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MOHD SHAMSUL ISMAIL



AUDIT

**INFOGRAPHIC NOTE &
VIDEO PRESENTATION**

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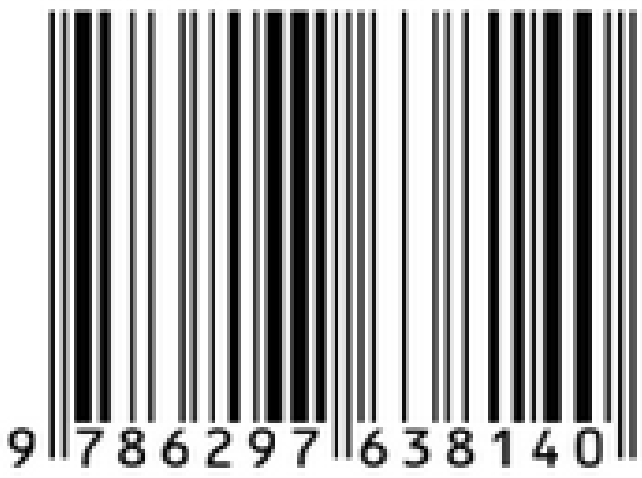
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AUDIT INFOGRAPHIC NOTE & VIDEO PRESENTATION

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Audit – infographic note and video presentation is specially written for polytechnic students who are pursuing diploma courses in accountancy. This book is primarily aimed to be used as a main reference for basic auditing as it was written according to the polytechnic latest syllabus. This book is also valuable to students in other higher learning institutions who are also pursuing the same courses such as accounting, marketing and business studies either in diploma or certificates.

We tried our best to use the easiest approaches in order for the students to understand auditing. It is written in simple English using infographic note and video presentation to enable students to obtain an understanding of the important auditing principles and techniques.

Designed in line with the latest syllabus prescribed in Malaysian polytechnic, it covers six essential chapters covering all topics to fit virtually all one – semester courses in auditing or assurance services. Every chapter is discussed within the necessary scope and depth relevant with diploma student level.

It is our sincere wish that students especially in IPTA may find this book useful and valuable aid to understand this subject. We hope that students and academicians will get benefit from this publication and this book will contribute to the advancement of audit education and learning in Malaysia.

Mohd Shamsul Ismail

Lecturer Audit DAT4S2 & DAT4S3

Session II 2023/2024

Politeknik Kuching Sarawak

2024



REFACE

All praise to God whose help and guidance has sustains us to bring this book to completion. We sincerely hope that this book will be a valuable aid and reference to all especially students of Commerce Department throughout all polytechnics in Malaysia.

We also wish to express our grateful thanks to all my students audit DAT4S2 & DAT4S3 Session II 2023/2024 who involve in the publication process directly or indirectly. There are a lot of moral support and guidance given to us during the publication and also suggestions and encouragements.

Our heartfelt appreciations to the director of Politeknik Kuching Sarawak, Head of Commerce Department and to all our colleagues at Commerce Department of Politeknik Kuching Sarawak whose always been helpful and supportive during the publication of this book.

Most of all, special thanks are due to our families members who never stop giving their supports and encouragement in getting this book published. Without their understanding and sacrifices, this book will never be completed.

Finally, we wish to express our deepest gratitude to everybody who's always helpful and we really appreciate and remember their kindness. Without cooperation and support from all parties involved, none of this will ever come true. Hopefully this book may become valuable and useful reference to gain more knowledge in this world and hereafter.

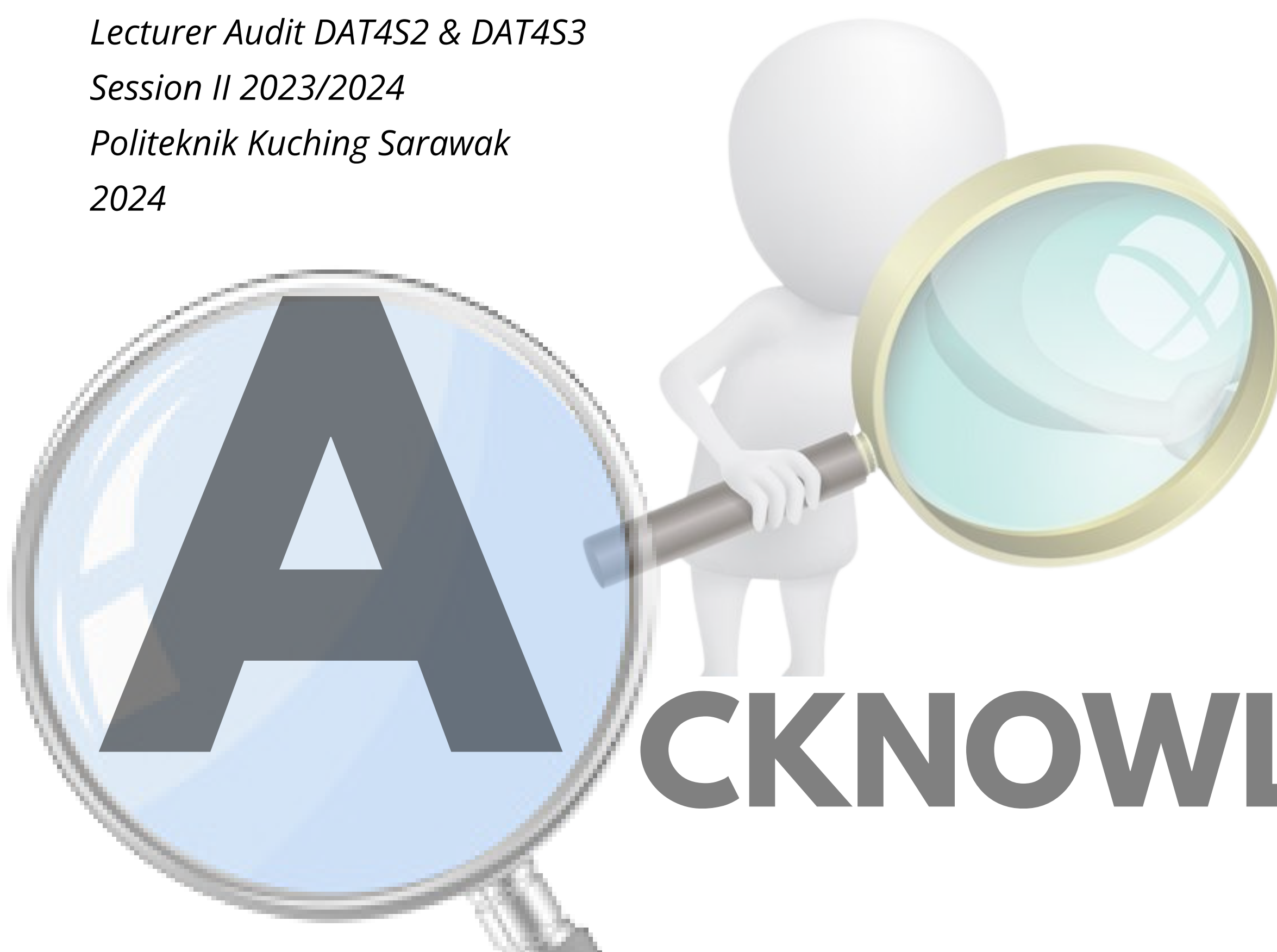
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CKNOWLEDGE

TABLE OF CONTENTS

5

INTRODUCTION TO AUDITING

20

OBJECTIVES AND SCOPE OF
FINANCIAL STATEMENT AUDIT

29

INTERNAL CONTROL SYSTEM

37

AUDIT PLANNING AND AUDIT
RISK

48

AUDIT DOCUMENTATION AND
SAMPLING

66

AUDIT EVIDENCE AND AUDIT
PROCEDURES

CHAPTER 1

5

INTRODUCTION TO AUDITING



INTRODUCTION TO AUDITING

Definition of Auditing

01

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.



02

Audit usually involves looking at an individual's or company's financial records and determining if they're accurate.

03

An audit is usually conducted shortly after a firm's books have been closed for its fiscal year.



04



An audit is an independent examination of the financial information of any entity, whether profit-oriented or not, regardless of its size or legal form when such examination is conducted with the aim of expressing an opinion on it.

05

Auditing also attempts to ensure that the books of accounts are properly maintained by the concern as required by law.

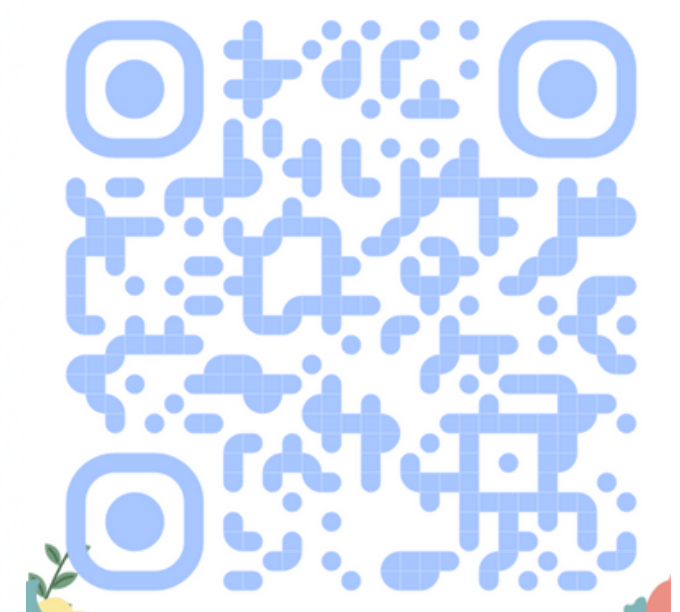


06

The auditing process is done within six (6) months and is done twice (2) times a year.



VIDEO



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7 PURPOSE OF AUDITING

1

ASSESSING FINANCIAL ACCURACY

Auditing ensures the accuracy and reliability of financial statements by verifying transactions, balances and disclosures

2

DETECTING FRAUD

Auditors help uncover any instances of fraud, errors, or irregularities within an organization's financial records, providing valuable insights for corrective action.

3

COMPLIANCE VERIFICATION

Auditing ensures that an organization adheres to relevant laws, regulations and industry standards, reducing legal and regulatory risks.

4

EVALUATING INTERNAL CONTROL

Auditors assess the effectiveness of internal controls in place to safeguard assets, ensure data integrity and prevent unauthorized activities.

5

ENHANCING STAKEHOLDER CONFIDENCE

By providing independent assurance on financial reporting, auditing increases the confidence of stakeholders, such as investors, creditors and regulatory authorities.

6

IMPROVING ORGANIZATIONAL EFFICIENCY

Auditors identify areas for operational improvements and efficiency gains, helping organizations optimize their process and resources utilization

7

FACILITATING DECISION MAKING

Audit findings and recommendations provide management with valuable information for informed decision making, strategic planning and performance evaluation.



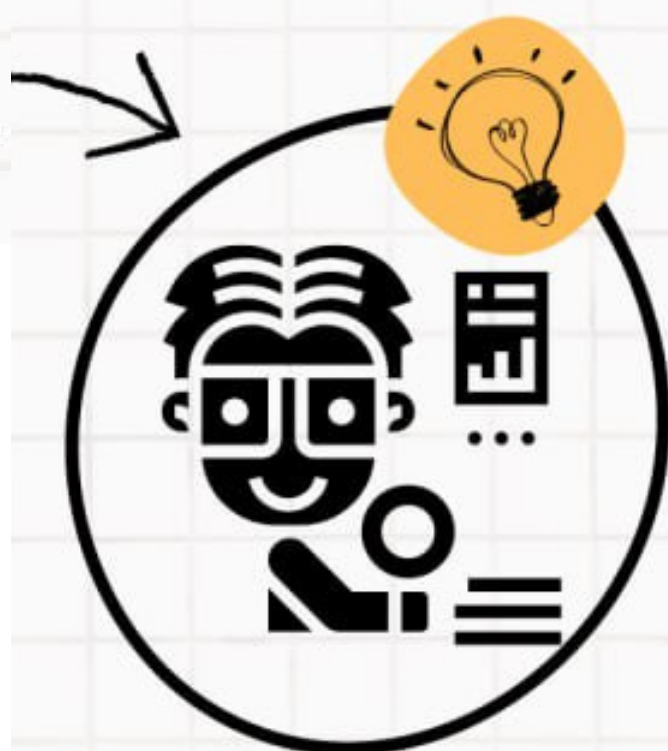
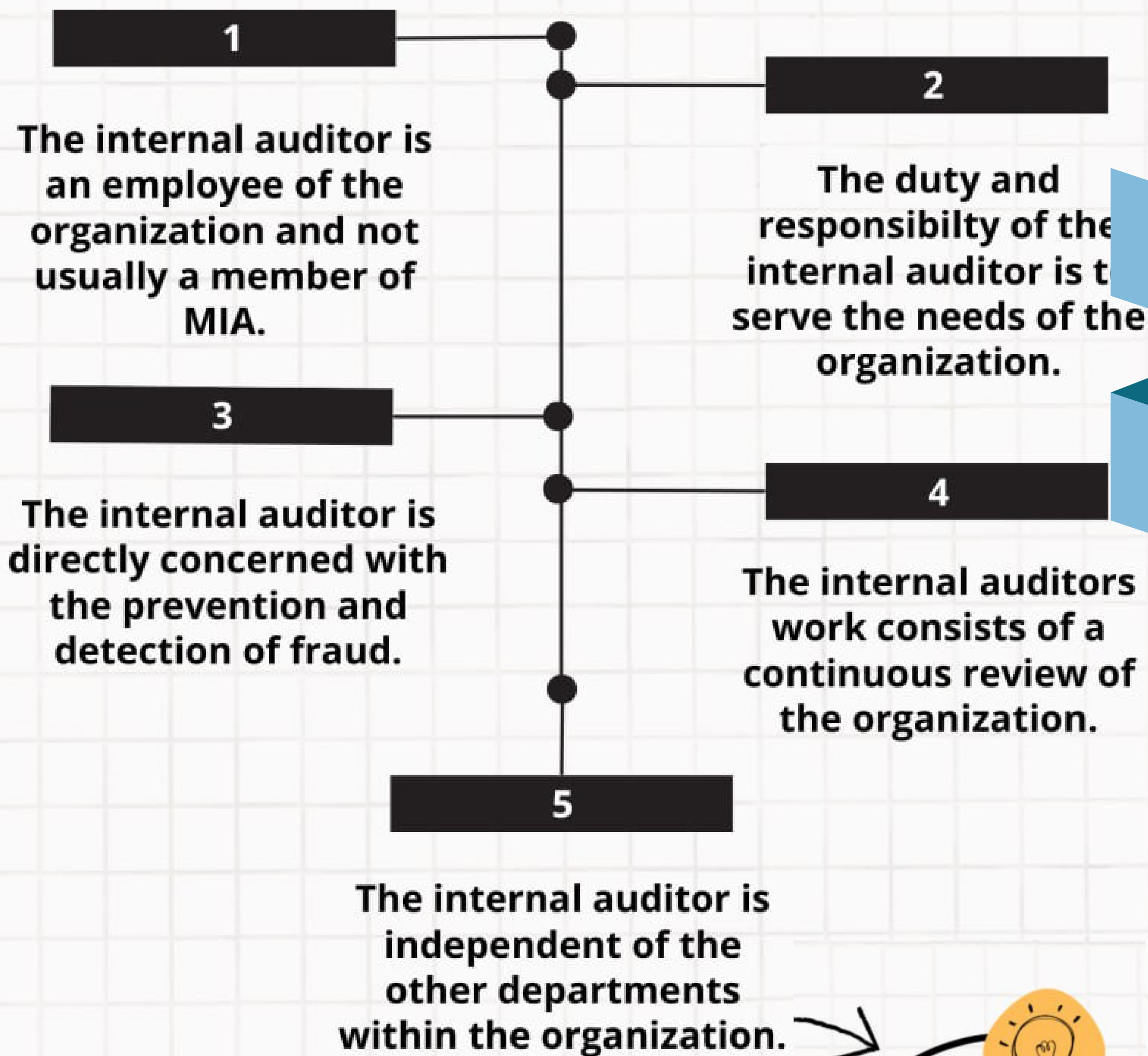
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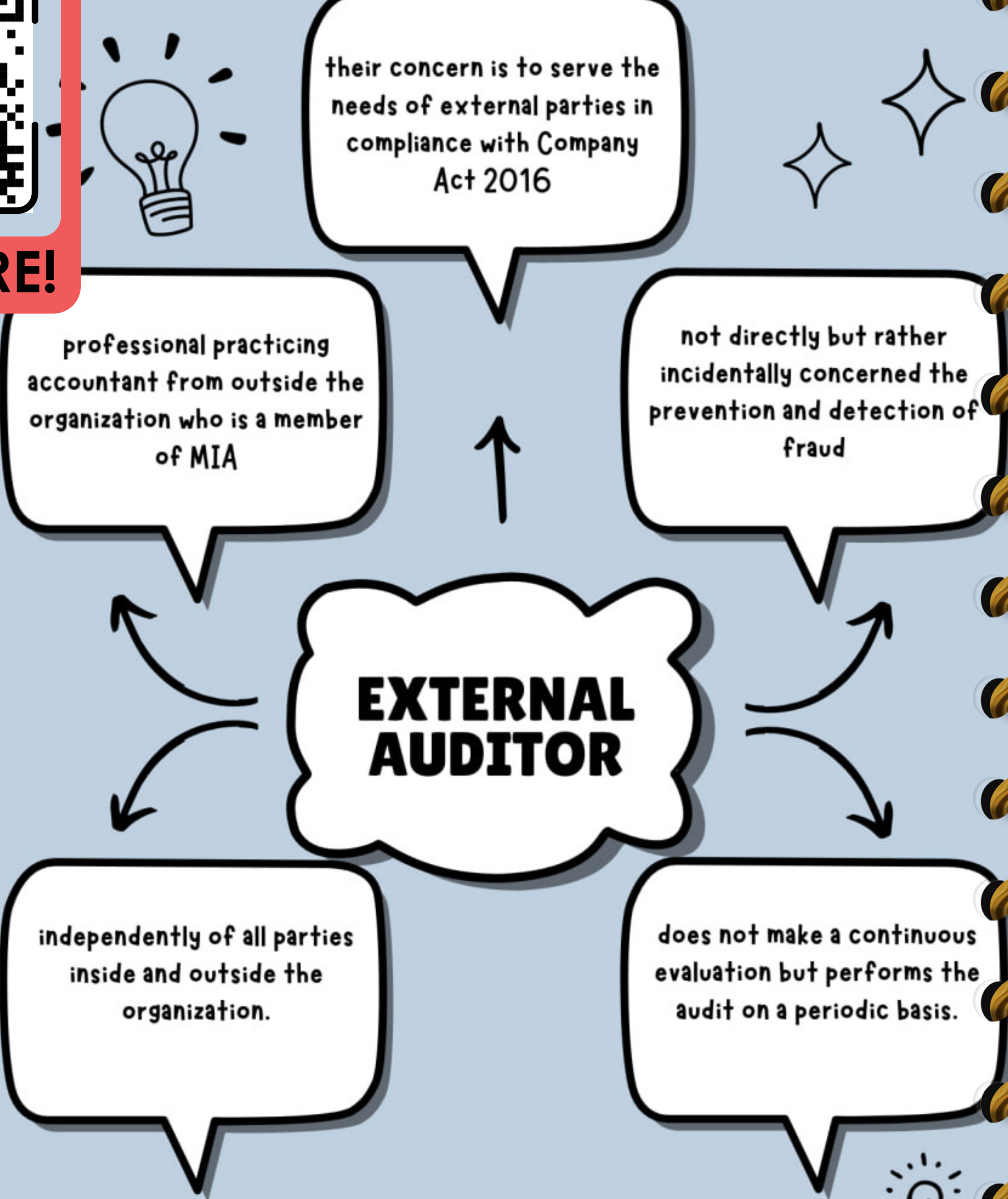


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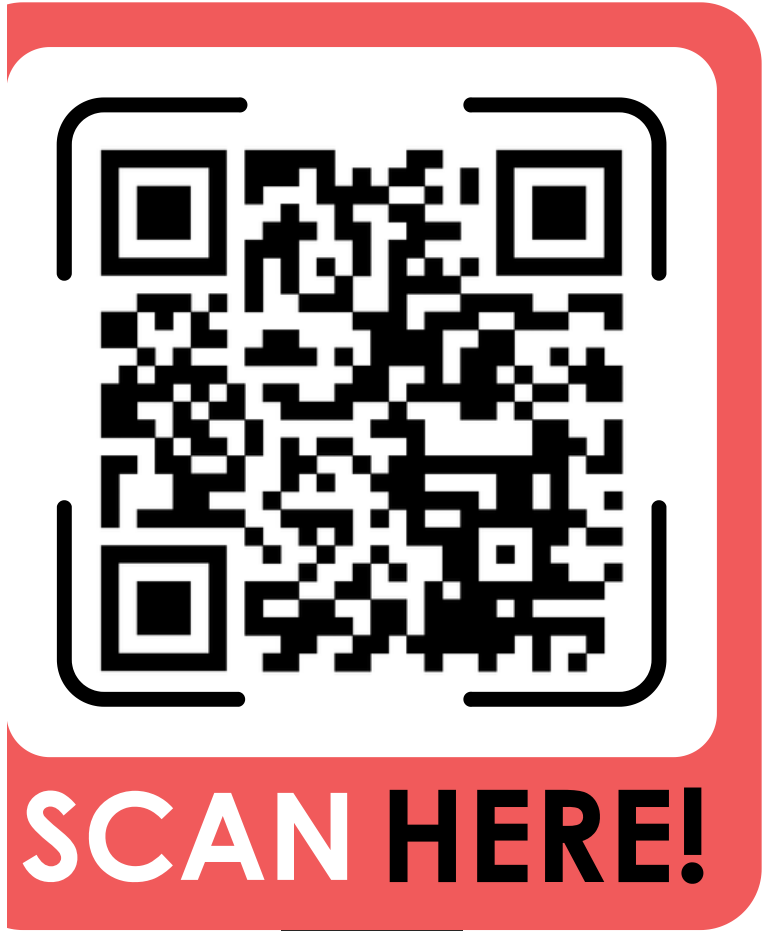
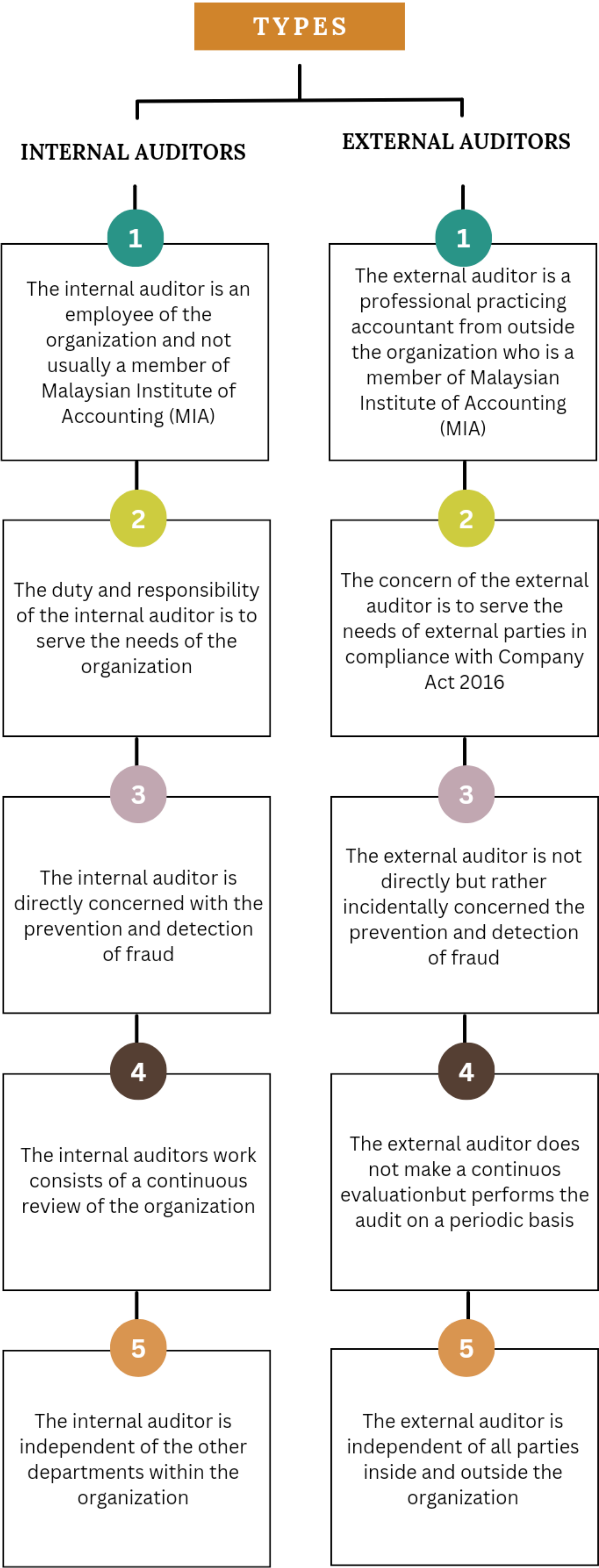




EXTERNAL AUDITOR



TYPES OF AUDITORS





Section 266 & 286

Power & Right Auditor of The Companies Act. 2016



Section 266 (4)

01

to access at all reasonable times all accounting records including all company register s and any other related information from company officers and auditors.

Section 266 (7)

02

to attend any general meeting, to receive all notices and communications and be heard on matters concerning the auditors

Section 266 (8)

03

to report to the directors any breach or non-observance in the financial statements.

Section 266 (9)

04

to report to the register if there is a serious offense involving fraud or dishonesty involving fraud or dishonesty committed against the company or the act by company officers.

Section 286 (3)

05

auditors are not liable for defamation or being sued in court in relation to statements, whether oral or written or any report made in the course of duty of such report was done in good faith.

6 DISQUALIFICATION OF AUDITOR

1.

He is not an approved company auditor



2.

He is a partner, employer or employee of an office of the company.

3.

A person or a firm who, whether directly or indirectly has any business relationship with the company or its holding or its subsidiary or an associate company or a subsidiary of such holding company.

4.

The person is convicted of an offence involving fraud or dishonesty under any other written law



5.

He is responsible, or is the partner, employer, or employee of a person responsible, for the keeping of the register of members or the register of debenture holders of that licensee

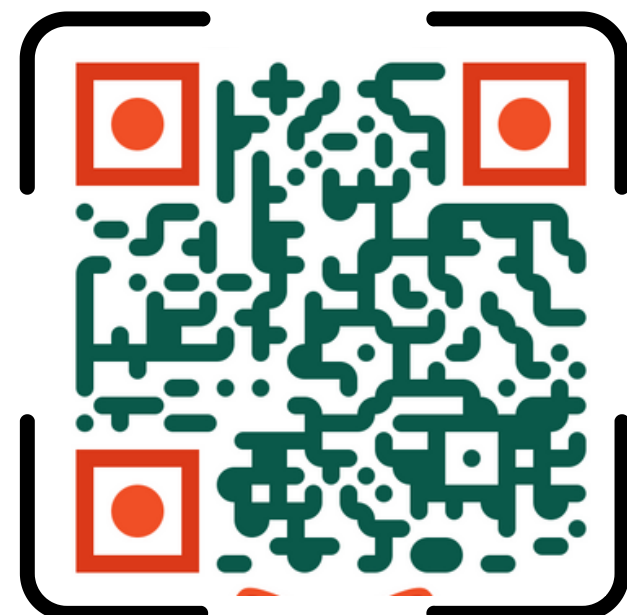


6.

He is indebted to that licensee or to any related corporation of that licensee



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PROCESS OF TERMINATION OF AN AUDITOR

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Section 276

01.

Notice Requirement

The company or auditor must provide written notice of termination/resignation

The company must notify the registrar within 14 days of receiving the notice

02.

Registrar notification

03.

Auditor right to be heard

The auditor has the right to make written representations to the company within 14 days of receiving the notice.

Section 277

01.

Auditor notice

The auditor intending to resign must give written notice to the company

The auditor must send a copy of the notice to the company members, if necessary

02.

Special notice to company

03.

Registrar notification

The company must notify the registrar within 14 days of receiving the auditor's notice.

The auditor may provide a statement to the company's members regarding for reason fo resignation

04.

Auditor's statement

PROCEDURE TO APPOINT AUDITOR BY WRITTEN RESOLUTIONS

SECTION 279 COMPANY LAW

SECTION 279 (1)

This section applies where a resolution is proposed as a written resolution of a private company the effect of which would be to appoint a person as an auditor in place of an outgoing auditor.

BE GENTLE
WITH
YOURSELF

SECTION 279 (2)

The company shall send a copy of the proposed resolution to the person proposed to be appointed as an auditor and to be outgoing auditor.

SECTION 279 (3)

The outgoing auditor may make a statement in writing explaining the circumstances connected with his resignation not exceeding a reasonable length to the company within fourteen days from receiving the proposed resolution referred to in subsection (1) & may request a copy of the statement to be sent to every member of the company.

SECTION 279 (4)

The company shall send a copy of the statement to every member of the company to whom resolution under this section has been circulated prior to the period for agreeing to written resolution.

SELF
LOVE
CLUB

SECTION 279 (5)

The company shall circulate the resolution in accordance with section 301 or 303 and where this subsection and subsection (4) apply-

(a) the period allowed under subsection 303(3) for service of copies of the proposed resolution is twenty-eight days instead of twenty-one days; and

(b) subsections 303(5) and (6) shall apply in relation to a failure to comply with that subsection.

SECTION 279 (6)

A copy of the statement need not be circulated if, on the application either of the company or of any other person claiming to be aggrieved, the Court is satisfied that the auditor is using this section to secure needless publicity or the matter is defamatory or other grounds that the Court thinks reasonable.



ROSVIVIE DAYANNA ROSLI
(05DAT22F1084)



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PROCEDURE TO APPOINT

AUDITOR AT MEETING

OF MEMBERS

1

NOTICE OF MEETINGS:

The company must issue a notice of the meeting to all members in accordance with the Companies Act and the company's Articles of Association. The notice should include the date, time, and place of the meeting, as well as the agenda items, including the appointment of the auditor

QR CODE



2

QUORUM:

Ensure that the meeting has the required quorum as per the company's Articles of Association. If the quorum is not met, the meeting cannot proceed, and a new meeting may need to be convened



AUDITOR

3

RESOLUTION:

The motion for the appointment of the auditor should be passed by a majority of the members present and voting at the meeting



4

AGENDA:

The agenda of the meeting must include the item for the appointment of an auditor



5

RATIFICATION:

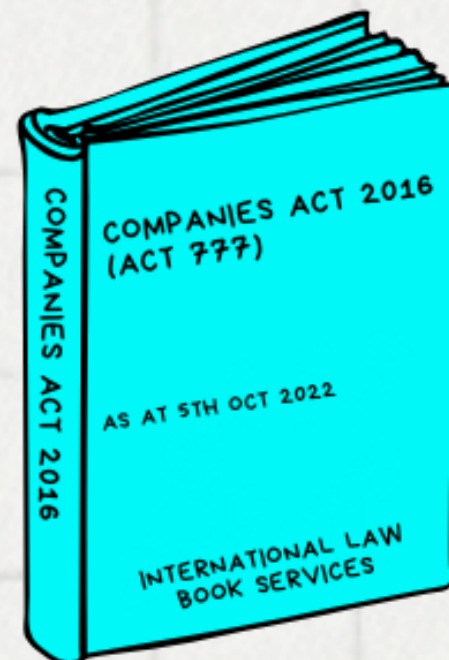
At every AGM, the appointment of the auditor should be ratified by the members. If the members do not ratify the appointment, the auditor will vacate office



Resignation of Auditors

COMPANIES ACT 2016

- Refer to section 281, Companies Act 2016.
- Show two subsections for resignation of auditors



SECTION 281(1), COMPANIES ACT 2016

State that, an auditors of a company may resign his office by giving a notice in writing to that effect to the company at its registered office.

SECTION 281(2), COMPANIES ACT 2016

A notice of resignation under subsection (1) shall bring the auditor's term of office to an end after twenty-one days from which the notice is given or from the date as may be specified in the notice.

21
days



When auditors resign, they need to provide a formal resignation letter to the company's board of directors. By stating the reasons for their resignation and any concerns they may have regarding the company's financial affairs. These requirements are required by the accounting standards and regulations.



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DIEY AK SO-UH (05DAT22F1053)



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6 TYPES OF AUDIT SERVICES

1. FINANCIAL STATEMENTS AUDITING

The purpose of an audit of financial statements is for the auditor to determine whether the overall view presented in the financial statements are prepared in accordance with specified financial reporting framework. The phrase used to express the auditor's opinion is "the financial statements give a true and fair view", or "present fairly".

2. COMPLIANCE AUDITS

The objective of a compliance audit is to determine whether an auditee complies with the specific procedures or rules established by higher management within an entity or by some regulatory authority. A compliance audit determines the extent to which rules, policies, laws, covenants, or governmental regulations are followed by the party or entity being audited.

3. PERFORMANCE AUDITS

The objective of an operational audit is to evaluate the effectiveness and efficiency of operating procedures and resource utilization. An operational audit involves a systematic review of organization activities, or a part of them, in relation to the efficient and effective use of resource

4. TAX AUDITING

A tax audit is an examination of a taxpayer's business accounts and financial affairs to ascertain that taxes reported and paid are correct and are in compliance with tax laws and regulations. Inland Revenue Board (IRB) carries out 2 types of audits, namely desk audit and field audit.

5. SHARIAH AUDITING

Shariah audit of Islamic financial services also means the accumulation and evaluation of evidence to determine and report the level of suitability between information and criteria that have been established for the purpose of shariah compliance

6. PUBLIC SECTOR AUDITING

Public sector audits are carried out by a public sector auditor. Public sector auditors perform audits for the Office of the Auditor General (OAG) established under the Audit Act, 1957. Under the provision of the Audit Act, 1957, the Auditor General is responsible for auditing the financial statements of the Federation and all States as well as those of the public authorities and statutory bodies. A report is prepared at the end of each year.

THE IMPORTANCE OF AUDITING STANDARD



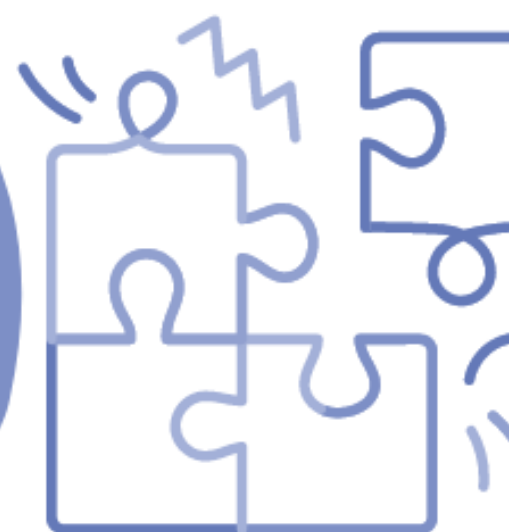
Auditing standard are basic principles governing the auditors professional responsibilities which he must exercise in the course of his audit and in reporting the results thereof.

Compliance with auditing standards can help to reduce the risk of fraud within an organization



It is a form of benchmarking the intensity of achieving objectives of the professional bodies in being a role model in the accounting profession and also safeguarding the position of auditors whilst auditing financial statements.

Compliance with auditing standards is of utmost importance for organizations that require an audit of their financial statements. By adhering to these standards, organizations can benefit from enhanced credibility, improved decision-making, and a reduced risk of fraud.



Auditors carry out detailed works to value a subject matter whether it is of true and fair view.



VIDEO



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8 SOURCE

DOCUMENTS IN BUSINESS TRANSACTION

1. INVOICES

Issued by a seller to a buyer, detailing the products or services provided, quantities, prices, and terms of sale.



2. PURCHASE ORDERS

Issued by a buyer to a seller to initiate a purchase, specifying the goods or services, quantity, price, and terms.



3. SALES ORDER

Generated by a seller in response to a purchase order, confirming the sale of goods or services to the buyer.



4. RECEIPT

Given to a customer as proof of payment for goods or services purchased.



5. CREDIT NOTE

Issued by the supplier to a buyer to document a reduction in the amount owed due to returned goods, discounts, or other adjustment.



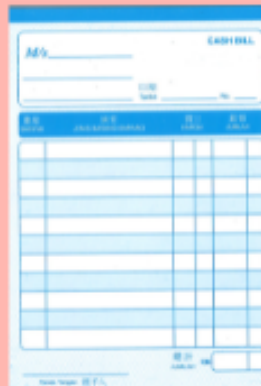
6. DEBIT NOTE

A document sent by a seller to a buyer, informing them that they owe more money.



7. CASH BILL

A receipt given to a customer when they make a purchase and pay with cash.



8. PAYMENT VOUCHER

A document used to record a payment made by a company to a supplier, employees, or for other expenses.



CHAPTER 2

20

OBJECTIVES AND SCOPE OF
FINANCIAL STATEMENT AUDIT



OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT



AUDITOR INDEPENDENCE?

- The objective of an audit has been described as enhancing ‘the credibility of the financial statements by providing reasonable assurance from an independent source that they present a true and fair view’.
- An audit is necessary in order to add credibility to the financial statement. This objective will not be met if the readers of the audit report believe that the auditor could have been influenced by the directors of the company.



INDEPENDENT IN APPEARANCE?

* refers to the public or other’s perception of the auditor independence. To be seen to be independence, an auditor should be able to demonstrate that there is no threat to his or her independence such that an outsider would not doubt the auditor’s objectivity.

INDEPENDENCE OF MIND?

- exist when the auditors is actually able to maintain an unbiased attitude throughout the audit. It refers to objectivity, to the quality of not being influenced by regard to personal advantage.
- The state of mind that permits the provision of an opinion without being affected by influence that compromise professional judgment allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

Definition of Audit Objective

Accuracy

Audit objective focus on verifying the accuracy of financial statements, ensuring the information is free from misstatement and error



Compliance

Audit objectives aim to ensure compliance with relevant laws, regulations and accounting standards applicable to the organization's financial reporting



Assess the client internal control

To understand their effectiveness and detect any weaknesses that could raise the risk of material misstatement in financial statement



Statutory

To check that an entity is following the rules and regulations of the Act under which it is registered, they have to appoint the statutory auditor to conduct the statutory audit



External

To check whether the Financial Statements prepared by the Management provide an accurate and fair view. Financial Statements prepared are as per applicable Accounting and Auditing Standards.



Develop an audit opinion

The auditor evaluates if the clients financial statements align with GAAP or IFRS



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CHAPTER 2 : OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT



7 BASIC PRINCIPLES GOVERNING AN AUDIT

INTEGRITY (kejujuran)

- A professional accountant should be straightforward and honest in performing professional services.
- Avoiding activities such as fraud

PROFESSIONAL COMPETENCE AND DUE CARE (kepakaran)

- A professional accountant, agreeing to provide professional services, implies that he is competent to perform the services. Professional competence requires a high standard of general education followed by specific education, training, examination in relevant subjects, and work experience.

TECHNICAL STANDARDS (ilmu & pengetahuan)

- Professional services should always be carried out in accordance with the relevant technical and professional standards
- Service like this should follow
 - i. International Standards on Auditing.
 - ii. International Financial Reporting Standards.
 - iii. rules of the accountant's professional body.
 - iv. relevant legislation.

INDEPENDENCE (bebas)

- A professional accountant should be, and be seen to be, free from any interest which might detract from his objectivity.
- E.g. family, best friend, nearest neighbor, lovers, used to work in the same company and etc.

OBJECTIVITY (matlamat)

- No Conflicts of Interest
The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest, and free of conflicts of interest.

CONFIDENTIALITY (kerahsiaan)

- Professional accountants have an obligation to respect the confidentiality of information about a client's (or employer's) affairs acquired in the course of professional services. Accountants should respect the confidentiality of information acquired during the course of performing professional services.

PROFESSIONAL BEHAVIOUR

- A professional accountant must comply with relevant laws and regulations and avoid any conduct that might discredit the profession



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CHAPTER 2 : OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT

5 AUDITING ASSERTIONS



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CHAPTER 2: OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT

1

EXISTENCE

All the assets, liabilities and equity balances need to be exist in the financial statements..



2

AUTHORIZATION

All transactions and events have been properly authorized.



3

COMPLETENESS

All the asset, liabilities and equity balances that were supposed to be recorded have been recorded in the financial statements.



4

ACCURACY

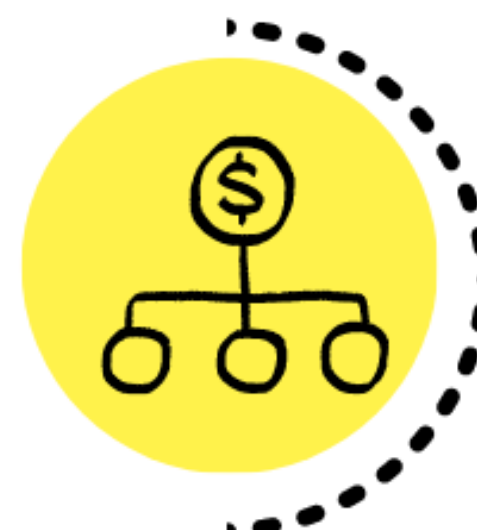
Amount and other data relating to the recorded transactions need to be recorded correctly.



5

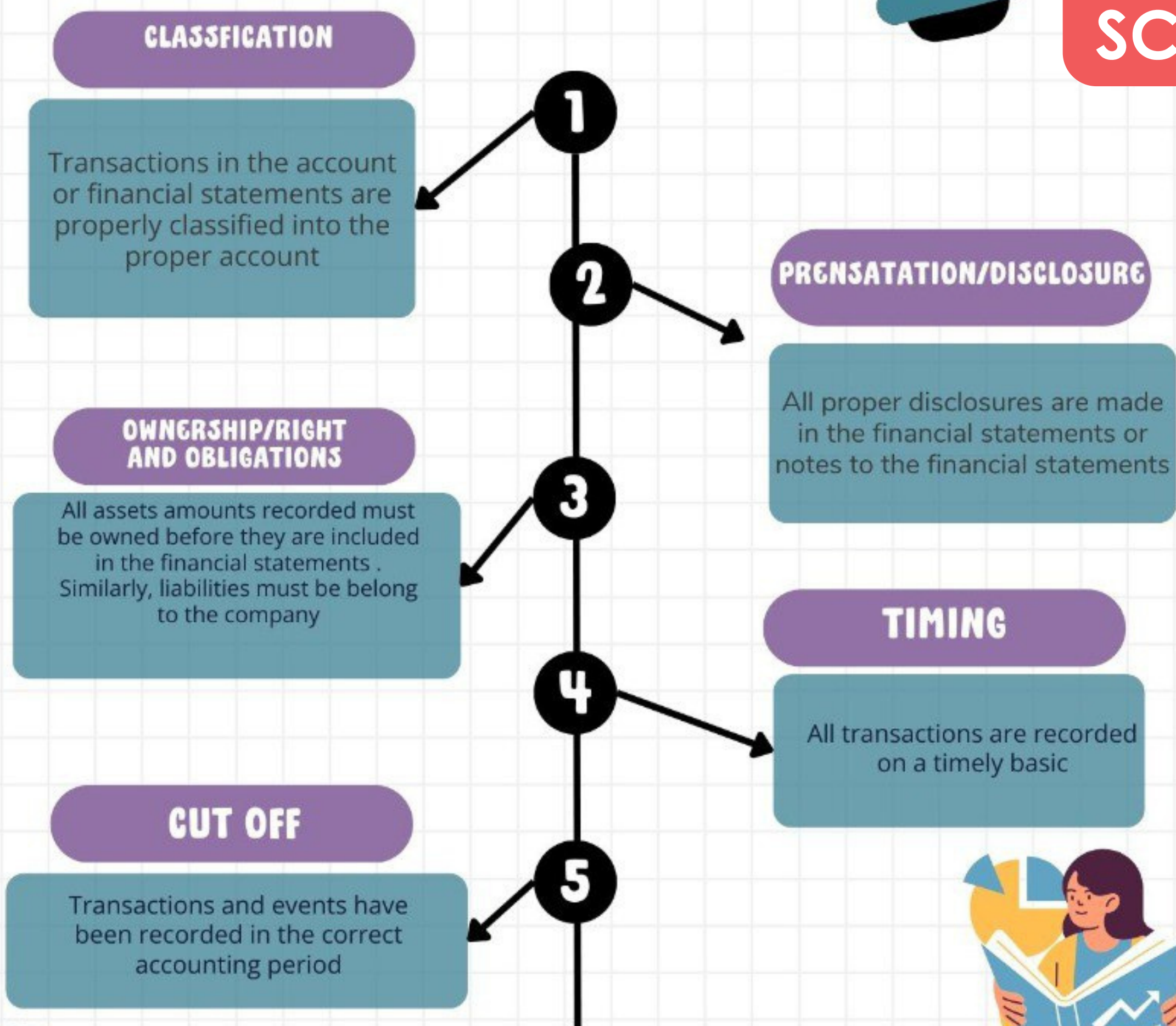
VALUATION

Assets, liabilities and equity interest are included in the financial statements and any resulting valuation adjustments need to be recorded.

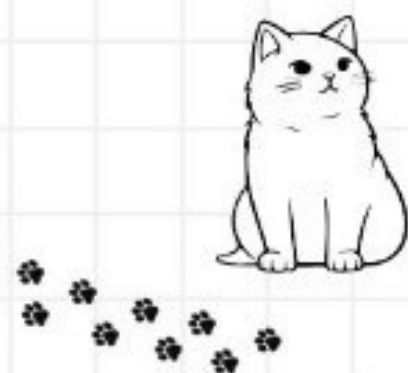


- MARIA SIAH ANAK MARTIN
- 05DAT21F2059

CHAPTER 2 : AUDITING ASSERTIONS



CHAPTER 2 : OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT





Definition of Fraud



"Definition of Fraud"

By: Vera Nina Anak Berong (05DAT22F1034)

Source from:

<https://corporatefinanceinstitute.com/resources/accounting/fraud-audit/>

1 Fraud in an audit is when an entity is found to have illegally altered financial statements to manipulate its financial health or to investigate profits or losses.

1



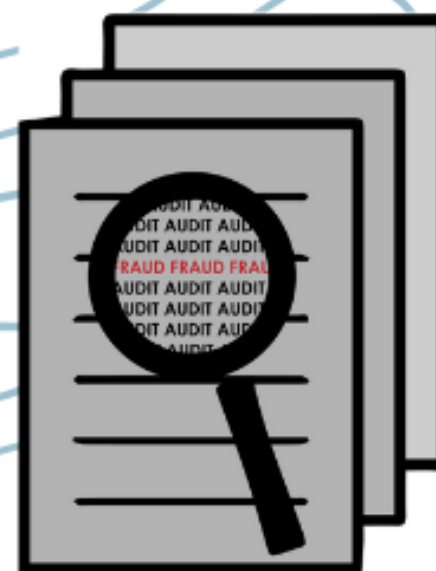
2

Accounting fraud occurs when an entity, such as a company or government, deliberately falsifies its financial records.

Accounting fraud occurs when deliberate misstatements are made.

eg; "a company overstating its assets to make itself appear more financially healthy."

3



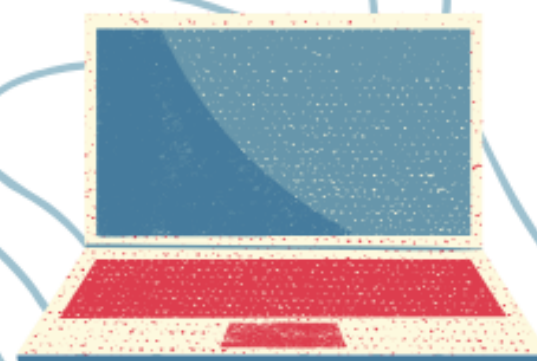
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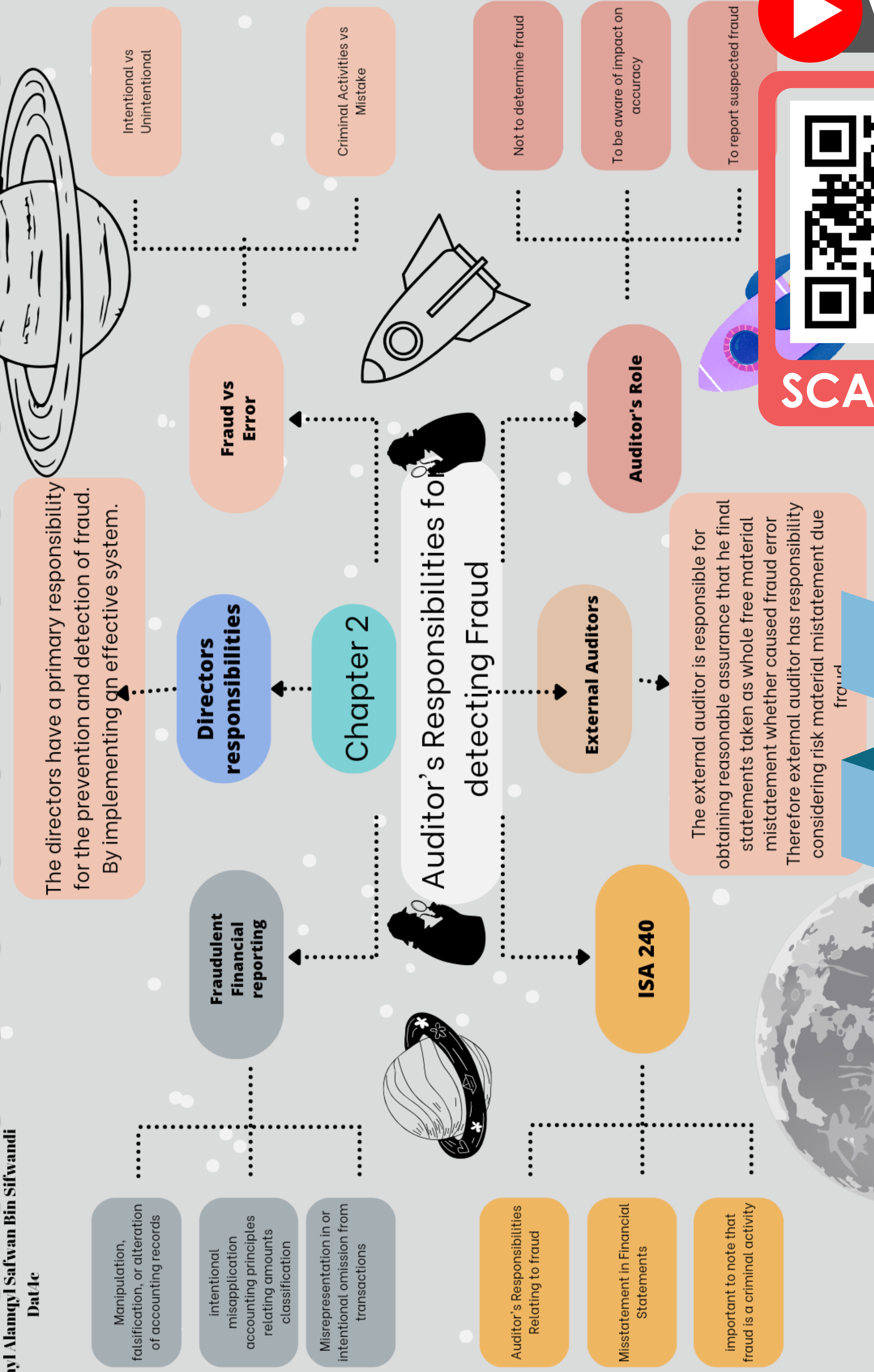
TYPES OF MISSTATEMENTS

- Misstatements arising from fraudulent financial reporting
- Misstatements arising from misappropriation of assets

5 For purpose of the action, fraud is an intentional act that results in a material misstatements in financial statements.

5





CHAPTER 2 : OBJECTIVES AND SCOPE OF FINANCIAL STATEMENT AUDIT

CHAPTER 3

29 INTERNAL CONTROL SYSTEM

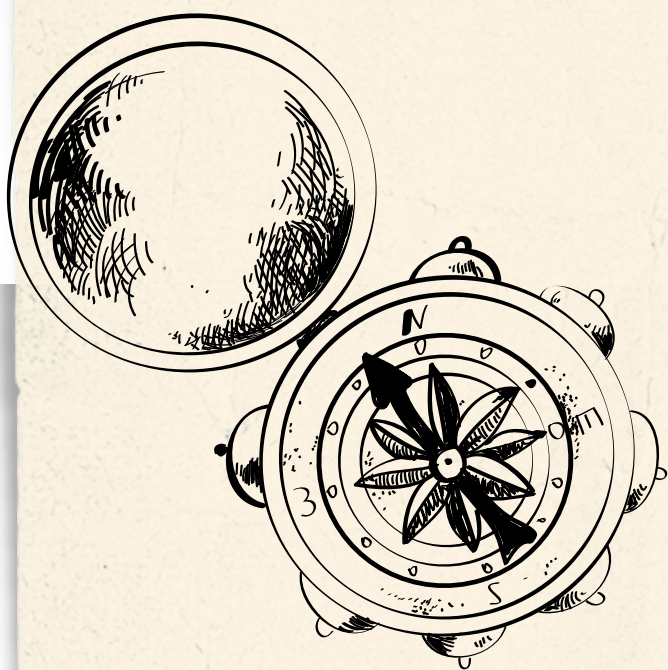
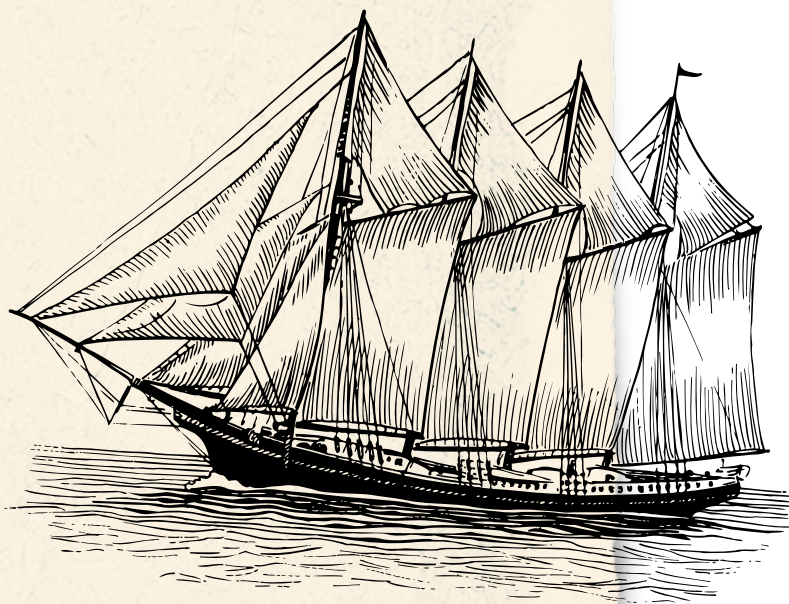


INTERNAL CONTROL SYSTEM

Examples of preventive controls include:

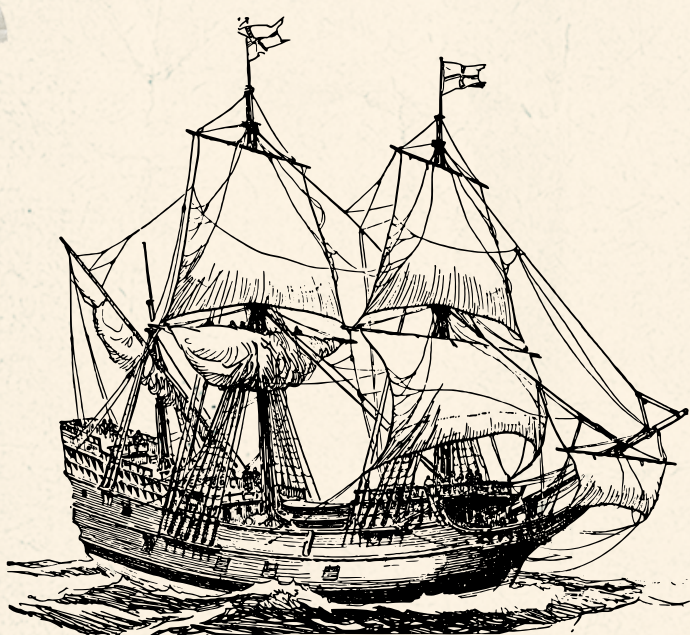
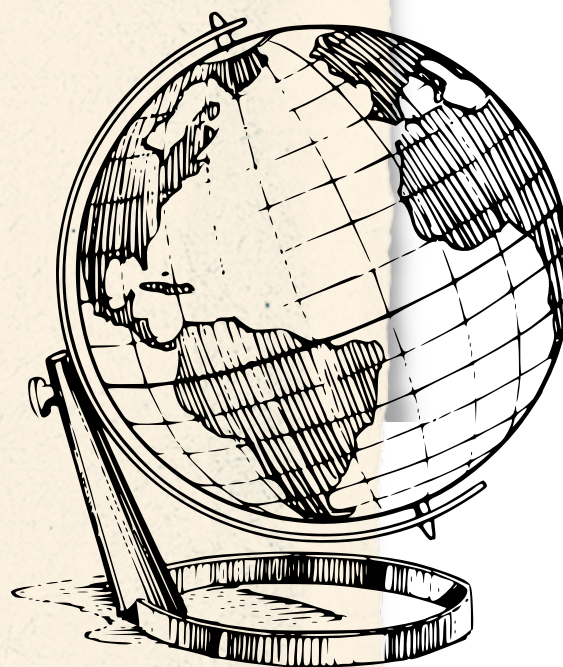


Employee screening and training (such as the workshop or training series to increase employee knowledge)



Task all of the staff needs to be explained in writing and their authority limit should also be clear.

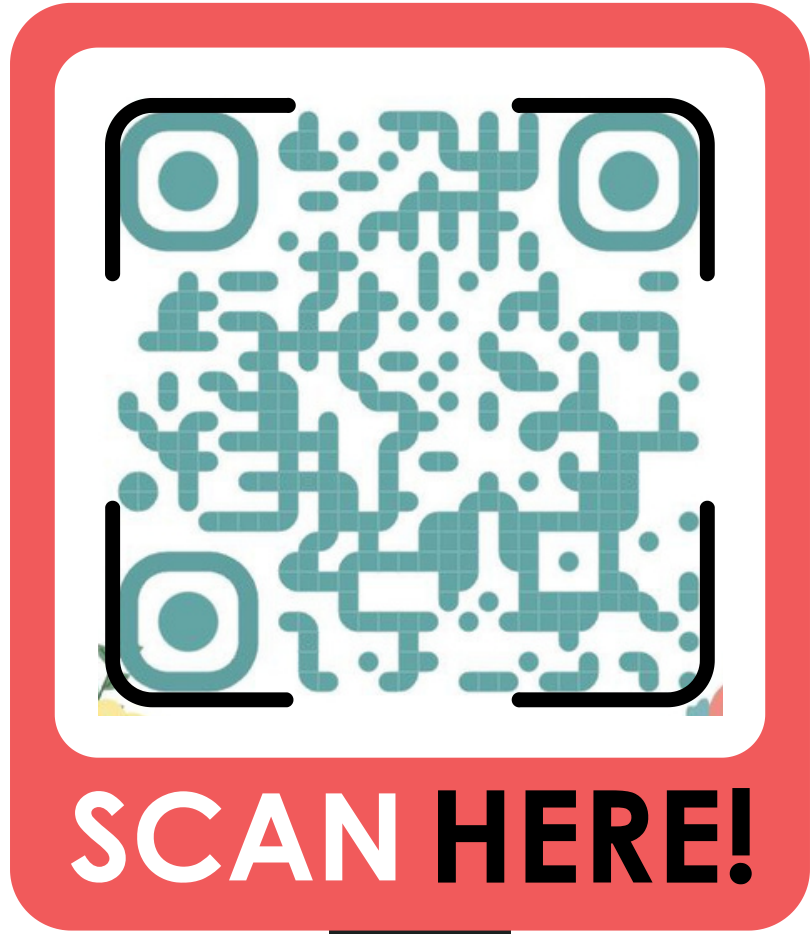
Every job must be controlled or monitor with systematically. This including quality control, production laborer control and statistical report to management.



Organization need to plan and implement orderly staff training programs

Separation of duties. Duties and responsibilities are segregated to reduce risk and errors for certain events (such as different person in charge of budget approvals, recording of transactions, approval of payments and release of payments to vendors)





DEFINITION OF INTERNAL CONTROL SYSTEM

01

Internal control is a process that affected by an entity's board of directors, management and other personnel that designed to provide reasonable assurance regarding the achievement of objectives.

Source of document: Textbook

02

Internal control can be expected to provide only reasonable, not absolute, assurance to an entity's management and board.

Source of document: <https://audit.ucsf.edu/internal-controls>

03

Internal control is effected by people. It is not merely policy manuals and forms, but also people at every level of an organization.

Source of document: <https://audit.ucsf.edu/internal-controls>

04

Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.

Source of document: <https://www.investopedia.com/terms/i/internalcontrols.asp>

05

Internal control is the framework that ensures an organization operates effectively and efficiently, manages its risks appropriately, and maintains integrity and reliability in its financial reporting.

Source of document: <https://audit.ucsf.edu/internal-controls>

06

It involves processes such as segregation of duties, authorization and approval procedures, physical controls over assets, and monitoring activities to detect and prevent errors, fraud, and misuse of resources.

Source of document: <https://audit.ucsf.edu/internal-controls>

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ELEMENTS OF INTERNAL CONTROL



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- **CONTROL ENVIRONMENT**

Sets the tone of an institution and influences the control consciousness of its people. Leaders of each department, area or activity establish a local control environment.

- **RISK ASSESSMENT**

The identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed.



- **CONTROL ACTIVITIES**

Control activities usually involve two elements: a policy establishing what should be done and procedures to effect the policy. All policies must be implemented thoughtfully, conscientiously and consistently.

- **INFORMATION AND COMMUNICATION**

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities.



- **MONITORING**

To be monitored- a process that assesses the quality of the system's performance over time.



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CHAPTER 3 : INTERNAL CONTROL SYSTEM

8 TYPES OF INTERNAL CONTROL

1

SEPARATION OF DUTIES

To each employee that devides accounting responsibilities is a basic control system to ensure that the people responsible for financial reporting are separate from the people tasked with making cash deposits and asset purchases.

ACCESS CONTROL

keep people out to keep value in organization.

2

REQUIRED APPROVALS

Designating managers to be responsible for transaction authorizations is an internal control function that funnels purchase decisions through the most trusted employees. Authorization may be required for large payments, unusual expenses and unexpected cost increases.

3

ASSETS AUDITS

Cash reconciliations are performed regularly to verify that actual balances match accounting balances. Differences can be analyzed and investigated , where necessary, to result in accurate financial reports.

4

5

TEMPLATES

Standardizing financial documents creates consistency, which makes it easier during the auditing process. While some reports like statement of comprehensive income and statement of financial position have a standard format, other documents can vary substantially between business teams.

TRIAL BALANCES

Double entry accounting ensures that the books are always balanced. However, errors and fraud can still exist in a double entry accounting system, which is why trials balances should be used in conjunction with this method.

6

7

RECONCILIATIONS

Bank, supplier statement and credit card reconciliations can factor into other accounting control systems, however conducting these reconciliations is an internal control in and of itself as well. Understanding which items have cleared, are in transit or have not yet posted allows businesses to uncover errors and fraud. Futhermore, performing regular reconciliations informs strategic business decisions and day to day operations.

DATA BACKUPS

Data backups are the most forgotten internal accounting control system. Because accurate financial data requires technological interaction between platforms, loss of financial inputs can skew reporting and muddle audits.

8

IMPORTANCE OF INTERNAL CONTROL TO AUDITORS

01 EFFICIENT CONDUCT OF BUSINESS

controls should be in place to ensure that processes flow smoothly and operations are free from disruptions. This mitigates against the risk of inefficiencies and threats to the creation of value in the organisation.

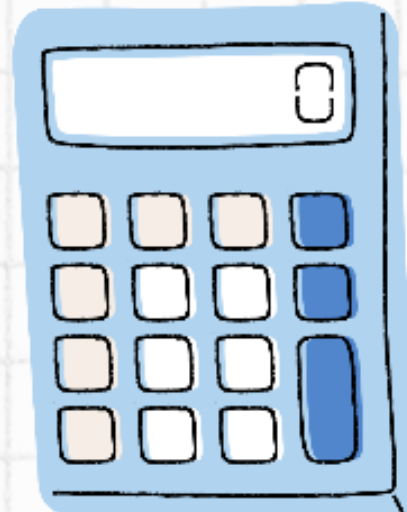


02 SAFEGUARDING ASSETS

controls should be in place to ensure that assets are deployed for their proper purposes, and are not vulnerable to misuse or theft. A comprehensive approach to this objective should consider all assets, including both tangible and intangible.

03 PREVENTING AND DETECTING FRAUD AND OTHER UNLAWFUL ACTS

Even small businesses with simple organisation structures may fall victim to these violations, but as organisations increase in size and complexity, the nature of fraudulent practices becomes more diverse, and control must be capable of addressing these.



04 COMPLETENESS AND ACCURACY OF FINANCIAL RECORDS

An organisation cannot produce accurate financial statements if its financial records are unreliable. System should be capable of recording transactions so that the nature of business transacted is properly reflected in the financial accounts.

05 TIMELY PREPARATION OF FINANCIAL STATEMENTS

Organisations should be able to fulfil their legal obligations to submit their account, accurately and on time. They also have a duty to their shareholders to produce meaningful statements. Internal controls may also be applied to management accounting processes, which are necessary for effective strategic planning, decision taking and monitoring of organisational performance.



COREENA BAUN LOUIS
05DAT22F1057



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Example of weakness in internal control

01

DATA COLLECTION

When a company uses a manual or non-computerized system to record employees' work hours, there are certain risks. For example, employees might "buddy punch" for each other or falsify their timecard information. If the company doesn't have strong procedures to check and verify these timecards, they might miss when an employee forgets to submit their hours, which could result in the employee not getting paid.

02

SEPARATION OF DUTIES

If one person controls the whole payroll process without checks and balances, it's an invitation for theft and fraud. For instance, someone might create fake employees in the payroll system and keep paying them until they're caught. Without proper checks and balances, the fraud could involve many fake employees and seriously impact the company's finances.

03

DATA SECURITY

Security controls are put in place to keep employees' personal and payroll information private. If these controls are weak, it can lead to unauthorized access to sensitive information, such as blank checks and check stamping equipment, as well as theft of money or equipment. When internal controls are weak, it can lead to identity theft and cause financial hardship for the employees affected.

04

INTERNAL AUDIT

Even the most robust payroll controls cannot completely prevent errors, inconsistencies, or fraud. If internal controls do not include a final safeguard against identity theft leading to legal action, a business may be able to take legal action against an employee who misuses company assets or finances, but may never fully recover the stolen funds. Additionally, it can take years to restore a reputation that has been damaged by one dishonest employee.

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Muhammad Afiq Zulhusni
05DAT22F1069

The Management Letter

01

A management letter can contain communicates of reportable conditions that are significant deficiencies in the internal control.



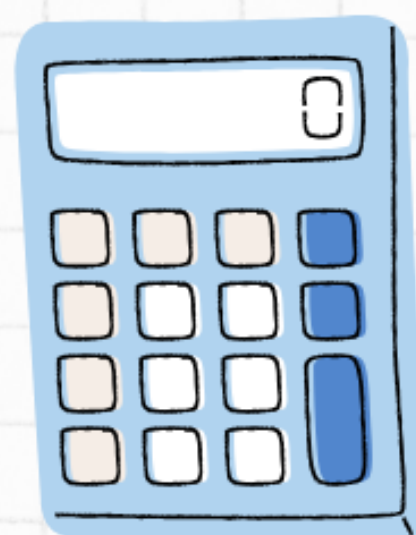
02

Management Letter means a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control,



03

The management letter must include: significant weaknesses and areas for improvement identified in the current engagement. repeat issues - matters identified in previous years that management has not yet resolved satisfactorily.



04

- The purpose of the audit was for the auditor to express an opinion on the financial statements
- The auditor should make management aware as soon as practical and at an appropriate level of responsibility .



VIDEO



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CHAPTER 4

37

AUDIT PLANNING AND AUDIT RISK



BUSINESS RISK

ISA 315 requires auditors to obtain an understanding of the entity and its environment in order to assess the risks of material misstatement of financial statements. This reinforces the importance of obtaining a bird's eye view of the entity's business and significant business risks by the auditor at the audit planning stage.



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01

Increase in market competition

Example:

02

Over trading

03

Technological obsolescence

04

Political and economic instability

05

Risk of fraud and theft

06

High financial risk



6 DEFINITION OF AUDIT PLANNING



Audit planning involves establishing the overall audit strategy for the engagement and developing an audit plan.

Audit planning means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit

source : Wikipedia



Audit planning is a detailed programme giving instruction as how each area of the audit will be conducted.

source : <https://www.accglobel.com>

Planning the audit includes establishing the overall audit strategy for the engagement and developing an audit plan, which includes, in particular, planned risk assessment procedures and planned responses to the risks of material misstatement.

source : <https://pcaobus.org>



Audit planning also involves allocating resource appropriately, including determining staffing requirements, budgeting time and costs and scheduling audit procedures.

source : Chat GPT



Audit planning involves assessing the risks associated with the audited entity, such as financial risks, operational risks and compliance risks.

source : Chat GPT



6

DEFINITION OF AUDIT RISK



01.

In an audit of financial statements, audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated

<https://pcaobus.org/oversight/standards/auditing-standards/details/>

02.

According to the IAASB Glossary of Terms (1), audit risk is defined as follows: 'The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.'

<https://www.accaglobal.com/gb/en/student/exam>



03.

Audit risk refers to the risk that an auditor may issue an incorrect audit opinion due to failing to detect material misstatements in the financial statements.

<https://chat.openai.com/>



04.

Audit risk is the risk that financial statements are materially incorrect, even though the audit opinion states that the financial reports are free of any material misstatements.

<https://www.investopedia.com/terms/a/audit-risk.asp>



05.

Audit risk is the risk that an auditor will not detect errors or fraud while examining the financial statements of a client.

<https://www.accountingtools.com/articles/audit-risk>



06.

Audit risk is the danger of financial statements being significantly inaccurate unless the audit opinion notes that the financial results are free from any factual mistakes.

<https://cleartax.in/glossary/audit-risk/>



QHAIDATUL INTAN (05DAT21F2055)



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CHAPTER 4 : AUDIT PLANNING AND AUDIT

RISK



DEFINATION OF AUDIT MATERIALITY



INTRODUCTION:

In auditing, materiality is a fundamental concept that refers to the importance of an item, transaction, or information in financial statements. It is defined as the amount or nature of an omission or misstatement in a financial statement that could influence the judgment of a reasonable person.

Financial Statement Perspective	Audit materiality refers to the threshold beyond which misstatements, errors, or omissions in financial statements could influence the decisions of financial statement users.
Risk Assesment	It represents the level at which misstatements, individually or collectively, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements.
Quantitative Threshold	Materiality is often quantified as a percentage of a relevant base, such as total assets, net income, or revenue, providing auditors with a numerical benchmark for assessing the significance of potential misstatements.
Qualitative Consideration	While materiality is often quantified, it also encompasses qualitative factors, such as the nature of the item, its context within the financial statements, and its potential impact on stakeholders' perceptions and decisions.
Professional Judgment	Auditors exercise professional judgment in determining materiality, considering factors such as the size and nature of the entity, industry standards, regulator requirements, and the expectations of users of the financial statements.
Responsibility and Reporting	Auditors are responsible for evaluating materiality throughout the audit process communicating significant findings related to material misstatements to stakeholders, including management and those charged with governance.

INHERENT RISK

Definition:

1

- The basic level of risk something has before any safety measures are taken into account.



VIDEO

Sources of inherent risks:



- Auditors unable to identify the risk due to high judgement required by transactions.

2

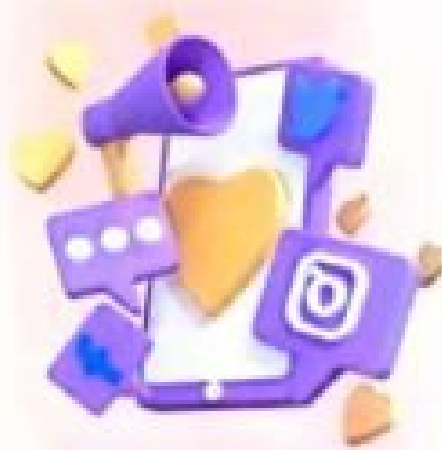
Sources of inherent risks:

3

- High possibility for a company that misreported the data and repeat same mistake.



Sources of inherent risks:



- Frequent technological advancements in the industry pose a risk of technology becoming outdated for the company.

4

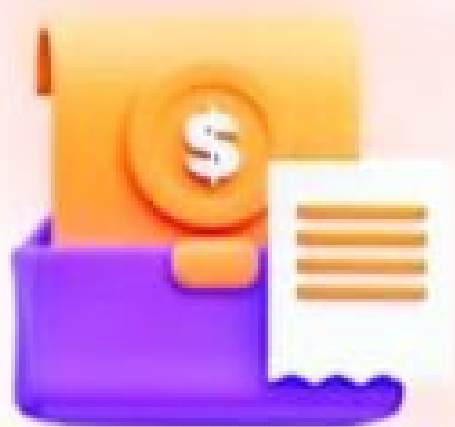
Sources of inherent risks:

5

- The company's business transactions are complex and involve derivative instruments.



Types of inherent risk:



- Market risk
- Credit risk
- Operational risk
- Legal and regulatory risk
- Reputational risk

6



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Sources of CONTROL RISK (CR)

Definiton:



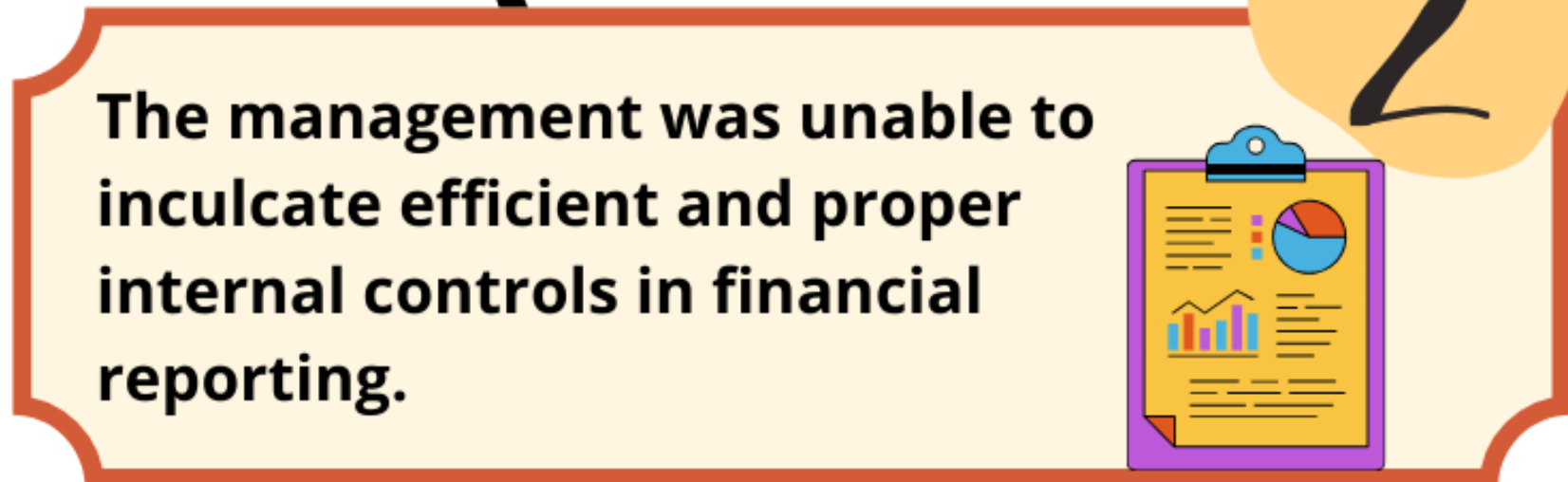
Control risk, which is the risk that a misstatement due to error or fraud that could occur in an assertion.

It could be material, individually or in combination with other misstatements, will not be prevented or detected on a timely basis by the company's internal control.



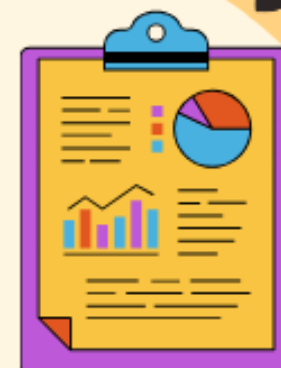
1

The management failed to make sure that there is proper segregation of duties between the staff who has their responsibility in financial reporting.



2

The management was unable to inculcate efficient and proper internal controls in financial reporting.



3

The management did not implement the culture of appropriate filing and documentation.



SOURCES OF DETECTION RISK (DR)

Detection risk is the chance that an auditor will fail to find material misstatements that exist in an entity's financial statements. These misstatements may be due to either fraud or error.



Nur Fatimah Dania
05DAT22F1010

Source:

<https://www.investopedia.com/terms/d/detection-risk.asp>



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CHAPTER 4 : AUDIT PLANNING AND AUDIT

RISK

VIDEO



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IMPORTANCE OF ENGAGEMENT LETTER

Affect legal responsibilities to client

The auditor may use an engagement letter as a contract stating its scope, responsibilities , and limitations .

1



The applicable financial reporting framework

The set of rules used as guidelines in the preparation of financial statement , used

2



Conflict Resolution

provides a reference point for resolving conflicts by clarifying the agreed-upon terms and procedures for addressing issues that may arise during the audit engagement.

3



Communication Framework

framework for communication between the auditor and the client, including reporting deadlines, channels of communication, and procedures for addressing concerns or issues that may arise during the audit

4



Professional Standards Compliance

compliance with professional standards and regulatory requirements by documenting the audit objectives, procedures, and responsibilities in accordance with relevant auditing standards and guidelines.

5



Legal Protection

legal document, helping to protect both the auditor and the client by documenting the terms of the agreement, including any limitations of liability and indemnification clauses.

6



AUDIT PLANNING 5 PURPOSES

ACCOMPLISHMENT OF OBJECTIVES



The audit plan ensures the right methods for achieving objectives and focuses attention to crucial audit areas

IDENTIFICATION OF PROBLEMS

A well-drawn and established audit plan helps in identifying potential issues



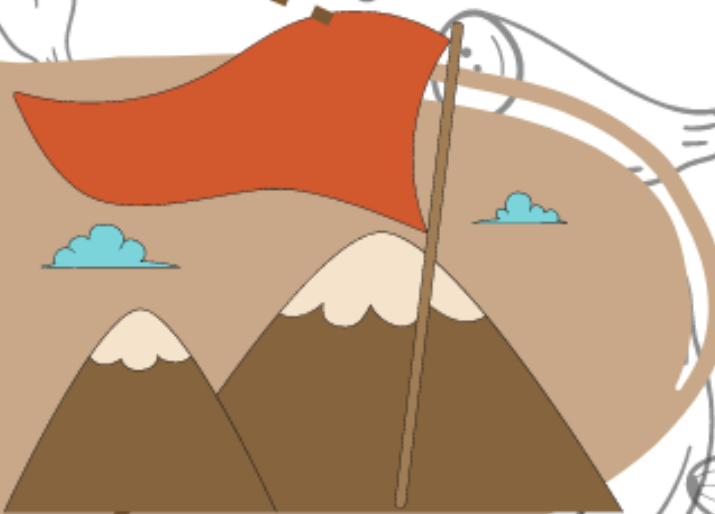
TIMELY COMPLETION OF WORK

Ensures proper completion within the set time ,covering all crucial areas



FACILITIES COORDINATION

Facilities teamwork among auditors and experts, ensuring appropriate skills for anticipated risks



BETTER AUDIT WORK

Improves the quality of audit work, ensuring promptness and precision in performance



MAS AFIFAH BINTI LIZAZMAN
(05DAT.22F1037)
DAT4-S3



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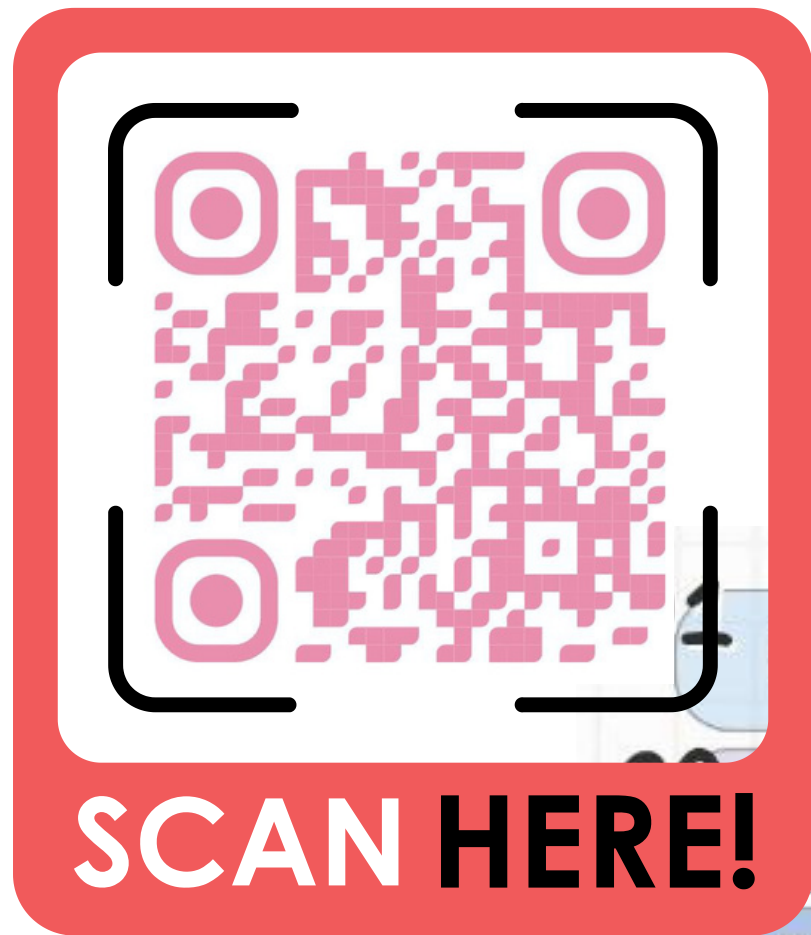
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CHAPTER 4 : AUDIT PLANNING AND AUDIT

RISK

CHAPTER 4 : AUDIT PLANNING AND AUDIT

RISK



- 01 Objective of the audit of financial statement
- 02 Management's responsibility for the financial statements
- 03 Request for the client to confirm the terms of engagement by acknowledging receipt of the engagement letter
- 04 The form of any reports or other communication of results to management
- 05 The inherent limitations of an audit and the risk that material misstatement may remain undiscovered
- 06 Unrestricted access to whatever records , documentation and other information requested in connection with the audit
- 07 Arrangement regarding the planning of the audit
- 08 Expectation of receiving management written confirmation concerning representations made in connection with the audit
- 09 Scope of the audit
- 10 Explanation for the other letter or report will be produce for management
- 11 Arrangement involving the use of other auditors or specialist in some aspect of the audit
- 12 Arrangement concerning involvement of internal auditors and other client staff
- 13 Basis for fees payment

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CHAPTER 5

48

AUDIT DOCUMENTATION AND
SAMPLING



A

UDIT

DOCUMENTATION
AND SAMPLING

IMPORTANCE OF AUDIT PROGRAM

VIDEO



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1

It serves as a detailed plan of an audit showing every step taken by the auditor and so assures that the audit is performed in an orderly manner.

2

The audit program serves as an instruction for audit assistants. By following the audit program, the assistant is able to follow each step that is to be performed

3

The audit program serves as an invaluable record of the audit performed. In any conflicts that might arise, the auditor will be required by the Court to show evidence whether the audit has been performed in accordance with the audit standards.

DEFINITION OF AUDIT DOCUMENTATION

1

WIKIPEDIA

the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement

ACCOUNTINGTOOLS

Audit documentation is the record of procedures performed, evidence obtained, and conclusions reached as part of an audit.

2

3

AUDIT BOOK

Audit documentation also may be referred to as working papers. Working papers are a record of the auditor's planning; the nature, timing and extent of the auditing procedures performed.

MIA

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).

4

5

ACCA GLOBAL

The International Standard on Auditing (ISA) 230 (Redrafted) defines audit documentation (often referred to as 'working papers') as: 'The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditors reached'.

LINKEDIN

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "work papers" are also sometimes used).

6



VIDEO



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CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING



SCAN HERE!

CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING

DEFINITION OF AUDIT SAMPLING

01 Selecting a Portion for the Whole

Audit sampling involves examining a representative selection of data (transactions, accounts, etc.) to obtain an audit opinion on the entire population (financial statements).



02

Cost-Effective Approach

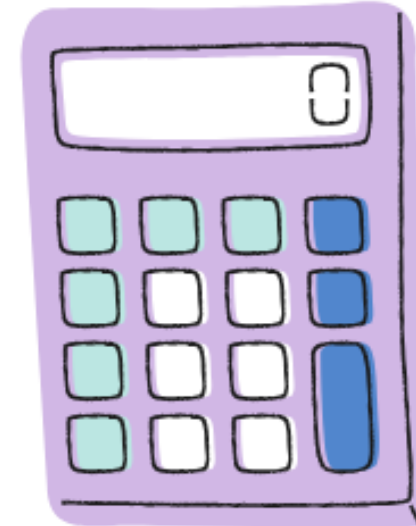
A full audit of everything can be time-consuming and expensive. Sampling allows auditors to gather sufficient evidence for a reliable opinion while keeping the process efficient.



03

Risk-Based Assessment

Auditors use sampling methods that focus on areas with a higher risk of material misstatement.



04

International Standards

The Malaysian Institute of Accountants (MIA) adheres to International Standards on Auditing (ISA). ISA 530 "Audit Sampling" provides a framework for auditors to design and perform sampling procedures.



05

Professional Judgement

Auditors use their professional judgment to determine the appropriate sample size and selection method based on the specific audit engagement.



06

Mitigating Risk of Errors

By analyzing a well-designed sample, auditors can gain sufficient assurance to detect and report any material misstatements in the financial statements.



THE PERMANENT FILES VS THE CURRENT FILES

DEFINITION



THE PERMANENT FILES

A **permanent file** is a set of records that serves as an ongoing reference for an organization's external auditors. The information in the file is intended to be accessed repeatedly in successive audits to assist the audit team in the conduct of their tasks.

THE CURRENT FILES

The audit team will need to **maintain a current file and a permanent file**. The current audit file is used to maintain audit documentation specific to the current year and would not necessarily be useful in future audits.

CONTENT OF THE FILES

THE PERMANENT FILES

1. The legal and organizational structure of the entity.

2. The Memorandum and Articles of Association.



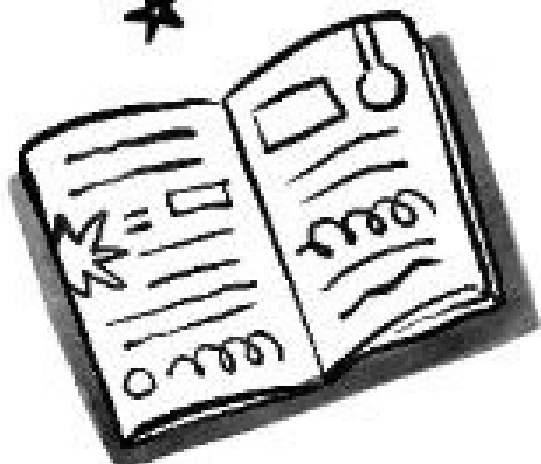
3. Analysis of significant ratios and trends.

4. Copies of management letters issued by the auditor

THE CURRENT FILES

1. Copies of the financial information being reported on in the related audit report.

2. Correspondence relating to acceptance of annual reappointment.



3. Evidence of the planning process of the audit and audit programme.

4. Analysis of transaction and balances.

REFERENCE

THE PERMANENT FILES

<https://www.accountingtools.com/articles/permanent-file>

THE CURRENT FILES

<https://www.universalcpareview.com/ask-joeey/what-is-the-current-audit-file/>



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DOCUMENT OF PERMANENT FILES

DEFINITION



Working papers for the current file include all documentation applicable to the year under audit .This contain s the financial statements being audited and details all the audit work that has been carried out to collect sufficient appropriate audit evidence about those financial statements. Each current file should be kept for a specified time after the completion of the audit .

EXAMPLE OF CURRENT FILE

Copies of the financial information being reported on and the related audit reports.



Correspondence relating to acceptance of annual reappointment .

Extracts of important matters in the minutes of Board Meetings and General Meetings as relevant to audit

Evidence of the planning process of the audit and audit programme



Analysis of transactions and balances

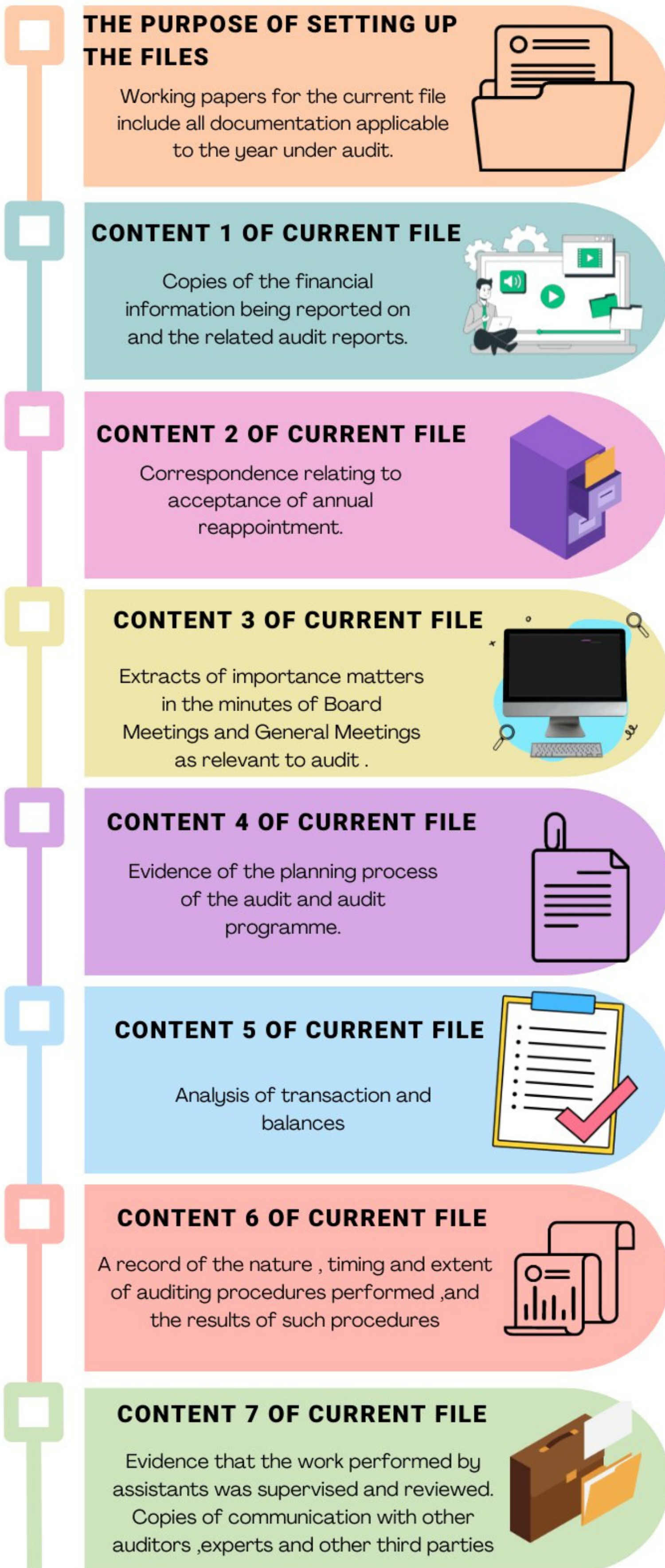
A record of nature ,timing, and extent of auditing procedures performed ,and the results of such procedures .



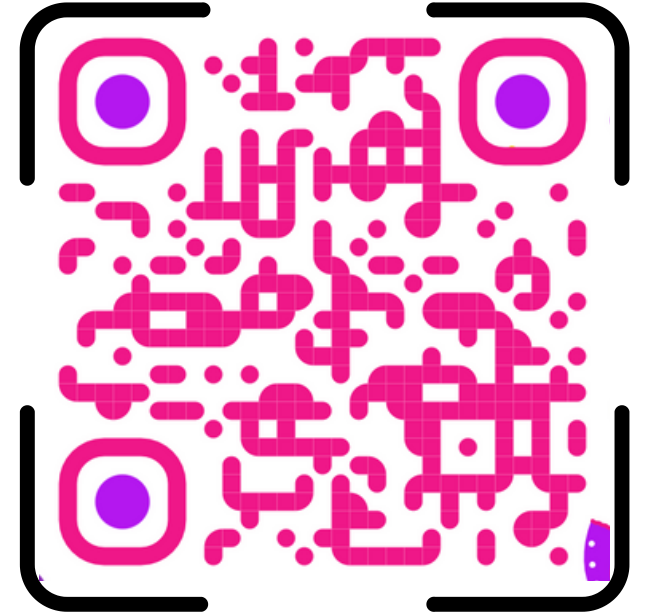
Evidence that the work performed by assistants was supervised and reviewed . Copies of communication with other auditors ,experts and other third parties .

types of audit files

THE CURRENT FILES



VIDEO



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CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING

6 Definition of Audit Programme



SCAN HERE!

CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING



1

Sources : Audit Book

Audit planning, supervision and a control on works performance provided by auditor for his interest. Audit program kept in the current file. Audit program also designed to include all variables in an audit job.

2

Sources : Audit book

Prepared for each audit activity showing clearly what procedures are to be used, the sample size, which part of the population is to be sampled and when the examination is to be made.



3

Sources : brankart

written statement designed by the auditor indicating the work to be performed by the audit assistants, specifying the time limit for completion of work, instructions and guidance to the audit staff. In short, it is a tool for planning, directing and controlling the audit work.



4

Sources : TechTarget

Also called an audit plan, is an action plan that documents what procedures an auditor will follow to validate that an organization is in conformance with compliance regulations.



5

Sources : iedunote

a set of policies and procedures to perform and verify the auditing work to evaluate a business's financial statements.



6

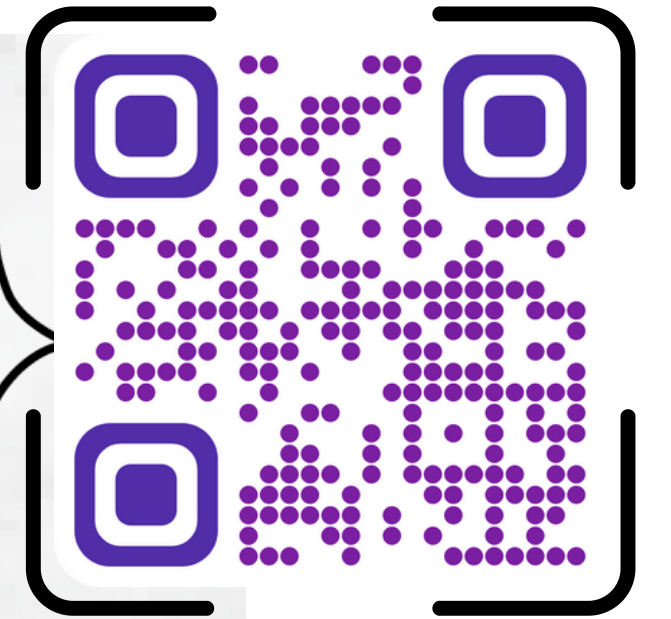
Sources : CommercePK

Audit program is a detailed plan of audit work to be performed, specifying the procedure to be followed in verification of each item in the financial statement and giving the estimated time required.





VIDEO



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All works which has been done will not be made again



It facilitates works divided to various staff at different level



ADVANTAGE OF AUDIT PROGRAM



It will accelerate analytical consideration before report signed



It gives a clear direction about what work that should be done

@ferrianesariesa
(05DAT22FI007)



CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING

CHAPTER 5 : AUDIT DOCUMENTATION AND SAMPLING

Sheila Cheng
05DAT22F1068



6 DEFINITION OF AUDIT WORKING PAPERS

Evidence Files

Audit working papers are essentially the evidence files compiled by an auditor throughout the audit process. They document the procedures performed, information gathered, and conclusions reached to support the final audit opinion.

Audit Trail

These papers function as an audit trail, providing a chronological record of the steps taken during the engagement. This allows for reconstruction of the audit process and demonstrates adherence to auditing standards.

Defense Mechanism

They serve as a defense mechanism for the auditor. If legal challenges arise concerning the audit opinion, well-maintained working papers provide evidence of a thorough and professional audit.

Future Reference

Working papers are valuable for future audits of the same client. They offer a starting point for understanding the client's business, internal controls, and past audit considerations.

Training Tool

For audit firms, working papers can be used as training tools for new team members. They showcase best practices in audit methodology and documentation.

Regulatory Requirement

Maintaining audit working papers is often a regulatory requirement imposed by accounting and auditing bodies. This ensures adherence to professional standards and facilitates oversight functions.



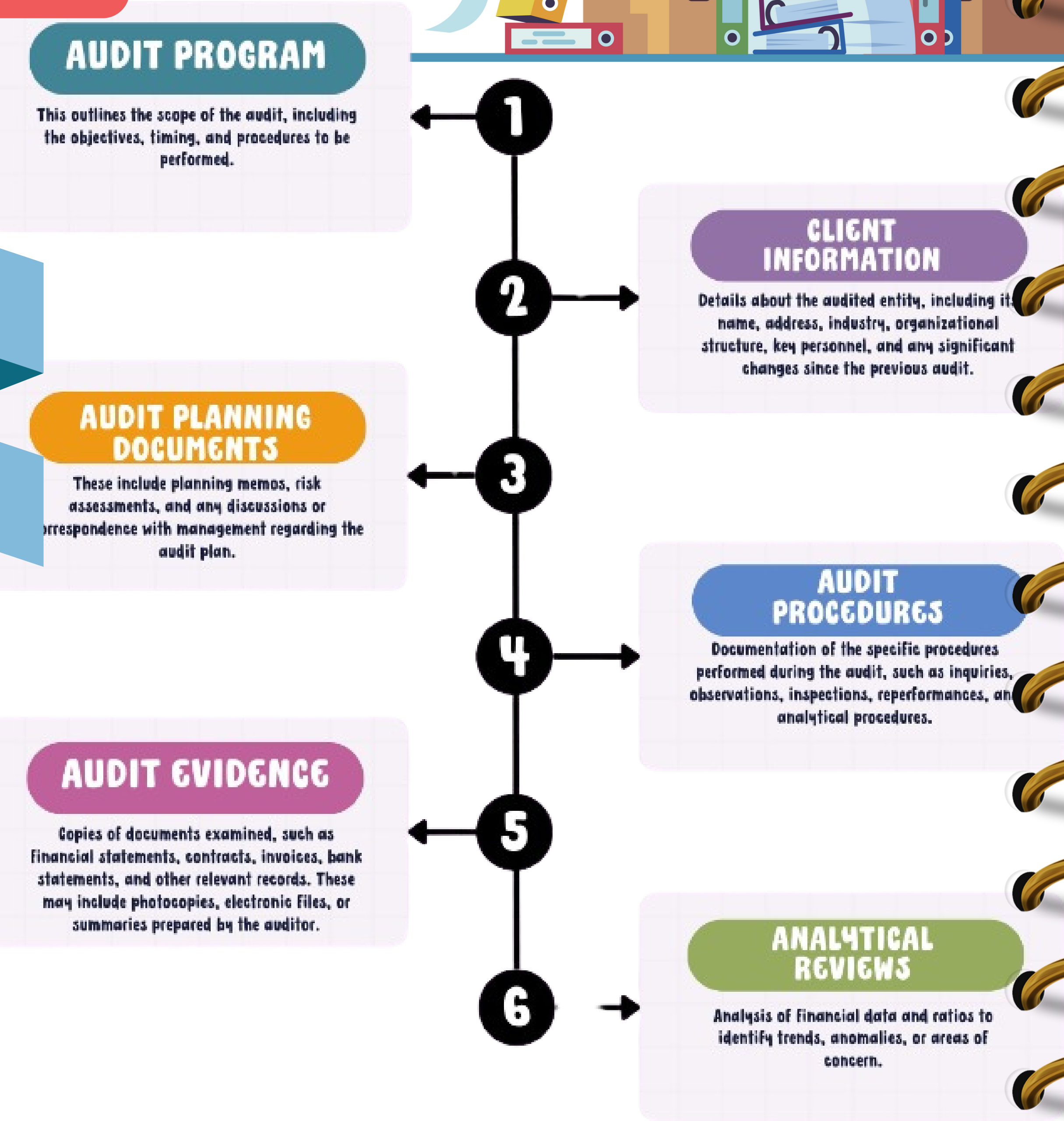
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CONTENT OF AUDIT WORKING PAPER



What Is the Difference Between Statistical and Non-Statistical Sampling?

By : Mas Nur Azielia
(05DAT22F1051)



Sampling risk is the risk that the auditor’s conclusions based on a sample may be different from the conclusion if the entire population were the subject of the same audit procedure while non-sampling risk is the risk that the auditor forms the wrong conclusions, which is unrelated to sampling risk.



Statistical	Non-Statistical
Provide stronger defense in case of any dispute	Provide weak defense in case of any dispute
Usually use in the audit of large companies	Ususally use in the audit of small businesses
Provide stronger defense in case of any dispute	Provide weak defense incase of any dispute
Determine sample size using statistics	Determine sample size from judgement
More complex and need some training in its use and also more expensive.	Simpler to use and cheaper.
Evaluate results statistically	Evaluate results judgmentally



ADVANTAGES OF STATISTICAL SAMPLING

1

EFFICIENCY

Statistical sampling allows auditors to select a representative sample from a large population, saving time and resources compared to examining every single item.

ACCURACY

When properly executed, statistical sampling can provide a high level of accuracy, enabling auditors to draw conclusions about the entire population based on the characteristics of the sample.

2

3

PRECISE ESTIMATES

The precision of evaluating results of a statistical sampling exercise may be evaluated and its implications for the whole population are expressed.

RISK-BASED APPROACH

Statistical sampling enables auditors to focus their efforts on areas of higher risk within the population, allowing for a more targeted and effective audit process.

4

5

OBJECTIVITY

Statistical sampling methods are based on mathematical principles, reducing the potential for bias in the selection process. This objectivity enhances the credibility of the audit findings.

COST-EFFECTIVENESS

By sampling a portion of the population rather than examining every item, auditors can significantly reduce the costs associated with the audit process while still obtaining reliable results.

6

7

SCALABILITY

Statistical sampling techniques can be applied to populations of varying sizes, making them suitable for audits of both large and small entities.



DISADVANTAGES OF STATISTICAL SAMPLING



1

Sampling Risk

The auditor's conclusion based on the sample may be different from the conclusion if the entire population was examined. This can lead to incorrect audit decisions.



2

Non-Representative Sample

If the sample selected is not representative of the entire population, the audit findings may not accurately reflect the true state of the audited entity.

Complexity

Statistical sampling often involves complex mathematical calculations and requires a certain level of statistical knowledge. This can make it difficult for auditors without a strong statistical background.



3

Time and Cost

Although statistical sampling can save time compared to examining the entire population, selecting a representative sample and performing the necessary calculations can still be time-consuming and expensive.



4

5

Limitations in Detecting Fraud

Statistical sampling is less effective in detecting fraud because fraudulent activities are often irregular and do not follow predictable patterns. Therefore, even a well-chosen sample may not include fraudulent transactions.





FLORENCE HUI FEN ANAK ANTHONY
05DAT21F2035

4 Types of Statistical Sampling

01 Simple Random Selection

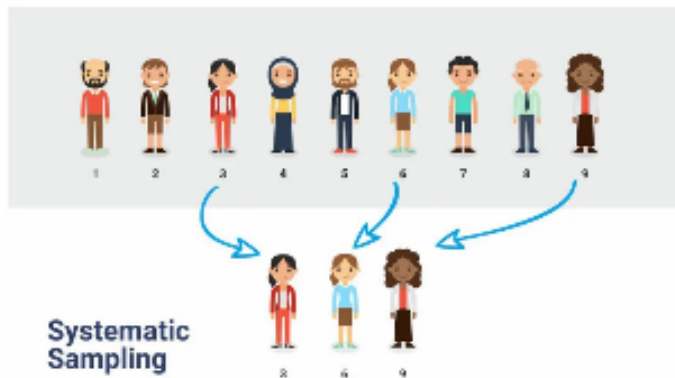
Simple random sampling is a type of probability sampling in which the researcher randomly selects a subset of participants from a population. Each member of the population has an equal chance of being selected. Data is then collected from as large a percentage as possible of this random subset.



02

Systematic Selection

Systematic sampling selects a random starting point from the population, then a sample is taken from regular fixed intervals of the population depending on its size. Cluster sampling divides the population into clusters and then takes a simple random sample from each cluster.



03 Monetary Unit Sampling (MUS)

Monetary unit sampling (MUS) is a statistical sampling method that is used to determine if the account balances or monetary amounts in a population contain any misstatements. To be more specific, each individual Rupee in the population is considered a sampling unit, so that account balances or amounts in the population with a higher value have a proportionally higher chance of being selected.

MUS Confidence Factors for Sample Size Design										
Ratio of Expected to Tolerable Misstatement	Confidence Level (Risk of incorrect Acceptance)									
	95% (5%)	90% (10%)	85% (15%)	80% (20%)	75% (25%)	70% (30%)	65% (35%)	60% (40%)	55% (45%)	50% (50%)
0.00	3	2.31	1.9	1.61	1.39	1.21	1.05	1	0.7	0.7
0.05	3.31	2.52	2.06	1.74	1.49	1.29	1.12	1.06	0.73	0.73
0.10	3.68	2.77	2.25	1.89	1.61	1.39	1.2	1.13	0.77	0.77
0.15	4.11	3.07	2.47	2.08	1.74	1.49	1.28	1.21	0.82	0.82
0.20	4.63	3.41	2.73	2.28	1.9	1.62	1.38	1.3	0.87	0.87
0.25	5.24	3.83	3.04	2.49	2.09	1.76	1.5	1.41	0.93	0.93
0.30	6	4.33	3.41	2.77	2.3	1.93	1.63	1.53	0.99	0.99
0.35	6.92	4.95	3.86	3.12	2.57	2.14	1.79	1.67	1.06	1.06
0.40	8.09	5.72	4.42	3.54	2.89	2.39	1.99	1.85	1.14	1.14
0.45	9.59	6.71	5.13	4.07	3.29	2.7	2.22	2.06	1.25	1.25
0.50	11.54	7.99	6.04	4.75	3.8	3.08	2.51	2.32	1.37	1.37
0.55	14.18	9.7	7.26	5.64	4.47	3.58	2.86	2.65	1.52	1.52
0.60	17.65	12.07	8.93	6.88	5.37	4.25	3.38	3.09	1.7	1.7

04

Stratified Sample Selection

Stratified random sampling is a method of sampling that involves the division of a population into smaller subgroups known as strata. In stratified random sampling, or stratification, the strata are formed based on members' shared attributes or characteristics, such as income or educational attainment.



Stratified sampling



CHAPTER 6

66

AUDIT EVIDENCE AND AUDIT
PROCEDURES



A

AUDIT

**EVIDENCE AND
AUDIT PROCEDURES**



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4 TYPE OF THE AUDIT PROCEDURES

← Inspection

Inspection in auditing is like checking paperwork or physically looking at stuff to make sure everything is real and correct. This can include going through documents, whether they're in paper or electronic form, or physically checking assets like counting cash, looking at inventory, or examining physical items.



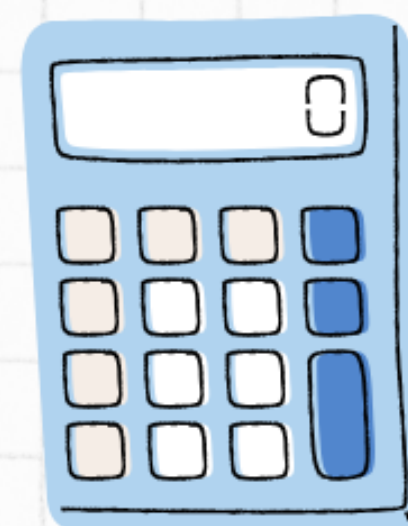
Observation →



Observation in auditing is like watching others do a task or process to gather evidence about how it's actually done. For instance, the auditor might watch the entity's staff count inventory or observe control activities. However, this evidence is limited to the specific time of observation and can be influenced by the fact that someone is watching.

← Enquiry

Inquiry is a common way auditors gather information during an audit. It involves asking people who know about the company, both inside and outside, for financial and other details. These questions help auditors learn new things, confirm what they already know, or find any differences in the information they have. Inquiries can be formal (in writing) or informal (just talking to people).



Confirmation →



Confirmation is like double-checking information by asking someone else. In auditing, this means reaching out to a third party, like customers or vendors, to confirm if the details in the accounting records are correct. For example, if the auditor wants to be sure about the money owed by customers, they'll directly ask the customers for confirmation.

DEFINITION OF AUDIT EVIDENCE

Source : Malaysia Institute of Accounting (MIA)

1



Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

Source : aicpa & cima

2

Relevant assertions and discusses their use in assessing risks and designing appropriate further audit procedures.

Discusses qualitative aspects that the auditor considers in determining the sufficiency and appropriateness of audit evidence.

Describes various audit procedures and discusses the purposes for which they may be performed.



Source : Study.com

3



Information used to establish and support audit findings, recommendations and opinions.

Depending on the type and focus of the audit being performed, there are various kinds of evidence that may be available and collected.

Source : Investopedia

4

Auditing evidence is the information collected for review of a company's financial transactions, internal control practices, and other items necessary for the certification of financial statements by an auditor or certified public accountant (CPA).

The amount and type of auditing evidence considered vary considerably based on the type of firm being audited as well as the required scope of the audit.



Source : AccountingTools

5



Audit evidence is the documentation collected by an auditor as part of his or her review of the financial accounts, internal controls, and other matters needed to certify a client's financial statements.

The amount and type of audit evidence collected varies by client, depending on the type of industry, the condition of the client's financial system, and the type of audit.

Source : European Union

6

Audit evidence is all of the information used by the auditor to support the audit findings and conclusions and, where required, arrive at an audit opinion.

Information is data collected from documents, databases or other sources and analysed by the auditors.



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CHAPTER 6 : AUDIT EVIDENCE AND AUDIT PROCEDURES

CHAPTER 6 : AUDIT EVIDENCE AND AUDIT PROCEDURES



**Audit evidence: The reliability of any evidence depends on several factors**

The reliability of evidence depends on the nature and source of the evidence and the circumstances under which it is obtained.

01

Evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources.



02

The reliability of information generated internally by the company is increased when the company's controls over that information are effective.

03

Evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).



Reference

- <https://shorturl.at/glvNR>

Scan me:



04

Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized, or otherwise converted into electronic form, the reliability of which depends on the controls over the conversion and maintenance of those documents.



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Relevance

The extent to which the evidence relates to the assertion being tested



Reliability

The degree of dependability or trustworthiness of the evidence



Sufficiency

The quantity and quality of evidence should be adequate for the auditor to form an opinion



THE FIVE FACTORS THAT AFFECT THE VALUE OF AUDIT EVIDENCE



Timeliness

The degree to which the evidence is obtained in a timely manner, ensuring its relevance and reliability are maintained



Competence of the provider

The qualifications, expertise and independence of the individuals or entities providing the evidence.



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4 FACTORS INFLUENCING

Auditors judgements of sufficiency



AUDIT RISK ASSESSMENT

1. **Inherent Risk:** This is how likely it is that there are mistakes in the financial statements even before considering the company's internal rules.

2. **Control Risk:** This is the risk that mistakes won't be caught by the company's internal rules.

The higher the perceived risk, the more checks the auditors do to make sure they have enough evidence.

MATERIALITY THRESHOLD

Materiality is about how big a mistake in financial statements needs to be to affect decisions. It helps them decide how much checking they need to do. For important parts of the financial statements, they do more checks to catch any big mistakes.

NATURE OF THE ENTITY AND ITS ENVIRONMENT

The type of business, its industry, and the overall economic situation affect how much checking auditors need to do. A complex business with lots of complicated deals needs more checking than a simple one. Also, rules, economic conditions, and risks specific to the industry can change how much checking is needed.

QUALITY OF INTERNAL CONTROL

The strength of a company's internal rules affects how much checking auditors do. If the rules are good at catching mistakes, auditors don't need to do as many checks themselves. But if the rules are weak, auditors have to do more checks to make sure everything is right.

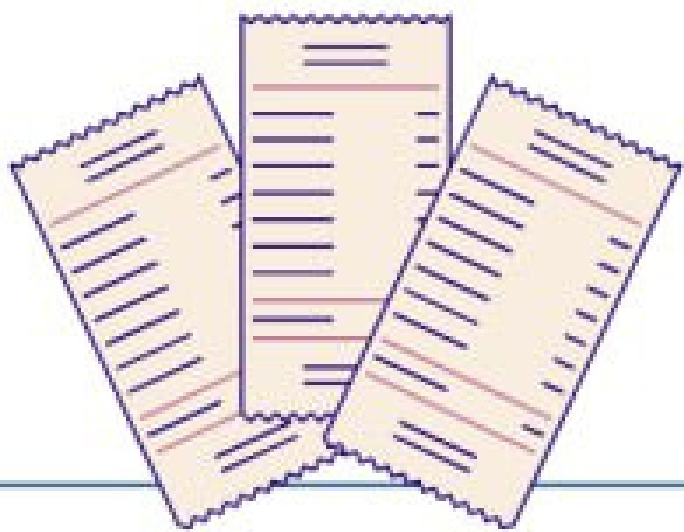


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TYPES OF AUDIT EVIDENCE

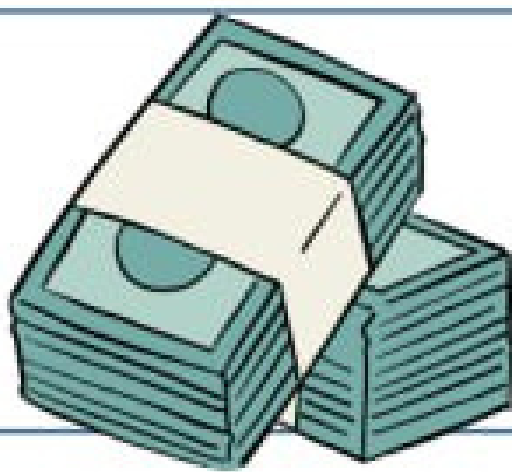


INVOICES

- Record of sale between business and client.
- Outlines payment terms, discounts, and charges.

FINANCIAL STATEMENTS

- Auditors use inspection, inquiries, testing, etc.
- Emphasizes the importance of evidence quality.



PAYMENT VOUCHERS

- Serial numbering, detailed amounts, proper debiting.
- Auditor checks for consecutive numbering and details.

RECEIPTS

- Proof of purchase crucial for returns.
- Auditing involves random checks with suppliers.



VIDEO

- Electronic medium for recording and playback.
- Use with caution; source matters for reliability.

AUDIO

- Describes audible sounds.
- Legal recording with consent is crucial for reliability.



INTERVIEW (VERBAL)

- Designed for capturing factual information.
- Objective-driven, efficient planning needed.

E-MAILS

- Widely used internet feature for messaging.
- Structure and context are crucial for maintaining evidence value.



VIDEO



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CHAPTER 6 : AUDIT EVIDENCE AND AUDIT PROCEDURES

EDITOR :
MOHD SHAMSUL ISMAIL



AUDIT

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