

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
(Department of Commerce)**

**ADVANCED AUDITING (8533)**

**CHECKLIST**

**SEMESTER SPRING 2014**

This packet comprises the following material:

1. Text Book (one)
2. Course Outline
3. Assignment No. 1, 2
4. Assignment Forms ( 2 sets )

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

Mailing Officer  
Allama Iqbal Open University  
H-8, Islamabad  
Ph: 051-9057611-12

**Muhammad Munir Ahmad**  
(Course Coordinator)

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD**  
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**WARNING**

- 1. PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
- 2. SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

**ASSIGNMENT No. 1**

**Course: Advanced Auditing (8533)**  
**Level: M. Com**

**Semester: Spring 2014**  
**Marks: 100**  
**Pass Marks: 50**

**NOTE: GIVE THE ANSWER OF EACH QUESTION WITH REFERENCE TO INTERNATIONAL STANDARDS ON AUDITING (ISA), ALSO MENTION THE RELEVANT ISA.**

- Q.1 What do you understand by 'governance'? Who is normally charged with governance in an organization? **(10)**
- Q. 2 Discuss the importance of quality of working papers for an audit firm. Which are some of the methods used by audit firms to ensure high quality of working papers? **(15)**
- Q. 3 What are the responsibilities of an auditor in compliance with laws and regulations in respect of audit of financial statements of an entity? **(15)**
- Q. 4 Write notes in detail on the followings: **(20)**
- i. Window dressing
  - ii. Teeming and lading
- Q. 5 Describe the advantages of audit work program. Which factors are considered for its preparation? **(10)**
- Q. 6 Write down and explain some of the preventive and detective internal control procedures in connection with duplicate payments to parties. **(10)**
- Q. 7 Differentiate between compliance and substantive audit procedures. **(10)**
- Q. 8 Explain the procedure to identify the existence of related parties in context of audit of a firm. **(10)**

### **GUIDELINES FOR ASSIGNMENT # 1**

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

## **ASSIGNMENT No. 2**

**Total Marks: 100**

**Pass Marks: 50**

This assignment is a practical activity. You are required to prepare a report of about 1000 words on the topic allotted to you. The report is to be submitted to your teacher for evaluation.

Select one of the following topics according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

### **TOPICS:**

- 0 WHY AUDIT? – THE AUDITING ENVIRONMENT
- 1 AUDIT BEHAVIOUR – INDEPENDENT AND ETHICS
- 2 REPORTING AN AUDIT OPINION
- 3 AUDIT RISK AND MATERIALITY
- 4 INHERENT AND INTERNAL CONTROL RISK
- 5 AUDIT SAMPLING
- 6 SUBSTANTIVE TESTS
- 7 COMPUTER – ASSISTED AUDIT TECHNIQUES
- 8 TESTS OF CONTROL
- 9 AUDIT CLEARANCE PROCEDURES

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

### **GUIDELINES FOR ASSIGNMENT # 2:**

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

### **WORKSHOPS**

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

**GUIDELINES FOR PRESENTATION:**

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

**WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS**

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

**Note: Assignments and presentation carry 300 Marks:**

Assignment 01 ( <i>Submission</i> )	100 Marks
Assignment 02 ( <i>Submission</i> )	100 Marks
Assignment 02 ( <i>Presentation</i> )	100 Marks

**ADVANCED AUDITING  
COURSE OUTLINE (8533)**

**UNIT 1: GENERAL PRINCIPLES OF GOVERNING AN AUDIT OF FINANCIAL STATEMENTS AND TERMS OF AUDIT ENGAGEMENTS (ISA 200 & 210)**

**A. Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing**

- 1.1 Introduction
  - 1.1.1 Scope of this ISA
  - 1.1.2 An Audit of Financial Statements
- 1.2 Overall Objectives of the Auditor
- 1.3 Definitions
- 1.4 Requirements
  - 1.4.1 Ethical Requirements Relating to an Audit of Financial Statements
  - 1.4.2 Professional Skepticism
  - 1.4.3 Professional Judgment
  - 1.4.4 Sufficient Appropriate Audit Evidence and Audit Risk
- 1.5 Conduct of an Audit in Accordance with ISAs

**B. Agreeing the Terms of Audit Engagements**

- 1.6 Introduction

- 1.6.1 Scope of this ISA
- 1.6.2 Objective
- 1.7 Definitions
- 1.8 Requirements
  - 1.8.1 Preconditions for an Audit
  - 1.8.2 Agreement on Audit Engagement Terms
  - 1.8.3 Recurring Audits
  - 1.8.4 Acceptance of a Change in the Terms of the Audit Engagement
  - 1.8.5 Additional Considerations in Engagement Acceptance

**UNIT 2: DOCUMENTATION AND OBTAINING CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT (ISA 230 & 250)**

**A. Audit Documentation**

- 2.1 Introduction
  - 2.1.1 Scope of this ISA
  - 2.1.2 Nature and Purposes of Audit Documentation
  - 2.1.3 Objective
- 2.2 Definitions
- 2.3 Requirements
  - 2.3.1 Timely Preparation of Audit Documentation
  - 2.3.2 Documentation of the Audit Procedures Performed and Audit Evidence

**B. Obtained Consideration of Laws and Regulations in an Audit of Financial Statements**

- 2.4 Introduction
  - 2.4.1 Scope of this ISA
  - 2.4.2 Effect of Laws and Regulations
  - 2.4.3 Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A6)
  - 2.4.4 Objectives
- 2.5 Definition
- 2.6 Requirements
  - 2.6.1 The Auditor’s Consideration of Compliance with Laws and Regulations
  - 2.6.2 Audit Procedures When Non-Compliance Is Identified or Suspected
  - 2.6.3 Reporting of Identified or Suspected Non-Compliance
- 2.7 Documentation

**UNIT 3: THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS (ISA 240)**

**A. The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements**

- 3.1 Introduction
  - 3.1.1 Scope of this ISA

- 3.1.2 Characteristics of Fraud
- 3.1.3 Responsibility for the Prevention and Detection of Fraud
- 3.1.4 Objectives
- 3.2 Definitions
- 3.3 Requirements
  - 3.3.1 Professional Skepticism
  - 3.3.2 Discussion among the Engagement Team
  - 3.3.3 Risk Assessment Procedures and Related Activities
  - 3.3.4 Identification and Assessment of the Risks of Material Misstatement Due to Fraud
  - 3.3.5 Responses to the Assessed Risks of Material Misstatement Due to Fraud
  - 3.3.6 Evaluation of Audit Evidence
  - 3.3.7 Auditor Unable to Continue the Engagement
  - 3.3.8 Written Representations
  - 3.3.9 Communications to Management and with Those Charged with Governance
  - 3.3.10 Communications to Regulatory and Enforcement Authorities
- 3.4 Documentation

**UNIT 4: AUDIT PLANNING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT (ISA 300 & 315)**

**A. Planning an Audit of Financial Statements**

- 4.1 Introduction
  - 4.1.1 Scope of this ISA
  - 4.1.2 The Role and Timing of Planning
  - 4.1.3 Objective
- 4.2 Requirements
  - 4.2.1 Involvement of Key Engagement Team Members
  - 4.2.2 Preliminary Engagement Activities
  - 4.2.3 Planning Activities
- 4.5 Documentation

**B. Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment**

- 4.6 Introduction
  - 4.6.1 Scope of this ISA
  - 4.6.2 Objective
- 4.7 Definitions
- 4.8 Requirements
  - 4.8.1 Risk Assessment Procedures and Related Activities
  - 4.8.2 The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control
  - 4.8.3 Identifying and Assessing the Risks of Material Misstatement
- 4.9 Documentation

**UNIT 5: AUDIT MATERIALITY AND THE AUDITOR'S RESPONSES TO ASSESSED RISKS (ISA 320 & 330)**

**A. Materiality in Planning and Performing an Audit**

- 5.1 Introduction
  - 5.1.1 Scope of this ISA
  - 5.1.2 Materiality in the Context of an Audit
- 5.2 Definition
- 5.3 Requirements
  - 5.3.1 Determining Materiality and Performance Materiality When Planning the Audit
  - 5.3.2 Revision as the Audit Progresses
- 5.4 Documentation

**B. The Auditor's Responses to Assessed Risks**

- 5.5 Introduction
  - 5.5.1 Scope of this ISA
- 5.6 Definitions
- 5.7 Requirements
  - 5.7.1 Overall Responses
  - 5.7.2 Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level
  - 5.7.3 Adequacy of Presentation and Disclosure
  - 5.7.4 Evaluating the Sufficiency and Appropriateness of Audit Evidence
- 5.8 Documentation

**UNIT 6: EVALUATION OF MISSTATEMENTS AND AUDIT EVIDENCE (ISA 450 & 500)**

**A. Evaluation of Misstatements Identified during the Audit**

- 6.1 Introduction
  - 6.1.1 Scope of this ISA
- 6.2 Definitions
- 6.3 Requirements
  - 6.3.1 Accumulation of Identified Misstatements
  - 6.3.2 Consideration of Identified Misstatements as the Audit Progresses
  - 6.3.3 Communication and Correction of Misstatements
  - 6.3.4 Evaluating the Effect of Uncorrected Misstatements
  - 6.3.5 Written Representations
- 6.4 Documentation

**B. Audit Evidence**

- 6.5 Introduction
  - 6.5.1 Scope of this ISA
- 6.6 Definitions
- 6.7 Requirements
  - 6.7.1 Sufficient Appropriate Audit Evidence
  - 6.7.2 Information to Be Used as Audit Evidence
  - 6.7.3 Selecting Items for Testing to Obtain Audit Evidence
  - 6.7.4 Inconsistency in, or Doubts over Reliability of, Audit Evidence

**UNIT 7: EXTERNAL CONFIRMATIONS AND ANALYTICAL PROCEDURES  
(ISA 505 & 520)**

**A. External Confirmations**

- 7.1 Introduction
  - 7.1.1 Scope of this ISA
  - 7.1.2 External Confirmation Procedures to Obtain Audit Evidence
- 7.2 Definitions
- 7.3 Requirements
  - 7.3.1 External Confirmation Procedures
  - 7.3.2 Management's Refusal to Allow the Auditor to Send a Confirmation Request
  - 7.3.3 Results of the External Confirmation Procedures
  - 7.3.4 Negative Confirmations
  - 7.3.5 Evaluating the Evidence Obtained

**B. Analytical Procedures**

- 7.4 Introduction
  - 7.4.1 Scope of this ISA
  - 7.4.2 Objectives
- 7.5 Definition
- 7.6 Requirements
  - 7.6.1 Substantive Analytical Procedures
  - 7.6.2 Analytical Procedures that Assist When Forming an Overall Conclusion
  - 7.6.3 Investigating Results of Analytical Procedures

**UNIT 8: AUDIT SAMPLING AND RELATED PARTIES (ISA 530 & 550)**

**A. Audit Sampling**

- 8.1 Introduction
  - 8.1.1 Scope of this ISA
- 8.2 Definitions
- 8.3 Requirements
  - 8.3.1 Sample Design, Size, and Selection of Items for Testing
  - 8.3.2 Performing Audit Procedures
  - 8.3.3 Nature and Cause of Deviations and Misstatements
  - 8.3.4 Projecting Misstatements
  - 8.3.5 Evaluating Results of Audit Sampling

**B. Related Parties**

- 8.4 Introduction
  - 8.4.1 Scope of this ISA
  - 8.4.2 Nature of Related Party Relationships and Transactions
  - 8.4.3 Responsibilities of the Auditor
  - 8.4.4 Objectives
- 8.5 Definitions
- 8.6 Requirements
  - 8.6.1 Risk Assessment Procedures and Related Activities
  - 8.6.2 Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions
  - 8.6.3 Relationships and Transactions

- 8.6.4 Responses to the Risks of Material Misstatement Associated with Related Party
- 8.6.5 Relationships and Transactions
- 8.6.6 Evaluation of the Accounting for and Disclosure of Identified Related Party
- 8.6.7 Relationships and Transactions
- 8.6.8 Written Representations
- 8.6.9 Communication with Those Charged with Governance
- 8.7 Documentation

**UNIT 9: WRITTEN REPRESENTATIONS AND FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS (ISA 580 &700)**

**A. Written Representations**

- 9.1 Introduction
  - 9.1.1 Scope of this ISA
  - 9.1.2 Written Representations as Audit Evidence
  - 9.1.3 Objectives
- 9.2 Definitions
- 9.3 Requirements
  - 9.3.1 Management from whom Written Representations Requested
  - 9.3.2 Written Representations about Management's Responsibilities
  - 9.3.3 Other Written Representations
  - 9.3.4 Date of and Period(s) Covered by Written Representations
  - 9.3.5 Form of Written Representations
  - 9.3.6 Doubt as to the Reliability of Written Representations and Requested Written
  - 9.3.7 Representations Not Provided

**B. Forming an Opinion and Reporting on Financial Statements**

- 9.4 Introduction
  - 9.4.1 Scope of this ISA
- 9.5 Definitions
- 9.6 Requirements
  - 9.6.1 Forming an Opinion on the Financial Statements
  - 9.6.2 Form of Opinion
  - 9.6.3 Auditor's Report
  - 9.6.4 Supplementary Information Presented with the Financial Statements

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