

Chapter 1 Demand for Audit and Assurance Services

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria, and should be done by a competent, independent person.

Information risk : possibility that the information upon which business risk decision was made inaccurate.

- Cause :
 - remoteness of information
 - biases and motives of the provider
 - voluminous data
 - complex exchange transactions
- How to reduce :
 - user verifies information
 - user shares information risk with management
 - provide audited financial statement

Assurance Services is an independent professional service that improves the quality of information for decision makers.

Attestation service is a type of assurance service in which the KAP issues a report about the reliability of an assertion that is made by another party.

- Categories : audit of historical financial statement
 attestation on internal control over financial reporting
 review of historical financial statement
 other attestation services

Nonassurance services

- accounting and bookkeeping services
- tax services
- management consulting services

Types of Audit :

1. **Operational Audit**
Evaluates the efficiency and effectiveness of any part of an organization's operating procedures and methods.
2. **Compliance Audit**
Determine whether the auditee is following specific procedures, rules or regulations set by some higher authority.
3. **Financial Statement Audit**
Determine whether the financial statements are stated in accordance with specified criteria.

Types of auditors:

- Certified Public Accounting Firms (KAP)
- Government Internal Auditor (BPKP)
- Supreme Audit Board Auditors (BPK)
- Tax Auditors
- Internal Auditors

Chapter 2 The CPA Professions

Generally Accepted Auditing Standards (GAAs) established by IAPI :

1. General Standards
Stress the important personal qualities that auditor should possess
 - Auditor must have adequate technical training and proficiency
 - Must maintain independence in mental attitude
 - Must exercise due professional care
2. Standards of field work
Concern evidence accumulation and other activities during the actual conduct of the audit.
 - Adequate planning and supervision
 - Understand the entity and its environment, including internal control
 - Sufficient appropriate evidence
3. Standards of reporting
Requires the auditor to prepare a report on the financial statement
 - must state whether financial statement are presented in accordance with PSAK
 - must identify circumstances in which such principles have not been consistently observed
 - state if any informative disclosures are not reasonably adequate.
 - Must express an opinion or state that an opinion can not be expressed

Quality control : methods used to ensure that KAP meets its professional responsibilities to clients and others

Chapter 3 – Professional Ethics

Ethics : a set of moral principles or values

Rationalizing Unethical Behavior

- everybody does it
- if it's legal, it's ethical
- likelihood of discovery and consequences

Six step approach for resolving ethical dilemmas:

1. obtain the relevant facts
2. identify the ethical issues
3. determine who is affected
4. identify the alternatives available
5. identify consequence of each alternative
6. decide appropriate action

Ethical principles

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behavior

Independence : taking an unbiased viewpoint in the performance of audit tests, the evaluation of test results and the issuance of audit report.

Issues

- material financial interests
- providing nonaudit services to clients (valuation services, internal audit services, accounting services)
- audit fees
- legal action between KAP and clients
- auditor switching

Independence

? in fact

auditor is actually able to maintain an unbiased attitude throughout the audit

? in appearance

result of other's interpretations of this independence

example : KPK makan bareng terdakwa :D

Enhancing Auditor's Independence and Integrity of Audit

- use audit committees
- auditor rotation
- protection of working papers

Chapter 23 Audit Report

Standard Unqualified Audit Report :

1. Report title
2. Audit report address
3. Introducing paragraph :
 - simple statement that KAP has done an audit
 - list of financial statement that were audited

- responsibility of management and auditor
- 4. Scope Paragraph
 - Auditor followed auditing standards
 - States that audit is designed to obtain reasonable assurance about whether the statement are free of material misstatement
 - Discusses audit evidence
 - Evaluates appropriate of accounting principles made by management
- 5. Opinion paragraph
- 6. Signature, name of CPA, license number of CPA, license number of KAP
- 7. Audit report date.

Categories of Audit Reports

- 1) Standard unqualified
 - all statement are included in financial statement
 - three general standards have been followed
 - sufficient appropriate evidence
 - presented in accordance with PSAK
 - no circumstances requiring explanatory paragraph or modification of wording
- 2) Unqualified with explanatory paragraph or modified wording
 - lack of consistent application of PSAK
 - substantial doubt about going concern
 - auditor agrees with a departure from a promulgated accounting principles
 - emphasis of a matter
 - reports involving other auditors [?] modified wording
- 3) Qualified :
 - limitation on the scope of the audit
 - failure to follow PSAK
 - material
- 4) Adverse or Disclaimer
 - financial statement are not fairly presented (adverse)
 - auditor is unable to form an opinion as whether the financial statements are fairly presented (disclaimer)
 - auditor is not independent (disclaimer)
 - highly material

Materiality

Material [?] if knowledge of misstatement will affect a decision of a reasonable user of the statement.

Three levels of materiality :

1. amounts are immaterial [?] unqualified opinion

2. material but doesn't overshadow financial statement as a whole qualified
3. so material that fairness of statement is in question adverse/disclaimer

Chapter 4 Audit Responsibilities & Objectives

PSA 02 (SA 110)

“the objectives of the ordinary of financial statement by independent auditor is the expression of opinion on the fairness with which they present fairly, in all material respects, financial position, results of operations, and cash flows in conformity with GAAP in Indonesia.

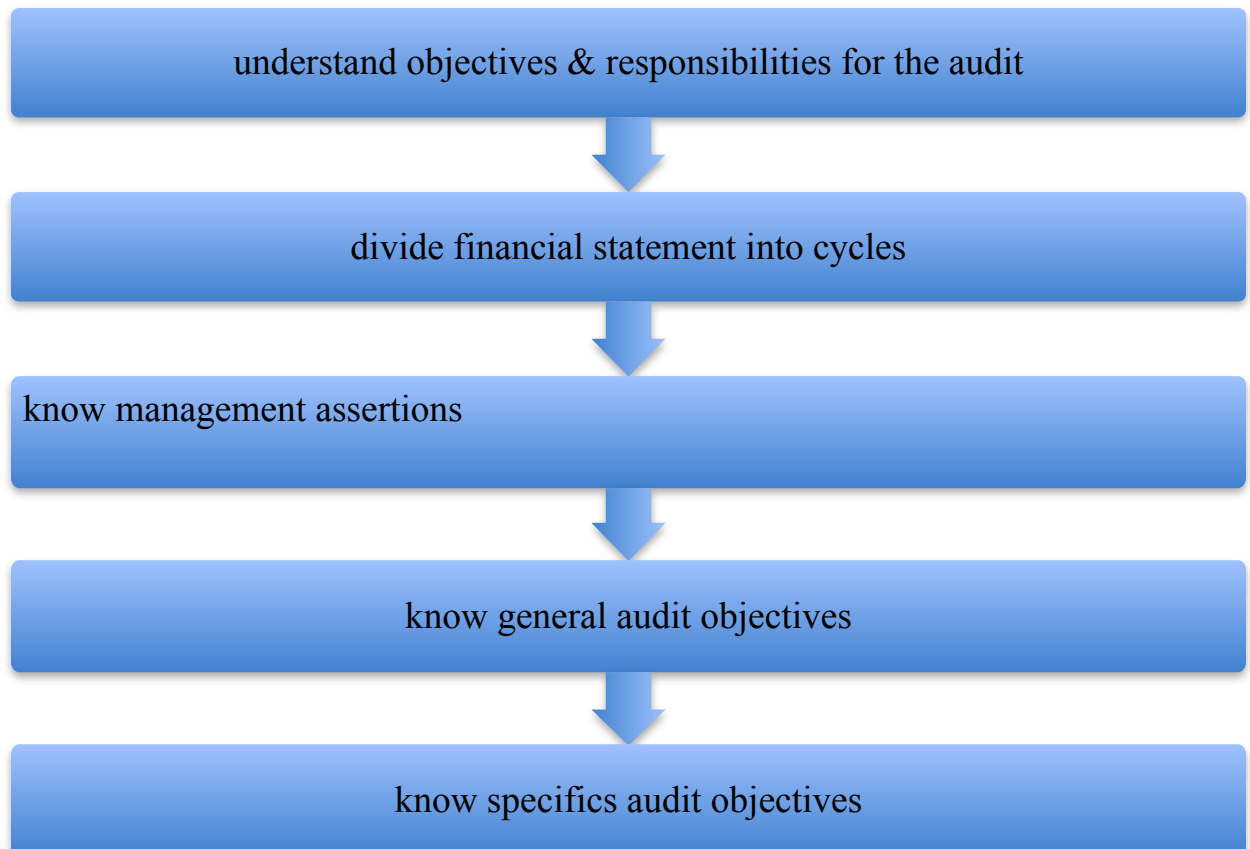
Management Responsibilities

- preparation and presentation of financial statement
- adopt accounting policies that accordance with PSAK
- maintaining internal control

Auditor's responsibilities

- detecting material errors
- detecting material fraud
- detecting illegal acts

steps to develop audit objectives :



Management Assertions

- ❖ about classes of transactions and events
 - ✚ occurrence :
 - concerned with inclusion of transaction that should not have been recorded overstatement
 - ✚ completeness
 - concerned with omitting transactions that should have been recorded understatement
 - ✚ accuracy
 - recorded at correct amount
 - ✚ classification
 - recorded in the appropriate account
 - ✚ cut off
 - recorded in the proper accounting period

- ❖ about account balances
 - existence overstatement
 - completeness understatement
 - valuation & allocation appropriate amounts
 - rights and obligation

- ❖ about presentation and disclosure
 - occurrence and rights and obligations
 - completeness
 - accuracy and valuation
 - classification and understandability

Transaction – related audit objectives

- general :
 - occurrence
 - completeness
 - accuracy
 - posting and summarization
 - classification
 - timing

specific

Balance – related audit objectives

- general
 - existence
 - completeness
 - accuracy
 - classification

- cut off
- detail tie-in
- realizable value
- rights and obligations

☐ specific

Presentation and disclosure – related audit objectives

- same as management assertions

4 phases of financial statement audit

1. phase I
plan and design audit approach
2. phase II
perform test of control and substantive tests of transactions
3. phase III
perform analytical procedures and tests of details of balances
4. phase IV
5. complete the audit and issue an audit report

chapter 5 Audit Evidence

Audit evidence decisions :

1. audit procedures
2. sample size
3. items to select
4. timing

Persuasiveness of evidence

1. appropriateness
 - relevance
 - reliability
2. sufficient

types of audit evidence :

1. physical examination
2. confirmation
3. documentation
4. analytical procedures
5. inquiries of the client
6. recalculation
7. reperformance

8. observation

Audit Documentation :

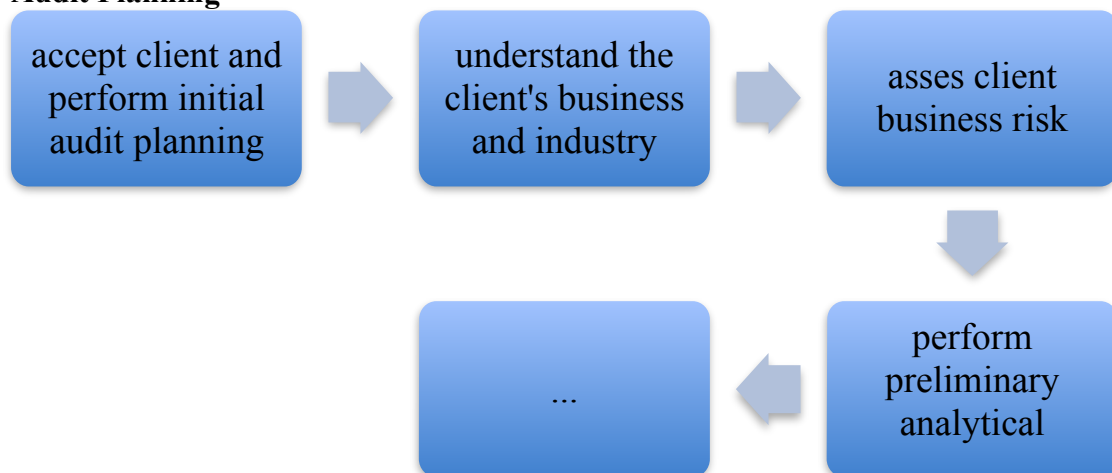
- ❖ permanent files
 - historical or continuing nature pertinent to the current audit
- ❖ current files
 - applicable to the year under audit
 - audit program
 - general information
 - working trial balance
 - adjusting and reclassification entries
 - supporting schedules
 - analysis
 - trial balance
 - reconciliation of amounts
 - tests of reasonableness
 - summary of procedures
 - examination of supporting documents
 - examination of supporting documents
 - informational
 - outside documentation

Chapter 6 Audit Planning and Analytical Procedures

Reasons for planning

- enable auditor to obtain sufficient appropriate evidence
- help keep audit cost reasonable
- to avoid misunderstandings with client

Audit Planning



Accept client and perform initial audit planning

- new client investigation and continuing clients

- identify client's reasons for audit
- obtain an understanding with the client
- develop audit strategy

Understand client's business risk

assess risk of material misstatement in the financial statement due to client business risk, management control

Perform preliminary analytical procedures

Example: compares client ratios to industry to provide an indication of company's performance

Five types of analytical procedures :

1. compares client and industry data
2. compare with similar prior-period data
3. compare with client-determined expected results
4. compare with auditor- determined expected results
5. compare with expected results using nonfinancial data