Q1 → Planning (audit)

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

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

↓

Start audit

↓

Understand the entity, environment, financial reporting framework
→ Enquiry
→ Inspect documents (SOP, minutes of AGM, annual report, prior year F/S prior year audit files)
→ Observe processes, internal control

↓

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

why?
what?
How?

Why?

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

AR = High Risks of material misstatements (Client's issue) × Detection risk (Auditor's issue) ↓ Lower

Detection risk → risk: auditor fail to detect material misstatement

Risks of material misstatements:
- Inherent risk (link to:
  - F/S figure (be specific) is overstated / understated / misstated
  - inadequate disclosure (Related party transactions, segmental reporting))
- Control risk

Detection risk:
- Sampling risk
  - risk: sample size is inadequate (↑ sample size)
- Non-sampling risk
  - sleepy?
  - lack of knowledge
  - lack of time
  - stomach ache
  - lack .. skepticism
  - emotional damage
  - mental health?
  - lack of resources
  - tight deadline
  - inexperienced / lack of competency
  - new audit client (*)
  - e.g. 100 warehouses (stock count)
  - lack of professional skeptisism
  - "KLY" → follow last year

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

$

material
↑
1,000,000 — Materiality level for the F/S as a whole (Overall materiality)
↓
immaterial

- need to calculate for Q1
- justify reasons

— Performance materiality → select samples for testing purpose
accumulate

— Clearly trivial misstatement
ignore

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

Profit : 5% to 10% ($__ to $__)
→ decide

Total asset : 1% to 2%

Revenue : 0.5% to 1%

- 2 marks - calc
- 1 mark - justify

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 / areas 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 / liability)

(Generally) → supporting points

9 mths — 3 mth

1/10/20X4 — 1/7/20X5 — 30/9/20X5

↑

SOPL (9 months) $\times \frac{12}{9}$

↓

12 months (projected)