Chapter 1
Assurance and auditing: an overview

Learning objectives

1.1 Understand the framework for assurance engagements and the types of assurance engagements that can be provided.
1.2 Define auditing and appreciate the fundamental principles underlying an audit.
1.3 Appreciate the attributes of accounting information and understand the reasons giving rise to demand for assurance.
1.4 Explain the concept of the expectation gap, especially in the areas of auditor's report messages, corporate failures, fraud and communicating different levels of assurance, and appreciate the relationships between the auditor, the client and the public.
1.5 Appreciate the role of auditing standards and their authority under the *Corporations Act 2001*.
1.6 Obtain an overview of other applications of the assurance function, including compliance auditing, performance auditing, comprehensive auditing, internal auditing and forensic auditing, as well as providing assurance on subject matter other than historical financial information.

Major chapter sections

The framework for assurance engagements and the types of assurance engagements
Auditing—definition and fundamental principles
Attributes of accounting information and the demand for assurance
The auditor–client–public relationship and the expectation gap
The role and authority of auditing standards
Other applications of the assurance function

Lecture plan

When students arrive at the first lecture, they usually have little understanding of what assurance and auditing entail. We find that the first class is very important for capturing students' attention and stimulating their interest in the subject. (Generally, they have also not read Chapter 1 before the first class.)

It is important to summarise the many things that are currently happening with the auditor's role, especially with the demand for an expanded information set, and with those in charge of resources being made more accountable for their actions.

You can also introduce some of the initiatives of the profession, such as the new form auditor's report, to show how auditors are attempting to communicate better with their constituency. This provides the opportunity to emphasise how important the auditing and assurance profession is currently perceived to be with regard to the role it plays in society, and to set the scene for what students can expect during the course. You should outline the learning objectives for this chapter and walk the students through the flowchart of the overall auditing and assurance framework.
[Use slides 1-2 to 1-3]

LO 1.1: Understand the framework for assurance engagements and the types of assurance engagements that can be provided.

With increasing demands for assurance to cover a wide range of subject matters, the International Auditing and Assurance Standards Board (IAASB) recently a revised framework for assurance engagements. This framework covers audits as well as reviews of historical financial information, and also other assurance engagements, such as assurance on corporate social responsibility reports or greenhouse gas reports, both of which are increasingly demanded by society. This framework provides independent and expert auditors with criteria against which to examine reports.

This section helps students understand the fundamentals of auditing and assurance before tackling the course. It also shows how the framework relates to both financial report audits and other assurance services.

The section:
- provides an explanation of *assurance engagement* and its five elements
- outlines the need for members of the profession to be independent; that is, without interests that may create risks of material bias with respect to the quality or content of information, and to exercise professional judgement and professional scepticism to maintain the quality of assurance services.
- Slide 1.6 contains a diagrammatic depiction of the parties to an insurance engagement, which can be found on page 9 of the textbook (Figure 1.2).

[Use slides 1-4 to 1-9]

Types of assurance standards
To help students gain a deeper understanding of assurance, this section looks at the types of assurance standards and pronouncements. It reviews the two different types of assurance: *reasonable assurance engagements* (an audit) and *limited assurance engagements* (a review). This synopsis of *audits* and *reviews* will be useful for students to compare and contrast.

This section also outlines the difference between attestation and direct engagements.

[Use slides 1-10 to 1-13]

LO 1.2: Define auditing and appreciate the fundamental principles underlying an audit

We have used and expanded on the definition in A Statement of Basic Auditing Concepts here because it nicely captures the major components of the audit process (outlined on slide 1-15), rather than simply stating the objective. Students should be encouraged to compare this definition with the one contained in the Auditing and Assurance Standards Board (AUASB) glossary/ISA Glossary of Terms. It should be pointed out that these definitions are similar, although the profession's definition is more technical and does not use the word assertion (recognising that there are direct engagements as well as attestation engagements).

[Use slides 1-14 and 1-15]

Fundamental principles underlying an audit
To understand the evolution of auditing as a discipline, it is important for students to understand the principles that have dictated such developments. Students, who are the future of the auditing profession, are expected to be instilled with these principles and adhere to them when working in the profession.

The section will examine the:
- fundamental ethical principles
- fundamental auditing principles.

[Use slides 1-16 to 1-18]

LO 1.3: Appreciate the attributes of accounting information and understand the reasons giving rise to demand for assurance

If students are to thoroughly understand the audit process as it relates to accounting information, it is crucial for them to appreciate the role of accounting information and the process of communication through financial reports.

This section highlights the fundamental characteristics of information that enables objective financial reporting:

- relevance
- faithful representation

This section also highlights the enhancing characteristics of information that enables objective financial reporting:

- comparability
- verifiability
- timeliness
- understandability.

[Use slide 1-19]

Demand for assurance
It is worthwhile spending a reasonable amount of time during the first lecture discussing why there is a demand for assurance beyond the legal requirements. It is important that students have a basic understanding of the agency relationship that leads to auditing.

[Use slides 1-20 to 1.22]

Other benefits of assurance
There are other benefits resulting from an assurance engagement, in addition to increasing users' confidence in reported information. These include recommendations to improve efficiency and effectiveness and a positive influence on the behaviour of people with audited entities.

[Use slide 1-23]

LO 1.4: The auditor–client–public relationship and the expectation gap

Students should be introduced to the relationship between the auditor, the client and the public.

The expectation gap and the information gap
Exposing students to the expectation gaps that can occur and where expectation gaps commonly occur at an early stage of the course usually encourages them to be more critical in their thinking as they proceed through the course. A diagrammatic representation of the expectation gap is provided in Figure 1.5 on slide 1.26, and the information gap, which is related to the recent auditor reporting improvements, in Figure 1.6 on slide 1.28.

[Use slides 1-24 to 1-29]

LO 1.5: The role and authority of auditing standards

Students should be introduced to the various auditing standards and guidance standards: auditing standards (ASAs/ISAs); and Guidance Statements (GSs). Under the *Corporations Act 2001*, Australian Auditing Standards have legislative backing. The implications of this should be briefly introduced.

[Use slide 1-30]

Auditor's responsibilities under the *Corporations Act 2001*

The emphasis in most auditing and assurance courses is on audits undertaken in accordance with the *Corporations Act 2001*,which is arguably the most comprehensive assurance service, and one from which techniques gained can be applied to all assurance services. It is therefore worthwhile drawing students' attention to this application of the assurance function (letting students know that this will be covered in more detail in Chapter 2).

[Use slides 1-31 to 1-32]

LO 1.6: Other applications of the assurance function

The uses of audit evidence-gathering methods are not confined to an expression of opinion on financial reports. This section takes the students through their other uses.

These include commentaries on:
- compliance audits
- performance audits
- comprehensive audits
- internal audits
- forensic audits.

These assurance services are discussed in more detail later in the course, so this should be no more than a very brief introduction.

[Use slides 1-33 and 1-34]

Summary
We provide a summary slide of the main learning takeaways in this chapter.

[Use slide 1-35]

SOLUTIONS

REVIEW QUESTIONS

1.1 The *Framework for Assurance Engagements* (*International Framework for Assurance Engagements*) identifies the following five elements of an assurance engagement:

1. Three party relationships, comprising:

   - assurance practitioner (auditor)—in Australia this would be a member of a recognised accounting body (CPA Australia, Chartered Accountants Australia and New Zealand or the Institute of Public Accountants), and one who is bound by the profession's Code of Ethics

   - responsible party—the responsible party is the person or persons responsible for the subject matter. For example, management is responsible for the preparation of the financial report or the implementation and operation of internal control

   - intended user—the intended user is the person or persons expected to use the assurance practitioner's report. Often the intended user will be the addressee of the assurance practitioner's report, although there will be circumstances where there will be other identified users.

2. An appropriate underlying subject matter, which can take many forms, such as:

   - financial position and performance
   - non-financial performance
   - physical characteristics
   - systems and processes
   - behaviour.

3. Suitable underlying criteria, such as the standards or benchmarks used to measure and evaluate the underlying subject matter of an assurance engagement. Criteria are important in the reporting of a conclusion by an assurance practitioner as they establish and convey to the intended user the basis on which the conclusion has been formed.

4 Sufficient appropriate evidence, which should be obtained by the assurance practitioner about whether the subject matter information is free of material misstatement.

5 A written assurance report, which provides a level of assurance about the subject matter based on the conclusions drawn by the assurance practitioner.

1.2 Paragraph 10 of the *Framework for Assurance Engagements* (*International Framework for Assurance Engagements*) defines an assurance engagement as 'an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria'.

The Framework says that a practitioner can provide two levels of assurance for an assurance engagement: reasonable assurance and limited assurance. For assurance services on historical financial information, a reasonable assurance engagement is commonly termed an audit, and a limited assurance engagement is commonly termed a review. The objective of a reasonable assurance engagement (audit) is reducing assurance engagement risk to an acceptably low level, and this is associated with a positively expressed assurance opinion (such as that the financial information is true and fair). The objective of a limited assurance engagement (review) is reducing assurance engagement risk to a level that is acceptable in the circumstances—but where the remaining risk is greater than with a reasonable assurance engagement— as the basis for expressing a conclusion in a form that conveys whether, based on procedures performed and evidence obtained, any matter has come to the auditor's attention to persuade them that the information has been materially misstated.

1.3 An attestation engagement requires a party other than the auditor to measure or evaluate the underlying subject matter against the criteria. The audit of a general-purpose financial report is an example of an attestation engagement. A direct engagement requires the auditor to directly measure or evaluate the underlying subject matter against the criteria. For example, an auditor's report could be issued on the adequacy of internal control. Where management does not measure or evaluate the adequacy of internal control, and therefore the auditor is required to report directly on its adequacy, the engagement is classed as a direct engagement. If, however, management has measured or evaluated the adequacy of internal control and the auditor is required to attest to this statement, it is an attestation engagement.

1.4 ASA 200.11/ISA 200.11 states that the objectives of the auditor in undertaking an audit of a financial report are:

(a) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework; and

(b) To report on the financial report, and communicate as required by the Australian Auditing Standards (ISAs), in accordance with the auditor's findings.

1.5 The fundamental principles of auditing include:

- Knowledge: The auditor should possess a sufficient understanding of the entity and its environment to appropriately plan and perform the audit, interpret audit findings and report on the financial report.
- Responsibility: The auditor should take responsibility for the auditor's opinion, maintaining an adequate level of involvement in the audit engagement, properly

supervising any assistants and evaluating the work of experts or others upon whom reliance is placed.

- Quality control: The auditor should follow quality control procedures, including consultation with others as necessary, which support the issuance of an auditor's report that is appropriate in the circumstances.
- Rigour and scepticism: The auditor should plan and perform an audit with thoroughness and with an attitude of professional scepticism, critically assessing with a questioning mind the validity and reliability of evidence, and recognising circumstances that may cause the financial report to be materially misstated.
- Professional judgment: The auditor should exercise professional judgment, within the bounds of the fundamental principles and the applicable professional requirements, in discharging the auditor's responsibilities.
- Evidence: The auditor should obtain sufficient appropriate evidence to constitute a reasonable basis for expressing an opinion on the financial report.
- Documentation: The auditor should document matters that are important in providing evidence to support the auditor's opinion.
- Communication: The auditor should communicate significant matters affecting the entity's financial report to management, to those charged with governance and, while respecting the confidentiality of information, to others where compliance with local laws and regulations requires additional communication in the broader public interest.
- Association: The auditor should not be associated with or allow the use of the auditor's name or their report to be associated with information known by the auditor to be misleading, unless the auditor reports on the information and how it is misleading.
- Reporting: The auditor should report to those who have appointed the auditor to the engagement. The auditor's report should contain a clear expression of opinion in writing and set out all information necessary for a proper understanding of the opinion and its basis.

1.6 The key attributes (fundamental characteristics) of accounting information:

- Relevance: This requires that the information provided must be useful in assisting financial report users to make and evaluate decisions about the allocation of scarce resources and to assess the accountability of the preparers of these reports.
- Faithful representation: The extent to which the information presented to users represents, without bias or undue error, the underlying transactions and events that have occurred. This requires the information to be complete, neutral and free from error.

Other enhancing attributes are:

- Comparability: The usefulness of information requires that its presentation in a financial report results in users being able to compare aspects of an entity at one time and over time, and between entities at one time and over time.

- Different knowledgeable and independent observers could reach consensus that a particular depiction is a faithful representation.
- Timeliness: Having information available to decision makers in a timely fashion so that it is capable of influencing their decisions.
- Understandability: Classifying, characterising and presenting information clearly and concisely.

The auditor's report provides users with reasonable assurance that these fundamental characteristics and enhancing attributes have been met.

1.7 The demand for an independent financial report audit arises from the following conditions:

- Conflict of interest: The user may perceive an actual or potential conflict with the preparer. For example, management could have an incentive to present biased information in a financial report because these reports are a means of conveying information about management's performance or may impact on their bonus. An independent, third-party examination reduces the likelihood of bias and enhances the credibility of the information.
- Consequence: When a user is contemplating using information to make decisions of significant consequence, the quality of that information is a major concern.
- Complexity: The subject matter and the process by which the data (for example, transactions) is converted into information (for example, financial reports) is complex, increasing the possibility of error and the need for high level of expertise to judge the quality of information.
- Remoteness: The separation of owner and manager, and therefore the user and the preparer, prevents the user from assessing the quality of the information.

1.8 An assurance service can improve the efficiency and effectiveness of the operations of an entity whose activities are being assured. It is possible that an assurance engagement, such as a performance audit, may be constructed so that its major objective is to identify material inefficiencies and ineffectiveness. In order to do this, the assurance practitioner would need to have criteria that outline what is an efficient and effective operation.

However, even if the objectives of an assurance engagement were not to identify inefficiency and ineffectiveness, an assurance engagement may result in identifying deficiencies in the activities assured and making recommendations for possible improvements in performance. Also, by positively influencing the behaviour of people whose activities are being assured, efficiency and effectiveness may be improved as people would be more inclined to conform to established procedures.

1.9 Although in theory auditors are appointed by shareholders, in practice auditors are effectively selected and paid by the people affected by their work, i.e. management, with shareholders merely endorsing those decisions. Further, an audit of a financial report requires the auditor to have a close working relationship with management and an intimate knowledge of many of management's actions, decisions and judgments, which have a significant effect on the financial report. Therefore, an auditor is subject to conflicting pressures and complete independence is very difficult to achieve. The auditor depends on fees from clients and necessarily has a close relationship with clients, but may need to persuade a client to disclose unfavourable information in fulfilling the duties imposed by the audit function.

1.10 The expectation gap is the difference between the expectations of auditors and the expectations of the assurance report users concerning the role and responsibilities of auditors. As shown by Figure 1.6, it consists of unrealistic expectations on the part of users (reasonableness gap) and inadequate performance by auditors (performance gap). Unrealistic expectations include expectations that ignore limitations inherent in the financial report, such as those that require significant professional judgment or estimation, and those where the cost of providing assurance exceeds the probable benefits. Inadequate performance includes both a failure by individual auditors to comply with required auditing standards (deficient performance), and a failure of the auditing standards to meet the legitimate needs of users (deficient standards).

1.11 Auditing standards assist an individual auditor by providing a benchmark against which to assess their performance. They also provide the courts with an authoritative benchmark against which to measure an auditor's performance, in the event of an auditor's work being subject to litigation. In addition, the auditing standard-setting bodies are able to improve the quality of auditing practice by updating their standards and informing individual auditors about changes in the audit function.

Complying with auditing standards is mandatory for all members of the accounting bodies for all audit and assurance engagements under APES 210 and compliance is legally enforceable under Section 307A of the *Corporations Act 2001* for audits of companies.

1.12 (a) Internal audit: Internal audit is an appraisal activity within an entity for the review of financial and business risks and other operations as a basis for service to management. It is an audit undertaken by a body of audit professionals who are internal to or employees of the audited entity.

(b) Forensic audit: Forensic auditing involves detecting, investigating and deterring fraud and white-collar crime. Some examples of situations in which forensic auditors have been involved include:

- analysing financial transactions involving unauthorised transfers of cash between companies
- reconstructing incomplete accounting records to settle an insurance claim over inventory valuation
- proving the commission of money-laundering activities by reconstructing cash transactions
- investigating and documenting embezzlement, and negotiating insurance settlements.

(c) Compliance audit: Compliance audits involve the expression of an opinion on an entity's compliance with statutes, regulations or other directives that govern the activities of the entity. Thus any example of compliance with any regulation, including compliance with internal control activities, would be appropriate.

(d) Performance audit: Performance audits are designed to analyse organisational structure, internal systems, work flow and managerial performance. They are usually associated with issues of efficiency, effectiveness and economy. In short, performance auditing is intended to provide a measure of an entity's operational achievements.

DISCUSSION PROBLEMS AND CASE STUDIES

1.13

(i) NO. This is not an assurance engagement, as there are only two parties to the engagement, auditors and management, and three parties are required as a necessary element of an assurance engagement.

(ii) NO. This is not an assurance engagement, as the report is oral and a written report is required as a necessary element of an assurance engagement.

1.14

(i) NO. Identifying new risks that arise from a changing business environment is a separate service and is NOT an assurance service. As a separate engagement this does not have the characteristics of an assurance engagement. There is no three-party relationship, nor is it clear that there are suitable criteria. It should be noted that in accordance with ASA 315/ISA 315, this would be one of the steps in an audit of a financial report.

(ii) YES. There is a three party relationship, with suitable underlying subject matter and appropriate criteria. Checking compliance with legislative requirements is a compliance engagement.

(iii) NO. Assisting management to achieve goals and objectives is NOT an assurance service. There is no three party relationship and it is not clear that there are suitable criteria. Such assistance would be a consulting activity.

(iv) NO. Assisting in establishing and training internal control teams is NOT an assurance engagement. There is no three party relationship, no underlying subject matter and it is not clear that there are suitable criteria. Such assistance would be a consulting activity.

(v) NO. Carrying out procedures as directed by the client is NOT an assurance engagement. The client, not the auditor is determining what evidence needs to be gathered by indicating which locations to attend and what to do at those locations. This would be an agreed-upon-procedures engagement.

(vi) NO. Providing advice on accounting policies and accounting standards is NOT an assurance engagement. There is no three party relationship, nor is it clear that there are suitable criteria. Such assistance would be a consulting activity.

(vii) YES. A financial report audit is an assurance engagement.

1.15

(i) This engagement is an audit, as a full range of tests are being carried out and the auditor is deciding on what testing is to be done. A reasonable level of assurance would be provided.

(ii) This engagement is an agreed-upon-procedures engagement, as the client is deciding on the procedures to be undertaken when checking the calculations. No assurance is provided, but rather a statement of factual findings would be provided and the client could deduce their own assurance from it, as they are the ones that decided on what needed to be done.

(iii) This engagement is a review engagement, as analytical procedures and enquiries only are being carried out. A limited level of assurance will be provided.

1.16

The important parts of the AAA definition and how they relate to a financial report audit are as follows:

- Systematic process: Financial report audits are structured activities that follow a logical sequence.
- Objectivity: A financial report auditor must be independent so that the auditor is able to give an unbiased opinion.
- Obtaining and evaluating evidence: A financial auditor is required to gather sufficient appropriate audit evidence by examining the underlying support for assertions or representations.
- Assertions about economic actions and events: A financial report is made up a number assertions made by the preparer about the items that appear in the financial report.
- Degree of correspondence between those assertions and established criteria: A financial report audit compares the assertions in the financial report to the treatments required by the accounting standards.
- Communicating results: The results of the audit are communicated to interested users through the auditor's report.

1.17

(i) The auditor would be concerned about the relevance of the information, as the actuary's report is three years old and therefore out of date and not relevant to an assessment of the current position of the insurance reserves.

(ii) The auditor would be concerned with the faithful representation of the information. The damages are unspecified and additional litigants are still being added, so it would be very difficult to put an accurate figure on the likely contingent liability.

1.18

The three explanatory theories of auditing are:

(a) **Agency theory (Stewardship hypothesis).** In an agency relationship, investors, as principals in the relationship, entrust their resources to managers, who act as their agents or as stewards of the resources. However, in this relationship a potential conflict of interest arises. (Management should be trying to maximise returns to investors but have an incentive to consume or reallocate resources for their own benefit.) In an attempt to monitor their activities, managers are asked to account for the level and performance of resources under their control by producing periodic financial reports. Because of the potential conflict of interest outlined above, the complexity of the subject matter and the remoteness of the investors from the managers, the financial reports may be biased, which creates a demand for assurance to ensure accountability of managers.

(b) **Information hypothesis.** An assurance service is a means of improving the quality and credibility of information. An assurance service is also valued as a means of improving financial and non-financial data for internal decision making, detecting errors and motivating employees to exercise more care in preparing records. Also, the investors benefit through the increased confidence of external users in the information.

(c) **Insurance hypothesis.** The demand for assurance occurs from those who may suffer loss when things go wrong. For example, if an organisation goes into liquidation and has no resources to pay its debts, it may be possible to recover some of the losses from the auditor. As auditors are required to have insurance against such potential losses, this has given rise to a 'deep-pockets' effect in that the auditor is seen to have a greater ability to pay. As audit firms will be very concerned with maintaining their reputation, any legal action undertaken against them that may damage this reputation will be treated very seriously.

1.19

The entities may have an audit for the following reasons:

(i) Summertown Football Club

- To meet the requirements of the entities' own constitutions or by-laws
- To provide the members of the football club with reasonable assurance of the reliability of the financial report and help ensure the accountability of management.

(ii) State Rail, a public sector entity

- To comply with legislative requirements, such as the relevant state government laws or regulations
- To provide parliament and taxpayers with reasonable assurance of the reliability of the financial report and help ensure the accountability of management
- To enable it to obtain credit from a financial institution that requires an audited financial report.

(iii) Spiral Ltd, a publicly listed company

- To comply with legislative requirements of the *Corporations Act 2001*
- To provide shareholders with reasonable assurance of the reliability of the financial report and help ensure the accountability of management
- To enable it to obtain credit from a financial institution that requires an audited financial report.

(iv) Save Our Kids, a charitable entity

- To comply with legislative requirements, such as the relevant *Charities Act*
- There is unlikely to be reporting to the donors, although it is possible that the audited financial report might be made available to this group to encourage further donations
- To enable it to obtain credit from a financial institution that requires an audited financial report.

1.20

The benefit of engaging an independent auditor in the above circumstances is that the Defence Minister will get the benefits of the audit process. This includes gaining the services of someone who is independent of the subject matter. Independence means that there is an absence of interests that would otherwise create an unacceptable risk of material bias. He also gains the services of someone who has appropriate expertise and will use professional judgement and professional scepticism. This will increase the credibility of the information provided to the Defence Minister for making his decision and reduce the risks for the Defence Minister, as the auditor will also be liable for their work on the information provided to him.

1.21

Auditors not complying with auditing standards is an example of the deficient performance element of the expectation gap.

1.22

It is unreasonable for Daisy to expect absolute assurance from an audit. This is due to the inherent limitations of the audit process, such as the need to apply professional judgment in determining the nature, timing and scope of tests, the use of sampling procedures to collect audit evidence, the persuasive rather than conclusive nature of much of the available evidence and the inherent limitations of internal control. Rather, an audit provides a reasonable level of assurance that, in the auditor's opinion, there are no material misstatements in the financial report.

Further, while an entity's financial report is normally prepared based on the assumption that it is a going concern and the auditor tests the reasonableness of this assumption, it is unreasonable to assume that this guarantees that the entity will continue in existence. Bankruptcy can occur due to unexpected circumstances occurring after the auditor's report has been issued.

Also, while the auditor obtains sufficient appropriate audit evidence that there is a reasonable expectation that there are no material misstatements in the financial report due to fraud or error, it is unreasonable to expect that this means that immaterial frauds or errors have not occurred. Further, due to the nature and sophistication of frauds, and the inherent limitations of the audit process, it is also possible that even a material fraud will not be uncovered.

1.23

There have been a number of responses undertaken by the auditors, audit committees and regulators to restore user and preparer confidence in the audit function. These include:

- a framework for all assurance services, not just financial report audits
- greater independence requirements in the standard-setting process
- legislation and auditing standards aimed at improving professional competence and independence
- revised auditing standards for financial report audits and the revised auditing standard regarding fraud
- in Australia, auditing standards required to be followed by legislation
- new standards for assurance engagements other than financial report audits
- new corporate governance and ethics initiatives embodied in legislation, including the requirement for certain public companies to have an audit committee.

1.24

For audits undertaken under the *Corporations Act 2001*, the auditing standards have legal authority by virtue of the provisions of the *Corporations Act 2001*. Failure to observe these standards may expose an auditor to investigation and disciplinary action from the Australian Securities and Investments Commission (ASIC).

For other audits there is a mandatory obligation for members of the accounting bodies in Australia to comply with the ASAs, which is found in APES 210 *Conformity with Auditing and Assurance Standards*, issued by the Australian Professional and Ethical Standards Board (APESB). APES 210 states that the basic principles and essential procedures in an ASA are mandatory and they must be complied with in the planning, conduct and reporting of an audit engagement. APES 210 indicates that the standards are to be applied to all financial report audits and to all audits of other financial and non-financial information, adapted as necessary. Failure to follow APES 210 would result in disciplinary action against the auditor by the accounting body of which they are a member.

Therefore, the auditor would need to follow the auditing standards for the audits of both Bigtown Bowls Club, a not-for-profit entity, and Sampson Ltd, a public company, although the penalties for non-compliance are more severe under the *Corporations Act 2001*.

1.25 Refer to the website of one of the Big 4 auditing firms and detail the type of assurance services they offer.

- Deloitte: www.deloitte.com/au
- PricewaterhouseCoopers: www.pwc.com.au
- KPMG: www.kpmg.com.au
- EY: www.ey.com/au

1.26

	Service provided	**Type of audit**
(i)	Analysis of financial transactions involving unauthorised transfers of cash between companies	Forensic audit
(ii)	Conformity of annual financial reports with applicable accounting standards	Financial report audit
(iii)	Reconstruction of incomplete accounting records to settle insurance claims	Not an audit — an accounting engagement
(iv)	Checking adherence to legislative requirements	Compliance audit

(v)	Review of half-yearly financial reports based on analytical procedures and enquiries of entity personnel	Not an audit — a review
(vi)	Assessment of energy usage patterns and recommendation of energy conservation opportunities	Performance audit