ACCA

Audit and assurance (AA)

Pocket Notes

KAPLAN PUBLISHING

Contents

This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2023 IFRS Standards Red Book.

chapter

1

Introduction to assurance

In this chapter

- Elements of an assurance engagement.
- Reasonable and limited assurance.
- Accountability, stewardship and agency.
- Benefits and limitations of audit.

Elements of an assurance engagement

Purpose of assurance is to increase the confidence of the user in the subject matter being relied upon.

3 Party Involvement →

- **Practitioner** e.g. auditor (performs an independent examination of the subject matter against the suitable criteria and provides a written assurance report)
- **Intended user** e.g. shareholders (user of the subject matter)
- **Responsible party** e.g. directors (preparer of the subject matter)

Subject Matter → The information being examined e.g. financial statements

Suitable Criteria → Subject matter is judged against the criteria e.g. IFRS

Sufficient and Appropriate Evidence → To provide a basis for the conclusion

Written Assurance Report → Expressing a conclusion or opinion

Reasonable and limited assurance

The Framework permits only two types of assurance engagement to be performed:

Reasonable assurance engagements

The practitioner:

- Gathers sufficient appropriate evidence
- Does enough work to be able to draw reasonable, but not absolute, conclusions
- Concludes that the subject matter conforms in all material respects with identified suitable criteria
- Gives a report in the form of **a positive statement of opinion**

EXAMPLE

- Statutory audit.

Limited assurance engagement

The practitioner:

- Gathers sufficient appropriate evidence to be satisfied that the subject matter is plausible in the circumstances
- Gives a report in the form of **a negative statement of conclusion** ("nothing has come to our attention")

EXAMPLES

- Review of financial statements (International Standard on Review Engagements 2400).
- Reports on social and environmental issues.
- Examination of a forecast
- Review of internal controls

Accountability, stewardship and agency

Accountability

People in positions of power can be held to account for their actions

Directors are accountable to the shareholders for the decisions they make in relation to the company

Stewardship

The responsibility to take good care of resources. Known as a 'fiduciary relationship'

Directors are the stewards of the company

Directors are required to produce financial statements giving an account of their stewardship

Agency

When one party, the principal, employs another party, the agent, to perform a task of their behalf

Directors are the agents of the shareholders

External auditors are the agents of the shareholders

Company management are required to produce financial statements giving an account of their stewardship of the company at regular intervals, but there is a need for some kind of independent validation of the financial statements – the independent audit.

Benefits and limitations of audit

Benefits of audit

- **H**elps improve quality of information.
- **I**ndependent scrutiny.
- **R**educes risk of management bias, fraud and error.
- **E**nhances credibility of FS.
- **D**eficiencies in internal controls highlighted.

Limitations of audit

- **F**S include subjective estimates and judgements.
- **I**nherent limitations of internal controls.
- **R**epresentations from management not reliable.
- **E**vidence is persuasive not conclusive.
- **D**o not test all transactions, only a sample.

Expectations Gap

- Auditor tests everything.
- Auditor detects all fraud and error.
- Auditor confirms the company is a going concern.
- Auditor prepares the FS.

Exam focus

To practise the basics use the following test your understandings (TYUs) Study Text:

- Chapter 1, TYU 1
- Chapter 1, TYU 2
- Chapter 1, TYU 3