour unseen written examination.

Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- ✓ explain why external audits and other types of assurance services are conducted
- ✓ discuss the duties of auditors and other assurance providers and how these have changed over time
- ✓ explain the meaning of concepts that are fundamental to auditing and assurance services, such as 'independence', 'evidence', 'risk', 'materiality'
- ✓ describe, in general terms, the processes involved in auditing and other assurance services
- ✓ distinguish between compliance and substantive testing and describe various audit tests
- ✓ discuss the form, content and importance of the reports provided at the end of the audit or assurance service
- ✓ discuss the issue of legal liability arising from audits and other assurance services
- ✓ discuss current developments in auditing and assurance services.

Students should consult the *Programme Regulations for degrees and diplomas in Economics, Management, Finance and the Social Sciences* that are reviewed annually. The Prerequisites, Exclusions, and Syllabus are subject to confirmation in the *Regulations*. Notice is also given in the *Regulations* of any courses which are being phased out and students are advised to check course availability.

Syllabus

This is a description of the material to be examined, as published in the *Regulations*. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading

Reasons for auditing. The concept of accountability. Economic demand for auditing. Auditing as a monitoring device.

Principles and postulates of auditing. Conditions for auditing to be possible. The concept of independence.

The legal and professional environment. Approaches to the regulation of auditing practice, in particular legal rules and professional guidelines. International regulation of auditing. (Note: candidates will be expected to be aware of the range of different approaches to auditor regulation and the general content of such regulations but will not be expected to know the detailed requirements of any specific country's audit regulations.)

The duties of auditors. The changing responsibilities of auditors for fraud detection and financial statement attestation. The extent of auditors' duties to primary clients and third parties. The 'expectations gap' between what users of financial statements believe the audit provides and what the audit is capable of offering. Auditor liability and the case for and against limiting liability. Different levels of assurance that may be expressed.

Audit planning. Initial assessment of the client. The engagement letter. Risk-based approaches. Identification of key areas of audits and assurance services. Analytical procedures.

Conduct of audits and assurance services. The concept of evidence. Compliance and substantive testing. The concept of internal control. Identifying key controls and testing them. Statistical and other sampling approaches to testing. Specific audit techniques, such as observation, directional testing, cut-off tests, third-party confirmations. The application of techniques in the context of the main revenue and cost activities of the enterprise. Auditing the balance sheet. The significance of management representations. Assessment of errors and weaknesses. Documenting the audit or assurance service, preparation and review of working papers.

Computer-based systems. Auditing 'round' and 'through' the computer. Internal control in a computer environment. Computer-assisted audit techniques. The use of computers in conducting the audit or assurance service, in particular spreadsheets, word-processing and automated working papers.

The report of the auditors or assurance service providers. The form and content of the auditors' report. The qualified auditors' report.

Current developments in auditing and assurance services. Audit committees. Internal audit. Management audit. The economic value of auditing to society. The spread of auditing and other assurance services into non-financial contexts: the 'Audit Society'.