

External Financial Auditing

Objectives of the course:

The primary purpose of this course is to help students to gather deeper insight into the auditing process, including the theory, philosophy, and practice of auditing and the ethical implications of auditing decisions. This course develops an understanding and appreciation of the philosophy of the auditing process and provides students with the skills necessary for effective decision-making regarding auditing, financial reporting, and ethics. The course covers the standards, concepts, and principles of auditing theory and practice. Topics include generally accepted auditing standards; systems of internal control; tests of compliance; sampling; quality and reliability of information for decision making; the concepts of audit risk, materiality, and evidence; frameworks for the rules of conduct and the code of professional conduct; and information technology applied to internal control. Critical thinking and communication skills are developed through a student project on specific audit topic and use of information technology tools.

The course is intended for Czech-speaking students and will be held in English. The aim of this setting is to help students not only with their specialization, but also with the language skills in the field, which may represent their advantage in the future labour market.

Teaching methods:

The course will be organized at the end of the summer semester of each academic year and will consist of block lessons lasting 5 hours over 5 days. The minimum number of students for the block lesson to open is 6.

Each student is expected to complete a business project of their choosing based on the set criteria. This course builds on an active presence of students in the classroom, possibly online in case of a non-standard situation. We believe that the highest value of this course could be delivered only by creating an environment when students are feeling comfortable to participate, to make errors, to learn from each other. We will begin all lessons with clarification of WHY, only then we would proceed to HOW. Thus, the learning process builds on active cooperation of both students and the lecturer/expert.

Students will be divided into groups (max 5 students per team, preferably 3) with the goal of delivering a business project by the end of the course.

The experts from PwC will provide lectures and will mentor the process of project creation as additional activity to every student group. Please note that experts from PwC will also provide feedback to the project presentations by the end of the course.

	Topic	Lecturer
Day 1	Introduction to Financial auditing	Petra Bočáková
	International standards on auditing	Petra Bočáková
	Professional codes of ethics and behaviour	Martina Behenská
Day 2	Audit risk and materiality, strategy and planning	Olga Řehořková
	Fraud	Olga Řehořková
Day 3	Internal control over Financial reporting	Petra Bočáková
	Tests in audit and audit sampling	Olga Řehořková
	Non-current assets, current assets, equity, current and non-current liabilities	Martina Behenská
Day 4	Revenue and receivables	Petra Bočáková
	Finalisation of audit and audit reports	Martina Behenská
	Modern trends in auditing	Martina Behenská
Day 5	Project presentations + feedback	all

Grading and assignments

Evaluation:

The final grade is built on following criteria:

1. Contribution and active participation in the lessons, “can do” and open-minded approach - 10%
2. Technical skills - 10%
3. Final project delivery - 80%

Group project deliverable structure:

Students will create a group of up to 5 members and choose the type of company they will audit. They can choose a company from the sectors listed below, large entity is recommended (not required for non-profit organization), the information will be from publicly available sources:

- Manufacturing company
- Financial institutions
- Retail
- Service provider, real estate company, investment company
- Construction company
- Non-governmental non-profit organization

The output of the project is to present the **Audit Strategy**, which students should present as they would present it to the Audit committee.

Audit Strategy content:

- Introductory letter
- Client service team
- Client service team objectives and deliverables
- Timing of the audit and audit committee meeting schedule
- Audit approach (expected reliance to be placed on controls/substantive audit procedures), materiality and risk assessment
- Areas of audit focus - description of accounting and auditing matters, including key audit matters where relevant and the auditor's planned approach
- Fraud risk assessment and planned approach
- Reliance on work of others (where relevant)
- Required communication per ISA, relevant at planning stage:
 - The responsibilities of the auditor in relation to the financial statement audit (planning)
 - An overview of the planned scope and timing of the audit (planning)
 - Significant difficulties, if any, encountered during the audit (as occurs)
 - Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process (as occurs)
 - Independence matters, if any (as occurs)
 - Significant deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit respective attentions of those charged with governance (as occurs)"
 - Recent development in accounting or other relevant legislation (if any)
 - Audit fees

The presentation should contain the following documents:

- Basic information about the company

- Balance sheet
- Income statement
- Cashflow
- Statement of changes in equity
- Suggestions for control testing, questionnaire
- Identification of the processes prone to errors or frauds
- Substantive analytical procedures during planning stage
- Suggestions for the procedure of detailed tests of the selected item based on accounting procedures typical for the company type
- Risk assessment
- Selection of the sample selection method and its calculation
- Determining audit risk and planning level of materiality

The project will be assessed based on three main criteria – Content, Technical complexity and Presentation of Delivery

Content. Ratio to overall rating of the Project part – 50%:

- Output quality: Did you assess all aspects involved in the topic, the environment, possibilities, relations, implications correctly? Do your proposed ideas make business sense? What is the quality of the overall output?
- Methodology: Did you comply with the audit methodology to gather relevant data and conduct analyses? Were you able to correctly synthesize the data? Is any added value present?
- Audit trends: Did you involve thoughts about current audit trends?

Presentation. Ratio to overall rating of the Project part – 50%:

- Presentation document - Is the presentation itself structured in a clear way?
- Presentation skills – Are you conveying the message efficiently? Do you use appropriate words, speed, tone of voice, gestures, movement etc?
- Argumentation - Are you able to readily react to questions or comments? Are you able to defend your own ideas and recommendations?

Tools used/needed:

- MS Office (Excel, Word, Powerpoint)
- Alteryx

Detailed course syllabus:

Day 1

Introduction to External Financial Auditing

Learning outcomes:

Developing knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework.

After this lecture, you will be able to:

- Understand the concept of assurance and how it is important within the business environment
- Distinguish between the statutory audit of financial statements and other key assurance services, such as reviews of systems and internal controls
- Understand the global and Czech legal requirements that auditors need to fulfil regarding their qualifications and the appointment process, before they accept a client
- Understand the importance of corporate governance and the role of the main bodies, e.g. board of the directors, risk and audit committees
- Understand the role of internal audit in an organization, the difference between internal and external audit

Suggested readings:

- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/acceptance-decisions.html>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/audit-quality.html>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/corpgov-audit.html>

Recommended readings:

- <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF>
- https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/internal-auditors.html>

International standards on auditing

Learning outcomes:

Obtaining a thorough understanding of the International Standards on Auditing, what they represent and how they govern the conduct of an audit.

After this lecture you will be able to:

- Obtain a thorough understanding of the framework of ISAs, what ISAs represent and how they are set
- Explain the overall objectives of the independent auditor and the conduct of an audit in accordance with ISAs, namely:
 - o Understand the ISAs requirements for audit documentation
 - o Understand the auditor's responsibilities relating to fraud in an audit of FS
 - o Understand the auditor's responsibilities during the planning phase of the audit, including the internal control and risk assessment
 - o Understand the auditor's responsibilities when obtaining the audit evidence and the guidance provided by ISA on sampling and substantive procedures
 - o Understand the ISAs requirements for the using the work of internal auditors

- Understand the ISA requirements during reporting, the difference between modified and unmodified audit reports, the auditor responsibility after the balance sheet and the opinion date.

Suggested readings:

- <https://www.ifac.org/system/files/publications/files/IAASB-2018-HB-Vol-1.pdf>
- <https://www.ifac.org/system/files/publications/files/IAASB-2018-HB-Vol-2.pdf>

Recommended readings:

- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/auditor-report.html>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/exam-tech5.html>

Professional codes of ethics and behaviour

Learning outcomes:

Obtaining understanding of importance of ethics and independence for the profession of accountants.

After this lecture you will be able to:

- Understand the role of ethics and independence for professional accountants
- What is the role of IFAC and regulator or national standard setters in the society as a whole?
- What represents key pillars of International Code of Ethics for Professional Accountant
- What are the fundamental principles (integrity, objectivity, professional competence and due care, confidentiality, professional behaviour)
- What consequences these principles may have in practice (real life examples)
- Independence for audits and reviews versus other other-assurance services
- What consequences breach of these principles and independence may have in practice (real life examples)
- Who solves the breaches, disciplinary actions?

Suggested readings:

- IESBA International Code of Ethics for Professional Accountants (including International Independence Standards)

Day 2

Audit risk and materiality, strategy and planning

Learning outcomes:

You will get a detailed idea of what the audit planning looks like.

After this lecture you will be able to:

- Understand the concept of audit risk and the steps that are performed during risk assessment phase of audit planning
- Understand what information and from which sources the auditor needs during the planning phase
- Know what are the activities performed during the planning of audit
- You will be able to prepare Audit Strategy for a client

Suggested readings:

- ISA 310 Planning of audit of financial statements
- ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment
- ISA 330 The auditor's responses to assessed risks

Fraud

Learning outcomes:

Obtain a thorough understanding of the risk of fraud and the auditor's responsibilities relating to fraud in audit of financial statements.

After this lecture you will be able to:

- Understand the responsibilities of auditor under ISA 240
- Understand the types of fraud risk and distinguish between internal and external fraud
- Prepare a fraud triangle to assess the risk of fraud at particular client
- Assess the effectiveness of internal controls from fraud perspective
- Consider the change in fraud risks due to new process and change in the client's business environment
- Reflect the increased risk of fraud in the planning procedures
- Design and plan unpredictable procedures
- Plan extended audit procedures to get more comfort the financial statement are not materially misstated

Suggested readings:

- <https://www.ifac.org/system/files/downloads/a012-2010-iaasb-handbook-isa-240.pdf>

Recommended readings:

- <https://www.accaglobal.com/pk/en/member/member/accounting-business/2016/04/corporate/fraud-detectives.html>
- <https://www.accaglobal.com/pk/en/member/member/accounting-business/2016/02/corporate/internal-fraud.html>
- <https://www.accaglobal.com/pk/en/member/discover/cpd-articles/audit-assurance/material-misstatement.html>
- <https://www.accaglobal.com/pk/en/member/member/accounting-business/2016/06/corporate/fraud-fight.html>
- <https://www.accaglobal.com/pk/en/member/discover/cpd-articles/audit-assurance/related-parties15.html>
- <https://www.accaglobal.com/pk/en/member/member/accounting-business/2017/03/practice/forensic-accountants.html>
- <https://www.accaglobal.com/pk/en/member/discover/cpd-articles/audit-assurance/effective-audits.html>
- <https://www.accaglobal.com/pk/en/member/discover/cpd-articles/governance-risk-control/ias-role-in-whistleblowing.html>

Day 3

Internal control over Financial reporting

Learning outcomes:

Obtaining overview of internal control over financial reporting (ICFR), focusing on key ICFR concepts such as the control environment, control activities, reasonable assurance, and the hierarchy of ICFR deficiencies.

After this lecture you will be able to:

- Understand why auditors need to understand, document and evaluate the client's internal controls
- Understand the concept of ICFR and the individual ICFR components
- Understand the impact of weak/strong controls on the audit approach
- For selected cycles students will look in detail at the controls operating within individual transaction cycles and how the auditors go about testing these controls
- Understand the specifics related to understanding and evaluating of IT General Controls
- Explain what business performance reviews are and the difference between good and poor Business Performance Reviews
- Understand the requirements on auditor with regards to identified deficiencies

Suggested readings:

- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/isa-315.html>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/auditing-computer-based-environment2.html>

Recommended readings:

- <https://www.iasplus.com/en/binary/dttpubs/1002reducingrisk.pdf>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/the-control-environment-of-a-company.html>
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/subsequent-events.html>

Tests in audit and audit sampling

Learning outcomes:

Understanding of different types of auditor's tests and their combination including understanding of method of selecting samples.

After this lecture you will be able to:

- Understand different types of audit procedures
- Describe types of audit evidence, their characteristics
- Understand what types of procedures are effective and efficient for particular Financial Statement lines
- Understand the differences between sampling methods

Suggested readings:

- ISA 500 Audit evidence
- ISA 530 Audit sampling

Non-current assets, current assets, equity, current and non-current liabilities

Learning outcomes:

Understanding what are the key stones of the balance sheet, what inherent risks are associated with them and what are the typical audit procedures performed.

After this lecture, you will be able to:

- What are the key stones of balance sheet - assets, liabilities, equity and its linkage to profit and loss
- Understand the balance sheet approach to audit
- What are the main balance sheet components and what are their characteristics: non-current assets, current assets, equity, current and non-current liabilities
- How the reporting framework defines recognition criteria and measurement
- Assess inherent risks associated with assets versus liabilities
- How to plan the audit procedures in order to respond to the significant inherent risks of individual balance sheet components
- What is the going concern principle and auditor's response

Suggested readings:

- Course materials

Day 4

Revenue and receivables

Learning outcomes:

The objective of this module is to perform the risk assessment (including risk of material misstatement and significant risks due to fraud and error) and to develop an effective and efficient testing strategy and audit plan to address the risks, for a complex business process, in this case revenue and receivables.

After this lecture, you will be able to:

- Identify and assess the risk of material misstatement and risk of fraud in revenue recognition (including fraud schemes and relevant assertions)
- Develop a control testing plan:
 - o selecting for testing the most effective controls within the entity's business process to address the given risks
 - o setting appropriate nature, timing and extent of controls testing based on the expected controls reliance
- Determine the nature, timing, extent, and design of substantive procedures to respond to the assessed risks taking account of the audit evidence to be obtained from testing of controls

Suggested readings:

- Course materials

Finalisation of audit and audit reports

Learning outcomes:

Obtain understanding of how to prepare auditor's reports under different ISAs, various impact of the auditor's work outcome on the report (modifications, emphasis of matter, other matter etc. paragraphs).

After this lecture, you will be able to:

- Role and importance of auditor's reports in the society and how it can help to
- manage the expectation gap
- Distinguish between assurance (audit and review) and non-assurance services

- For assurance distinguish between ISA 700, ISA 701, ISA 800 (audit) and review related standards (ISRE 2400, ISRE 2410)
- Understand the guidance on modifications of the auditor's report as given by ISA 705
- Understand main principles of ISA 706 (Emphasis of Matter), ISA 720 (other information)
- Understand ISA 570 main principles on going concern
- What is interoffice reporting (ISA 600)
- ISAE 3000, ISRS 4400 specifics and what are the key characteristics of these engagements

Suggested readings:

- Course materials

Recommended readings:

- All standards mentioned above

Modern trends in auditing

Learning outcomes:

Obtaining overview of IT general controls (ITGCs) an IT dependencies and their impact on the audit strategy and plan. Understanding the concept of Computer Assisted Auditing Techniques (CAATs) and their role in modern audit. Obtaining overview of current trends in the finance and auditing industry, such as data analytics, AI, big data, RPA or Cybersecurity

After this lecture, you will be able to:

- Understand why auditors need to understand, document and evaluate the client's ITGCs and IT dependencies
- Understand the impact of complex/simple IT environment on the audit approach
- Understand types of IT dependencies and how to address those in the audit approach
- Understand what CAATs are and what are their benefits in the audit process
- Explain what data analytics, AI, big data, RPA means and what is their impact on the financial system of audited companies and on the audit approach
- Understand how to assess and address the risk of cybersecurity in the audit process
- Understand the modern trends in auditing and the direction of the development of the industry further into the future

Suggested readings:

- <https://www.accaglobal.com/pk/en/student/exam-support-resources/fundamentals-exams-study-resources/f8/technical-articles/auditing-computer-environment.html>
- https://www.accaglobal.com/pk/en/search.html?i=1;page=4;q=computer+assisted+auditing+technique;q1=pk;sp_q_exact_9=;view=xml;x1=country
- <https://www.accaglobal.com/pk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/data-analytics.html>
- <https://www.accaglobal.com/pk/en/member/discover/cpd-articles/audit-assurance/cybersecurity-cpd.html>

Recommended readings:

- <https://www.accaglobal.com/pk/en/member/member/accounting-business/big-data.html>
- <https://www.accaglobal.com/pk/en/member/member/accounting-business/insights/cyber-liability.html>

Day 5

Project presentations

Learning outcomes:

Deliver your project presentation and submit all required deliverables.