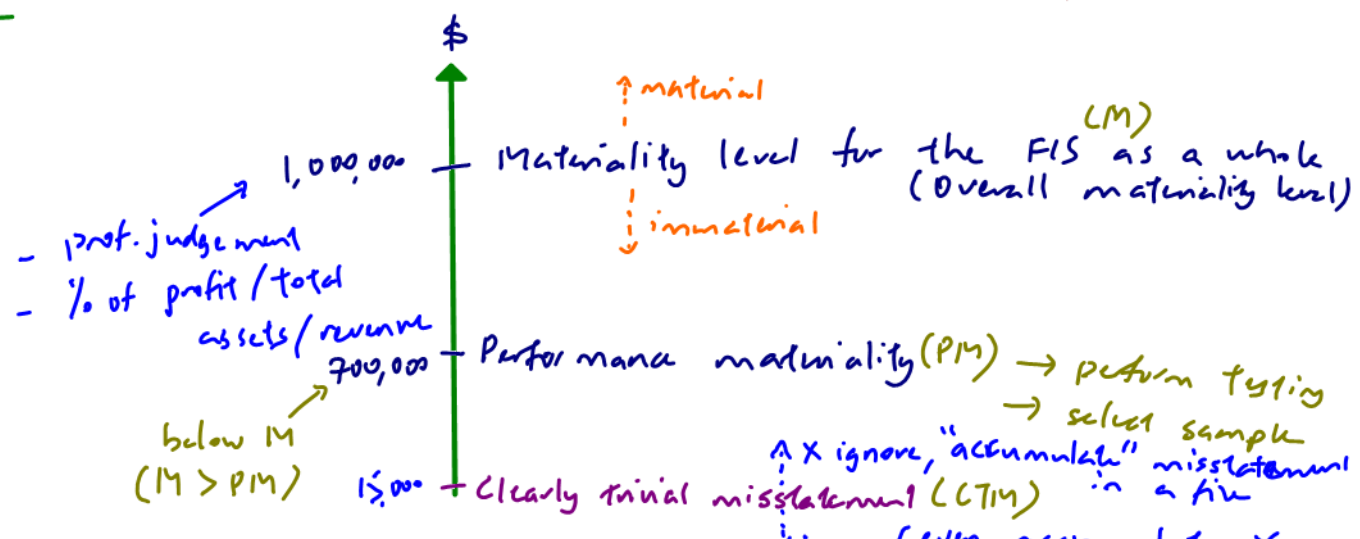


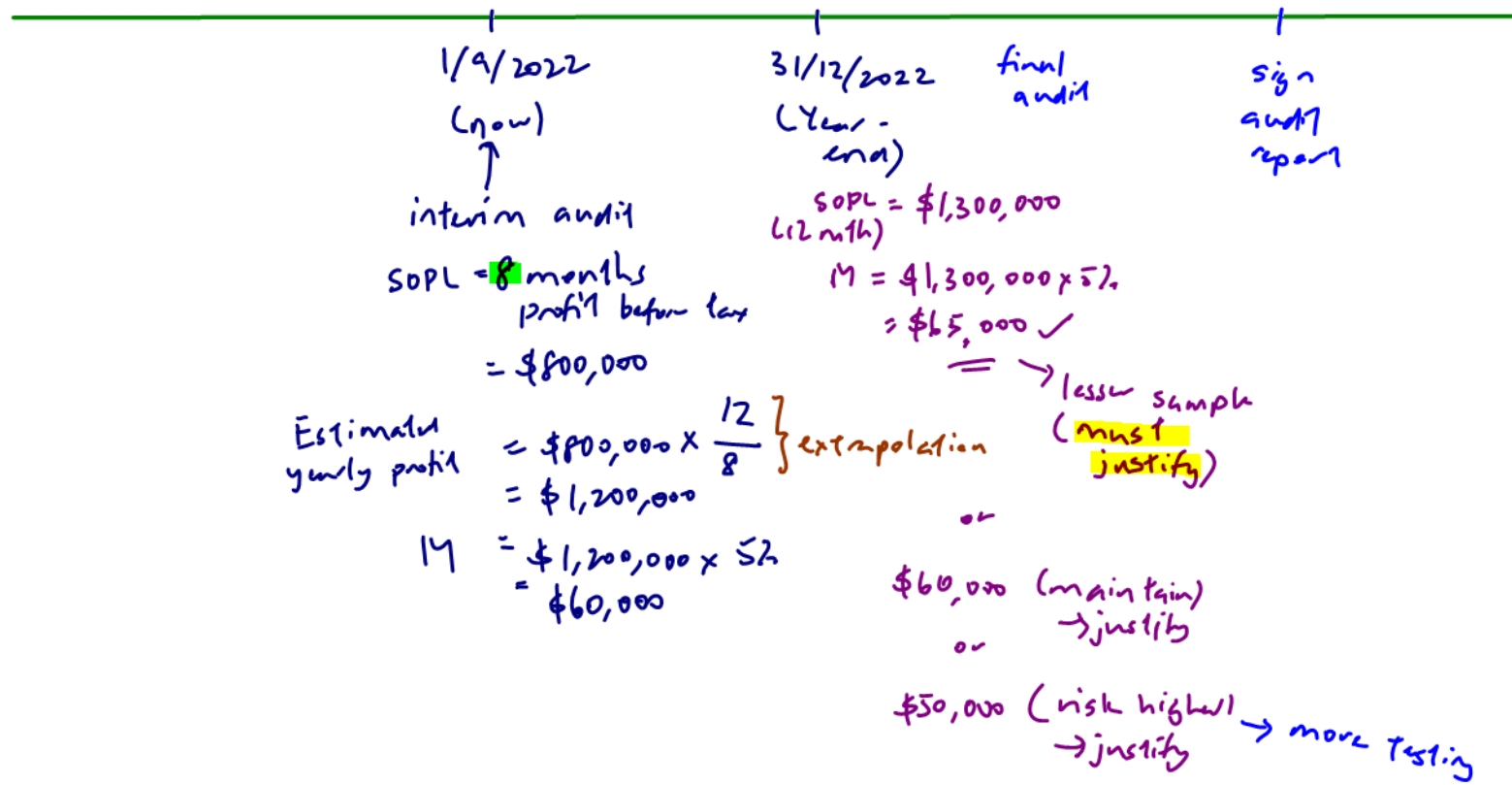
Materiality

What? Why? How?



Materiality lower, more items become material, **testing increase**
 " higher, less " **testing reduce**

ROMM high, more testing, low materiality
 ROMM low, less testing, high materiality } inversely related



∴ Materiality & justification → documented.

Client approach auditor



Auditor → background checks, "know your client" procedures



Sign engagement letter



Start audit



Understand the entity, environment & financial reporting framework



Assess audit risks



Design suitable response

CY

PY



B4



Why? What?
How?

$$\text{TR collection period} = \frac{\text{TR}}{\text{sales}} \times 365 \text{ days}$$

$$= 120 \text{ days} \leftarrow \text{90 days}$$

- collection is slower

- risk of bad debt

(recognise bad debt, write off TR ← most of the time, client x write off

↑ allowance for receivables)

→ AR: risk of TR overstated

(profit ↓, asset (TR) ↓)

Tips to write Auditor's Response

Analytical procedures

Enquiry

Inspection of documents (Po/so, GRN/GDN, Invoice, Bank statements, contract/agreement, BOD minutes of meeting, correspondence, notice of announcement ...)

Observation

→ e-mail, letter

Recalculation / Reperformance

Confirmation (TR, TP, bank, lawyer)

Audit Risks

- ① Copy from the question. → 1 para
- ② Explain a/c treatment ^{1/2} } 1 para
- ③ Risk? over? under? _{1/2}