

Q1 → Planning (audit)

background check (know your client (KYC))
→ before accept client

why?
what?
How?

Obtained an audit client → sign engagement letter (contract) (before start audit)
↓
Start audit

Analytical procedures (COMPULSORY)

- current year vs prior year
- " vs budget / projection
- " vs industry average
- " vs auditor's expectation
- financial vs non-financial info (revenue per customer)
- ratio analysis

⊛ Investigate any significant difference.
→ high audit risk

Understand the entity, environment, financial reporting, framework

- Enquiry
- Inspect documents (SOP, minutes of AGM, annual report, prior year FS prior year audit files)
- Observe processes, internal control

Why? Assess audit risks (AR) (risk: auditor expresses wrong opinion when the F/S is materially misstated)

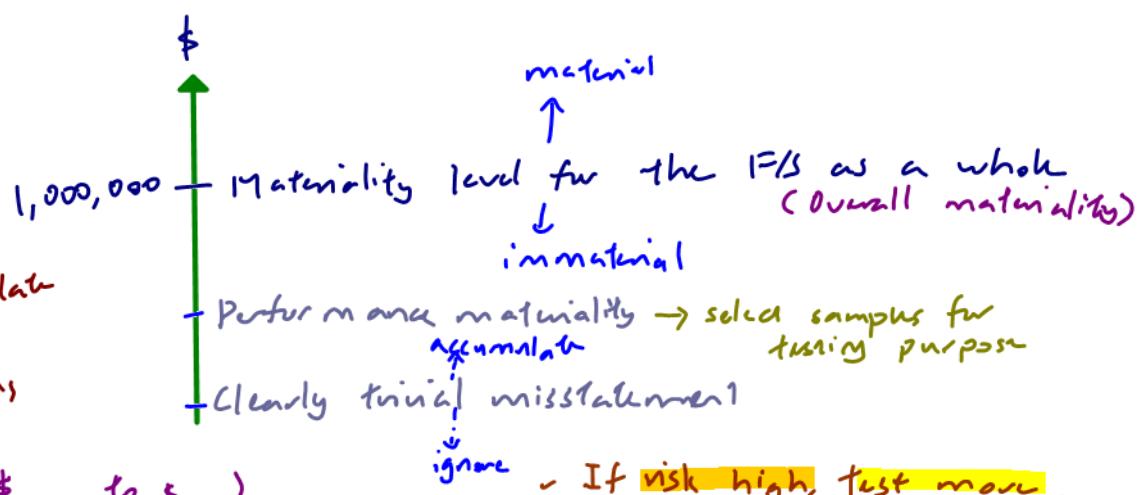


Inherent risk → ROMM due to nature of biz, characteristics of transactions, before considering internal control
→ e.g. highly regulated company (high) business risk
→ higher risk of non-compliance
→ provision for penalty might be understated

Control risk → risk: internal control fails to prevent, detect or correct material misstatement on a timely basis (if internal control is effective, low control risk)

Materiality level

- need to calculate for Q1
- justify reasons



Profit: 5% to 10% (\$ — to \$ —)
 → decide

Total asset: 1% to 2%

Revenue: 0.5% to 1%

- 2 marks - calc
- 1 mark - justify

- If risk high, test more.
- If materiality level ↓, more items become material, test more.

Note: New audit client, control risk (e.g. fraud, management override of control)

→ lower end, ↑ testing

: Existing audit client:

→ materiality → higher end

(a) New issue / new event / events with high risk → middle

(rare) (b) No new issue / no significant risk → higher end

- Listed entity → incentive to ↑ share price
 → make F/S more attractive (e.g. overstate profit/assets, understate cost/liabilities)

(generally)

→ supporting points

