Müəllimin adı: Rakif Həsənli İlqar

Fənnin adı: Audit and Assurance Services

Qrupun nömrəsi: 1041

**Mövzu 1: Agency Theory and need for the Audit and Assurance engagements**

1. Write and describe your own case where you think that agency problem can arise
2. What is agency relationship? Describe information asymmetry and the motives for the information asymmetry. Describe each motive with your own examples
3. Enumerate types of audit and explain them in detail.
4. What are the main economic demands for auditing? Explain how audit function helps to optimize agency problem.
5. What is the difference between accounting and auditing? Explain how users can reduce information risk that managers provide? For each case write your explanations

**Mövzu 2 : Corporate Governance**

1. What is difference between shareholders and stakeholders? Explain main member of stakeholders and write down interest of each member in a company.
2. Explain the main principles of UK Corporate Governance Code.
3. What is an audit committee? Explain advantages and disadvantages of having an audit committee
4. Explain the main tasks of executive and non-executive directors. What kind of responsibilities executive directors have to carry out?
5. Conoy designs and manufactures luxury motor vehicles. It is not a listed company and its shares are held equally by 12 individuals, most of whom belong to the same family. Many of these shareholders are also executive directors. Conoy has an internal audit department, although the chief internal auditor frequently comments that Conoy’s Board does not understand his reports, and does not provide sufficient support for his department and for the company’s internal control systems. RWG & Co, Conoy’s external auditors, have also expressed concern in this area. The Board is considering a proposal from the chief internal auditor to establish an audit committee. The committee would consist of one executive director, the chief internal auditor, and three new appointees. One appointee would have a non-executive seat on the board of directors.

One of the shareholders, who is not an executive director, has heard about Conoy’s plans to establish an audit committee. He has drawn up a list of statements which he feels the Board should review before making any decisions.

According what is given above what kind statements are suitable for establishment of audit committee?

**Mövzu 3: Professional Ethics and Quality Control Porcedures**

1. You are the audit manager of Jones & Co and you are planning the audit of LV Fones Co, a listed company,

which has been an audit client for four years and specialises in manufacturing luxury mobile phones. During the planning stage of the audit you have obtained the following information. The employees of LV Fones Co are entitled to purchase mobile phones at a discount of 10%. The audit team has in previous years been offered the same level of staff discount. During the year the financial controller of LV Fones was ill and hence unable to work. The company had no spare staff able to fulfil the role and hence a qualified audit senior of Jones & Co was seconded to the client for three months. The audit partner has recommended that the audit senior work on the audit as he has good knowledge of the client. The fee income derived from LV Fones was boosted by this engagement and along with the audit and tax fee, now accounts for 16% of the firm’s total fees. From a review of the correspondence files you note that the partner and the finance director have known each other socially for many years and in fact went on holiday together last summer with their families. As a result of this friendship the partner has not yet spoken to the client about the fee for last year’s audit, 20% of which is still outstanding.

**Required:**

1. Explain the ethical threats which may affect the independence of Jones & Co’s audit of LV Fones
2. For each threat explain how it might be avoided
3. You are the audit manager of Currant & Co and you are planning the audit of Orange Financials Co (Orange), who specialise in the provision of loans and financial advice to individuals and companies. Currant & Co has audited Orange for many years. The directors are planning to list Orange on a stock exchange within the next few months and have asked if the engagement partner can attend the meetings with potential investors. In addition, as the finance director of Orange is likely to be quite busy with the listing, he has asked if Currant & Co can produce the financial statements for the current year. During the year, the assistant finance director of Orange left and joined Currant & Co as a partner. It has been suggested that due to his familiarity with Orange, he should be appointed to provide an independent partner review for the audit. Once Orange obtains its stock exchange listing it will require several assignments to be undertaken, for example, obtaining advice about corporate governance best practice. Currant & Co is very keen to be appointed to these engagements, however, Orange has implied that in order to gain this work Currant & Co needs to complete the external audit quickly and with minimal questions/issues. The finance director has informed you that once the stock exchange listing has been completed, he would like the engagement team to attend a weekend away at a luxury hotel with his team, as a thank you for all their hard work. In addition, he has offered a senior member of the engagement team a short-term loan at a significantly reduced interest rate.

**Required:**

1. Explain SIX ethical threats which may affect the independence of Currant & Co’s audit of Orange Financials Co
2. For each threat explain how it might be reduced to an acceptable level
3. List the fundamental principles of Professional Ethics and explain them in detail
4. Describe self-review and self-interest threats, give examples for each threat.
5. What is familiarity threat and explain the main safeguards against familiarity threat

**Mövzu 4: Legal Liability Considerations for the Auditors**

1. Distinguish business failure, audit failure and audit risk
2. State several factors that have affected the incidence of lawsuits against CPAs in recent years. Explain your ideas
3. Is the auditor’s liability affected if the third party was unknown rather than known? Explain
4. What is meant by contributory negligence? Under what conditions will this likely be successful defense?
5. How does prudent person concept affect the liability of the auditor? And also distinguish between fraud and constructive fraud

**Mövzu 5: Audit responsibilities and objectives**

1. Because management operates the business on daily basis, they know more about the company’s transactions and related assets, liabilities, and equity that the auditor. For example, it is extremely difficult, if not impossible, for the auditor to evaluate the obsolescence if inventory as well as management can in highly complex business. Given these observations, evaluate the auditor’s responsibility for detecting material misrepresentations in the financial statements by management.
2. Distinguish between fraudulent financial reporting and misappropriation of assets. Discuss the likely difference between these two types of fraud on the fair presentation of financial statements.
3. List two major characteristics that are useful in predicting the likelihood of fraudulent financial reporting in an audit. For each of the characteristics, state two things that he auditor can do to evaluate its significance in the engagement.
4. An acquisition of a fixed-asset repair by a construction company is recorded on the wrong date. Which-transaction related audit objective has been violated? Which transaction-related audit objective has been violated if the acquisition had been capitalized as a fixed asset rather than expensed?
5. Define what is meant by a management assertion about financial statements. Identify the three broad categories of management assertions.

**Mövzu 6: Internal Audit**

1. What factors should be considered when companies assess the need for internal audit?
2. Explain the main differences between internal and external audit.
3. Explain the reasons why internal auditors should or should not report their findings on internal control to the following company officials:
4. The Board of Directors
5. The Chief Accountant
6. What is Value for Money Audit? Explain the three Es of VFM audits
7. What is Best Value Audit? Explain the 4Cs of BVA

**Mövzu 7 : Risk Assessment, Materiality and audit risk**

1. What are the main ISA requirements for achieving overall audit objective?.
2. Formulate the overall audit risk and explain each element in formulae.
3. Define materiality and enumerate factors that can affect identification of an appropriate benchmark
4. What do you understand from the term “obtaining an understanding of the entity and its environment”? Explain with your ideas
5. You visited Antaris Ltd, where you obtained the following information. Sales have increased during the year ended 31 January 20X9 following a move to attract new customers by offering extended credit. The new credit arrangements allow customers three months’ credit, rather than the one month credit period allowed previously. As a result of this change, you have calculated that trade receivables days have increased from 49 days to 127 days. Antaris installed a new computerized inventory control system, which began operating on 1 June 20X8. Since the inventory control system records both inventory movements and current inventory quantities, Antaris is proposing to use the inventory quantities on the computer to value the inventory at the year-end. It is not proposing to carry out an inventory count at the year-end.

Based on information above what kind of audit risks you consider? Explain your ideas in detail.

**Mövzu 8: Internal Control and considering the risk of fraud**

1. What is the difference between internal audit and internal control?
2. Enumerate five elements of Internal Control. Briefly explain each element
3. What is Control Environment in terms of Internal Control? Explain
4. What steps are taken in entity’s risk assessment process?
5. What is the Tests of Control? What these tests include?

**Mövzu 9: Nature and type of audit evidence, audit planning**

1. Which matters we need consider while constructing overall audit strategy
2. Explain the importance of audit planning
3. What are the objectives of audit documentation?
4. What is financial statement assertion? Explain any four assertion used by the auditor
5. Which procedures auditors use to obtain audit evidence

**Mövzu 10: Audit procedures and sampling**

1. Explain the main types of substantive tests
2. According to the ISA what factors affect the reliability of data?
3. What is an accounting estimate? Give examples for an accounting estimates. What procedures auditors must follow when auditing accounting estimates?
4. What is audit sampling? What methods ISA 500 introduces in terms of audit sampling
5. What is statistical and non-statistical sampling? Explain briefly

**Mövzu 11: Non-current Assets**

1. What are key areas when testing tangible non-current assets? Explain in detail
2. Describe four of the audit procedures that can be carried out in terms of non-current assets
3. What are the key assertions for non-current assets? Explain in detail
4. What other significant aspects have to be taken into account while auditing non-current assets?
5. Complete the table, showing which tests are designed to provide evidence over which financial statement assertion

|  |  |
| --- | --- |
| Completeness | Existence |
| Valuation | Rights and obligations |

* 1. Inspect assets
  2. Verify the valuation certificate
  3. Inspect title deeds
  4. Compare assets in ledger to non-current asset register
  5. Review depreciation rates
  6. Verify material on self-constructed assets to invoices
  7. Examine invoices after the year end
  8. Review repairs in general ledger

**Mövzu 12: Inventory**

1. Describe key assertions relating to inventory. Explain each of them
2. Explain IAS 2 Accounting for Inventories
3. What are the key areas of planning attendance at inventory count? Explain
4. What are the key tests after the inventory count? Briefly explain
5. What is cut off testing in terms of inventory? Explain

**Mövzu 13: Receivables**

1. What are the key assertions relating to the receivables? Explain
2. Explain how auditors get confirmations from the external parties about receivables?
3. Differ positive and negative confirmation. Explain each in detail
4. In constructing the sample which classes of account should receive special attention?
5. List three factors that should be considered when undertaking an analytical review on sales

**Mövzu 14: Liabilities, capital and directors’ emoulments**

1. Differ and explain the following terms: provision, liability, obligating event, legal obligation, constructive obligation, contingent liability, contingent asset
2. Describe IAS 37 and give examples of the types of contingencies disclosed by companies
3. The auditor shall design and perform procedures in order to identify and claims involving the entity which may give rise to a risk of material misstatement. Describe these procedures.
4. Briefly describe audit plan for provisions
5. What is completeness and existence in terms of account payables and accruals? Give examples

**Mövzu 15: Audit Reports**

1. In which situations qualified opinions must be expressed in the auditor’s report? Explain
2. Describe adverse opinion and explain in detail
3. Describe disclaimer of opinions and explain in detail
4. Describe the expectation gap and explain why it arises
5. What are the main points when auditors prepare a written communication on internal control matters?