



AAT

Audit and Assurance

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Diploma in Professional Accounting – Level 4

AAT Diploma in Business Skills – Level 4

AAT Diploma in Professional Accounting at SCQF Level 8

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chapter

1

Principles of auditing

- Overview.
- What is an audit?
- Important principles in audit work.
- Auditing standards.
- Diagram of stages in an audit.

Overview

This chapter deals with:

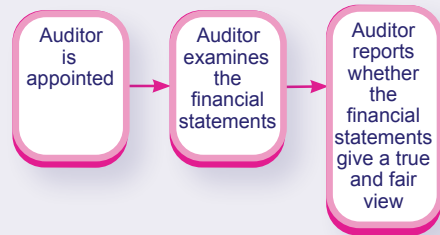
- The purpose and nature of an audit
- Key principles of auditing
- The regulation of auditing – auditing standards
- The stages involved in the audit process.

What is an audit?

Definition

An audit is the independent examination of the evidence from which the financial statements are derived, in order to give the reader of those statements confidence as to the truth and fairness of the state of affairs of the entity.

Outline of the annual external audit process



Requirement for audit

In the UK, Company Law requires all publicly quoted companies and all large companies (defined as those with turnover greater than £10.2 million) to appoint external auditors who will report whether the financial statements i.e. the statement of financial position, statement of profit or loss account, statement of changes in equity (or similar), statement of cash flows and notes, give a true and fair view.

Other organisations (e.g. small private companies, partnerships, etc) may choose to be audited, but there is no legal requirement.

It is the directors' responsibility to prepare the annual financial statements. The auditor's responsibility is to examine the financial statements and report their opinion on whether they give a true and fair view.



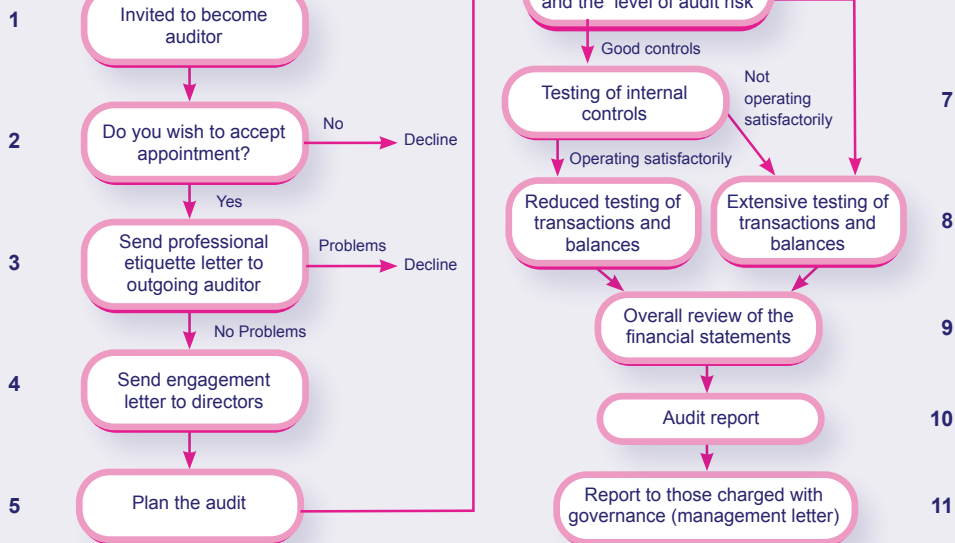
CBA focus

It is not the auditor's responsibility either to prepare the financial statements or to ensure that the financial statements do give a true and fair view. The auditors simply report on whether, in their opinion, a true and fair view is given.

The wording of the standard audit report is shown in Appendix 1 of these Pocket Notes.

Diagram of stages in an audit

Stage





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