Index

AAI1000 Assurance Standard 747–70, 752, 754, 755, 757, 758
access controls 388–90
account balance (disclosure) materiality level 384
account balances 24
ISA 501 (Redrafted): Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures 446, 448–51, 502
see also substantive tests
account risk, concepts 79
accountabilities, corporate management 14–15, 29–30
AccountAbility (AA), AAI1000 Assurance Standard 747–70, 752, 754, 755, 757, 758
accountability principle 23
Accountancy and Actuarial Discipline Board (AADB) 184
accountants 28–32
Accountant’s Magazine, The 29
accounting contrasts, auditing 8
accounting firms 4, 12, 16–17, 101, 102, 123, 126, 131, 136
accounting records 164, 170, 172
accounting systems 382–5
sub-systems 402–6
accounts receivable
adjusting for doubtful debts 461
confirmation 452–60
overview of auditing 452
ownership 461–2
accumulations, misstatements 441
Adelphia Communications 16
adequacy criteria, auditor’s reports 86–7
adequate records 396
CA 2006 requirements 545–6
ADT Ltd v BDO Binder Hontyn 1996 case 634, 644
‘adverse’ audit opinions 571, 574, 766
advisory services 13, 100–4, 106, 111, 134
advocacy threats 103, 104, 114, 120, 133, 135, 138
affiliates, definition 110
aggressive earnings management 241–2
Al-Saudi Banque and Others v Clark Pixley (1990) case 633, 634
American Express Company 114
American Institute of Certified Public Accountants (AICPA) 124, 127, 130, 148, 582
analytical procedures 24, 270, 273, 336–40
importance 337–9
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
ISA 520 (Redrafted): Analytical Procedures 431, 434–5, 528
meaning of 336–7
as risk assessment procedures 339–40
analytical reviews
clients 25
development of auditing 25, 36–51
Andrew v Kounnis Freeman (1999) case 636
Andrew v Kounnis Freeman 636, 652–4
Anns v Brent London Borough Council (1977) case 623, 625–6
annual general meetings 30, 181, 184–7
annual reports 39–40, 48, 49–50, 52, 169–81
appended certificates, balance sheets 28
application controls, concepts 390–1
appointment of auditors 6, 8, 28, 105, 118, 131, 140–1, 149–51, 162, 163–5, 174, 181–4
Arthur Andersen 675
Arthur E. Green & Co. v The Central Advance and Discount Corporation Ltd (1920) case 31, 164, 194, 196
assertions, concepts 3
assigning audit work 280–1
Association of Authorised Public Accountants (AAPA) 66, 182
Association of Chartered Certified Accountants (ACCA) 66, 105, 163, 182, 802
assurance (verification) engagements
AAI1000 Assurance Standard 747–70, 752, 754, 755, 757, 758
definition 746–7
independent 763–6
ISA 250 (Redrafted): The Auditor’s Responsibilities Relating to Laws and Regulations ... 202, 769–71
issuing the report 756–62
performing 755–6
planning 755
providers 750–2
standards 748–50
terms 754–5
attributes sampling plans, statistical sampling 470, 474, 482–6
Audit and Assurance Council 162
audit committees 6, 48–9, 109–11, 117, 119, 128–30, 133, 138, 140, 142
Blue Ribbon Committee’s Guiding Principles 147–8
Combined Code on Corporate Governance, The 386
development 143–6
non-executive directors 142, 143–5
Audit expectation–performance gaps 783–842
change in 794–8
deficient standards gap 793–4
deficient standards gap 791–3
definition 784–7
extent, UK, 1999–2008 794
inherent conflicts 839–41
structure 787
audit fees 1, 16, 38–9, 42–3, 101–2
APB Ethical Standard (ES) 4: Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality 107, 117–18, 120–1, 133
disclosures 49, 118, 120
independence issues 111–12, 117–19, 120, 123, 133, 140, 144, 145, 149, 151
overdue fees 118, 120
reductions 39, 42
statistics 2, 13
Audit Firm Governance Code 208, 209, 210
audit functions
concepts 1–18
criticisms 15–18, 44
Audit Inspection Unit (AIU) 793
audit manager 302
audit market concentration 816–37
methods 827–37
reducing, and strengthening independence 816–27
audit objectives
concepts 265–7
definitions 265–7
true and fair view 4, 5, 35, 42
audit opinions
‘adverse’ audit opinions 766
concepts 38, 41, 42–3, 50–1, 109, 111
‘disclaimer’ audit opinions 576–8, 579–80
‘Emphasis of Matter’ paragraph 576–8, 579–80
formation of 530–3
sufficient appropriate evidence 567–8
types 564–76
audit-only firms 829–33
audit plans (programmes) 349
development 411–15
documentation 349–50
internal control evaluation and 409–11
ISA 300 (Redrafted): Planning an Audit of Financial Statements 346–7, 349–50, 411
purpose and formats 411–13
review 413–15
audit procedures 271–2
audit objectives 265–7
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
audit process 3, 262–5, 384
Audit Quality Forum (AQF) 587–9
audit risk
concepts 25, 28, 41, 42–5, 50–1, 77–81
components 78–81
definition 77–8
materiality relationship 374–5
overall (financial statement) materiality level 374–5
audit software CAATs 492–3
audit, definition 2–3
audit, types 3–8
auditees, auditing benefits 12–13
Auditing Practices Board (APB) 49, 100, 106, 153, 162–3, 166, 184, 198–204, 206–7, 222
Bulletins 202
delegated powers 162
Ethical Standard (ES) 1: Integrity, Objectivity and Independence 102, 107–11
Ethical Standard (ES) 3: Long Association with the Audit Engagement 107, 128–30
Ethical Standard (ES) 4: Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality 107, 117–18, 120–1, 133
Ethical Standard (ES) 5: Non-audit Services Provided to Audit Clients 107, 111, 116, 133–8
auditor rotation considerations 121, 122–32
auditor’s reports see reporting
Australian Accounting Research Foundation (AARF) 582
availability of evidence 274
AWA Limited v Daniels, trading as Deloitte Haskins & Sells & Others (1992) case 615–17
balance sheets 5, 6, 106
balances
ISA 510 (Redrafted): Initial Audit Engagements – Opening Balances 462
Bank of Credit & Commerce International (Overseas) Ltd, BCCI Holdings (Luxembourg) SA 635, 646–8
Bank of Credit and Commerce International (BCCI) 39–40, 140
Bank of England 144
BarChris Construction Corporation case 144
Barings Bank 140, 784
Barings plc v Coopers & Lybrand & Ors, Barings Futures (Singapore) Pte Ltd v Mattar & Ors [2002] 635, 650–3
BCCI SA v Price Waterhouse, and Ernst & Whinney [1998] 635, 646
benefits of auditing 11–18
Berg Sons & Co. Ltd v Mervyn Hampton Adams (1993) case 634, 639–40
‘Big’ accounting firms 16–17, 24, 45, 101, 123, 126, 127
Blue Ribbon Committee’s Guiding Principles, audit committees 147–8
BP plc 585–6, 732, 734, 746
British Airways Plc 582, 583, 587
business drivers, corporate responsibility reports 740–1
business risk 79
INDEX

Cadbury Committee 40, 49–50, 144, 386
Canadian Institute of Chartered Accountants (CICA) 582
Candler v Crane Christmas & Co. (1951) case 622–4
Caparo v Dickman (1990) case 612, 615, 629–33, 645–6
capital markets 100, 151
Carbon Disclosure Project’s Climate Leadership Index (CDLI) 772, 781
case law 36
  concepts 161–5
  definition 162
  diagrammatic overview 164
China, competition from 837–9
ChuoAoyama Audit Corporation 675
classifications, audit types 3–8
clients
documentation 331–2
financial and non-financial performance measures 329
financial involvement with 112–14
industry, business data and publications 332
key personnel 331
media reports 332
personnel 402–3
premises 330
relationships with 108–9, 114–17, 189–91
understanding the 24, 51, 325–32
visiting 330
Co-ordinating Group on Audit and Accounting Issues (CGAA) 796
Code of Ethics for Professional Accountants 62, 68, 69, 104, 107, 130, 163
Cohen Commission 582
Combined Code on Corporate Governance, The 40, 178, 386, 584, 789
Commission on Auditors’ Responsibilities (Cohen Commission) (CAR) 132, 221, 581, 786
commitments 501
  see also contingent liabilities and commitments
Committee on the Financial Aspects of Corporate Governance (CFACG) 144, 386
common characteristics, auditing 7–8
common law duties 161–5
communications 8–11
  audit committees 147–51
  directors 146–51
  governance communications 590–603
ISA 260 (Redrafted): Communication with Those Charged with Governance 88, 553, 591–4, 595–6, 600–3, 616, 793, 802, 809, 810
ISA 265 (Redrafted): Communicating Deficiencies in Internal Control 419, 594, 398–9
  successful 87
  see also reporting
Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 49, 105
Companies (Disclosure of Auditor Remuneration) Regulations 2005 105
  companies 99–159, 165–71
  definitions 165–7
  going concern assumption 771
  naming requirements 165
  non-compliance matters 769–71
  types 165–71
Companies Act 1900 28, 29
Companies Act 1908 30
Companies Act 1948 35
Companies Act 1985 37
Companies Act 2006 (CA 2006) 4, 5, 12, 100, 105–6, 140, 162, 535
  auditor’s reports format 552–3
  background 162, 173, 188, 191–2
  diagrammatic overview 164
  IAS accounts framework 167
  legal liabilities 612
  reporting obligations 544–9
  requirements 5, 40
Companies Act accounts framework, concepts 167, 168
competence, assessment of 313
competence concept 164, 611–72
competent authorities, definition 47
competition, auditors 123
completion and review procedures 499–538
complexity problems, auditing needs 11
compliance audits, concepts 1, 6
compliance procedures 267–9, 368
compliance tests 415–19
compulsory audits, historical background 25, 28
Computer Associates 123
computer-assisted auditing techniques (CAATs) 467–8, 491–5
conclusions 110
confidential concerns about improprieties, employees 150
confidentiality principle 250–3
confirmations 439
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
ISA 505 (Redrafted): External Confirmations 453–4, 459–60
conflicts of interests 9, 105, 135
contingent liabilities and commitments 770–1
  completion and review procedures 501–2
contractual liability to clients 615–21
control activities internal controls component concepts 388, 389, 393–4
control environment, internal controls component 386, 388, 391–2
corporate governance 145–7
  concepts 107, 125, 128
UK Corporate Governance Code, The 131, 145, 149, 150
corporate management, auditing benefits 14–15
corporate responsibility reports
  business drivers 740–1
  changes 1999 to 2011 730
  concepts 727
development 729–33
guidelines 743–6
investor preferences 741–3
KPMG’s survey 729–32
reasons for publication 733–43
regulatory requirements 734–40
corporate social responsibilities 25, 33, 37, 44, 727
corruption effects, power 15
cost of evidence 274–5  
_Coulthard & Ors v Neville Russell (1998) case_ 634, 645, 646  
Crane Christmas & Co. 624  
credibility factors 11  
criticisms of auditing 15–18, 100–2  
CV M 130–1  
damages, legal liabilities 611–72  
development 34, 37, 41, 112, 181  
debtors 27  
sales-receivables-receipts cycle 385  
deficiencies 46, 407, 419–20, 766  
ISA 265 (Redrafted): _Communicating Deficiencies in Internal Control_ 419, 594, 598–9  
delegated duties, employees 33  
delegated powers to regulators 162  
Deloitte & Touche 2, 13, 16, 101, 115, 123  
Deloitte Haskins & Sells 615–17  
Department of Trade and Industry (DTI) 40, 100, 144  
design assessments, internal accounting controls 409  
design issues, sampling 474–81  
desired level of audit risk (assurance) 362–6  
detection risk 80–1, 367–73  
detective control benefits, auditing 11–12  
development of auditing 23–52, 100  
period up to 1844 2  
1844–1920s 24, 27–32  
1920s–1960s 24, 32–6  
1960s–1990s 24, 36–9, 101  
1990s–present 24, 39–51, 101, 615  
2002–present 24, 25, 51  
audit committees 143–6  
_Caparo v Dickman (1990) case_ 612, 615, 629–33, 645–6  
dialogue factors, auditor’s report 89  
directing audit work 281–2  
Directives concepts 162  
directors  
financial statements 161–5  
relationships with clients 108–9, 114–17  
responsibilities 146–51, 161–5, 168–72  
Directors’ Remuneration Reports 164, 176, 177, 180–1, 192–3  
directors’ reports 164  
disclaimer of opinion 571–2, 574–5  
documentation 688  
accounting systems 403–6  
assembly and retention matters 305–6  
current audit files 293–7  
definition 289–91  
form and content 291–7  
fraud detection/reporting 240  
ISA 230 (Redrafted): _Audit Documentation_ 289, 291, 294–5, 297, 300, 305–6  
non-compliance matters 250  
ownership 305–6  
permanent audit files 292–3  
preparation 297–301  
planning 290  
safe custody of 305–6  
_Donoghue v Stevenson (1932) case_ 622, 623, 626  
Dow Jones Sustainability Index (DJSI) 742, 772, 779–80  
due care concept 90–1, 611–72  
duties  
auditors 161–211  
common law duties 161–5, 613–15, 194–8  
concepts 161–211  
diagrammatic overview 164  
non-compliance matters 769–71  
reasonable skill and care 164, 611–72  
regulatory requirements 203–7  
standards 161–5, 198–203  
statutory duties 164, 191–3  
UKLA 387  
duty of care  
concepts 613–15  
development 622–9  
economic dependence level, audit fees 118, 133  
effectiveness 125, 147–50  
efficiencies 125  
_Electra Private Equity Partners v KPMG Peat Marwick & Ors (1999) case_ 635, 649–50  
‘Emphasis of Matter’ paragraph 576–8, 579–80  
employees  
competence concept 164  
confidential concerns about improprieties 148  
human error 419  
independence issues 116, 145, 148  
payroll and personnel cycle 383, 384  
engagement (individual audit) level  
client and risks 311–40  
engagement letters 320–5  
ISA 210 (Redrafted): _Agreeing the Terms of Audit Engagements_ 320–2, 324, 325, 615  
egagement partners 108–11, 113–18, 121, 122, 128–31, 133, 685–6  
egagement performance, high-quality audits 682–4  
egagement procedures 108–11, 125–7  
egagement quality control reviewer 304  
egagement quality control reviews 303–4  
egagement safeguards, independence issues 108–11  
egagements  
initial 462–3  
withdrawal from 240–1  
Enron 13, 16, 44–6, 48, 51, 100, 101, 102, 106, 115, 123, 127, 130, 140–1, 163, 784, 796, 797  
environmental factors 327–9  
external 327–8, 329–32  
external 328–9, 329–32  
environmental issues 108–11  
environmental safeguards, independence issues 108–11  
equitable law 615
Equitable Life 13, 785
Equitable Life Assurance Society v Ernst & Young (2002) case 615, 618–21, 661
Equity Funding Fraud 144, 222
Ernst & Whitney (1998) 635, 646, 673
Ernst & Young (E&Y) 101, 114, 115, 123, 582, 673, 758–60
errors
ethical conduct concept 68–70, 99–159, 163, 164, 727
ethics partners, concepts 108–11, 129
European Union (EU) 162
Disclosure and Transparency Directive 2006 177
Regulation (EC) No. 1836/93 692
evaluation of uncorrected misstatements 528–30
characteristics 72
cost 274–5
definition 71–2
general requirements 271
ISA 230 (Redrafted): Audit Documentation 289, 291, 294–5, 297, 300, 305–6
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
relevance 273
reliability 273–4
availability 274
scepticism concept 103–4, 122, 135
sources 273–7
sufficient appropriate evidence 70–1
timeliness 274
types 273–7
expanded audit reports 581
experts
ISA 620: Using the Work of an Auditor’s Expert 283–4
using work of 283–9
extent of audit procedures 276
external auditing
benefits 11–18
concepts 7–8
definitions 7
fundamental principles 100
external confirmation 272
failures, auditing 100, 123, 124–5, 126, 130, 143, 151, 193–7
fairness, duty of care three-part Caparo test 629–31
family members, independence issues 112–16
tees see audit fees
Ferranti 140
final conferences 537
final reviews
financial statements 527–30
unrecognised misstatements 527–8
Financial Conduct Authority (FCA) 162, 203
financial independence
independence threats 100–4
financial markets 14, 100, 151
Financial Reporting Council (FRC) 105–7, 131, 134, 137, 141, 145, 162, 163, 168, 170–5, 178, 386
Financial Reporting Standard
FRS 101: Reduced Disclosure Framework 168
FRS 102: The Financial Reporting Standard Applicable in the UK and Republic of Ireland 168
Financial Services and Markets Act 2000 162, 172
Financial Services Authority (FSA) 50, 162, 171
financial statements 1, 4–6
assertions 3
audit committees 146–51
audit steps summary 384
concepts 4–6, 135–6, 165–81
directors 167–71
notes 106
types 165–71
financing and investing cycle 383, 384
firms
audit-only 829–33
limiting size of 834–5
mid-tier, competitiveness 834–7
responsibilities 108–9
fixed scales, audit fees 118
flowcharts 404–6
follow-up requirements, sampling 490–1
Foreign Corrupt Practices Act 1977 144
Fortune companies 121, 127
frames, sampling terminology 470
framework of auditing concepts 57–94
fraud
aggressive earnings management 241–2
communications to management 237–40
conduct conducive conditions 230
definitions 218–20
documentation 240
information requirements 232–3
ISA 240 (Redrafted): The Auditor’s Responsibilities Relating to Fraud . . . 85, 219, 224, 225–6, 229–42, 335, 495, 523, 594, 792
responsibility to detect and report 220–8, 229–41
risk factors 233–4
scepticism benefits 230–1
‘fraud triangle’ 230
FTSE 100 779
FTSE 250 779
FTSE 350 126, 131–2, 145, 150
FTSE4Good 742–3, 772
Fulcrum Financial Group 121
Galoo Ltd v Bright Grahame Murray (1995) case 634, 640–2, 645
General Accounting Office (GAO) 125–6, 128
general IT-controls 388–90, 418, 419, 420
Generally Accepted Accounting Practice (GAAP) 168
gifts and hospitality from the client, independence issues 107, 112, 117–18, 120–1, 133
global financial crisis 798–9
going concern assumption 771
ISA 570: Going Concern 510–11, 513–16, 518, 553, 595, 839
reassessment 508–20
governance reports 173–81
Greenbury Committee 386

Ham v Bamford (1976) case 623, 625
Hampel Committee 386

Hedley Byrne & Co. Ltd v Heller and Partners (1963) case 623, 624–6, 632, 647, 659–60
Henderson v Merrett Syndicates (1995) case 634, 642–4, 646

high quality audits
ISQC 1 (Redrafted): Quality Control for Firms that Perform Audits and Reviews of Financial Statements . . . 46, 92, 278–9, 312–17, 676–7
HHH 13, 140, 163, 785
historical background 23–56
HM Revenue & Customs 135
hospitability and gifts from the client, independence issues 107, 112, 117–18, 120–1, 133
human error 419
human resources 680–1

implementation issues, internal accounting controls 409
independence issues
APB Ethical Standard (ES) 1: Integrity, Objectivity and Independence 102, 104, 107 108–11
APB Ethical Standard (ES) 3: Long Association with the Audit Engagement 107, 128–30, 129
APB Ethical Standard (ES) 4: Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality 107, 117–18, 120–1, 133
APB Ethical Standard (ES) 5: Non-audit Services Provided to Audit Clients 107, 111, 116, 133–8
appointment of auditors 140–1
audit fees 111–12, 117–19, 120, 123, 133, 140, 144, 145, 149, 151
auditor rotation considerations 121, 122–32, 151–2
concepts 60–2, 63–8, 99–159, 163, 164, 178, 181
definitions 62–3, 99–100
employment relationships 107, 111, 112–15
gifts and hospitality from the client 107, 117–18, 120–1, 133
immediate family members 112–16
overdue fees 118, 120
poitics 121, 140
regulations 104–39
resignations 100, 109, 115, 117–18, 120
responsibilities 108–11
Sarbanes-Oxley Act (SOX) 101, 106, 121, 128, 153
SEC regulations 126
Secretary of State powers 105–6
State agency appointment of auditors 140–1, 152
independent partners, concepts 109–10, 118, 129, 139
independent performance checks, internal controls 397–8
information system internal controls component 388, 392–3
inherent risk concepts 79–81
initial engagements 462–3
inquiry 273
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
inspection audit procedure 272
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
inspection of documents and records 437–8, 439
Institute of Chartered Accountants in England and Wales (ICAEW) 105, 123, 125, 127, 130–1, 144, 163, 182
Institute of Chartered Accountants in Ireland (ICAI) 105, 130, 163, 182
Institute of Chartered Accountants of Scotland (ICAS) 105, 130, 163, 182
institutional levels, duties 161–2
intrinsic principle 164, 181, 317–20
APB Ethical Standard (ES) 1: Integrity, Objectivity and Independence 102, 104, 107, 108–11
interim audits 7, 401, 409–10, 413, 417–19
internal audits, concepts 146–51
internal control questionnaires (ICQs) 407–8
internal control risk 80, 367–73
internal controls
access controls 388–90
characteristics of good systems 394–9
components 388–94
concept 146–51
corporate aspects 385–402
directors 146–51
effectiveness 148
evaluations 402–11
external auditors 401–2
ISA 265 (Redrafted): Communicating Deficiencies in Internal Control 419, 594, 598–9
limitations 400
meaning and importance of 385–7
objectives 399–400
reporting deficiencies 419–20
Sarbanes-Oxley Act 45–50, 101, 106, 121, 128, 153
International Accounting Standards (IASs)
IAS 1: Presentation of Financial Statements 168–9
International Auditing and Assurance Standards Board (IAASB) 391, 392, 792, 793, 800–5
International Ethics Standards Board for Accountants (IESBA) 100, 104
Code of Ethics 104, 107, 126, 128, 130, 314–17
International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code) 200
International Federation of Accountants (IFAC) 100, 163, 582
International Financial Reporting Standards (IFRS)
International Standard on Quality Control (ISQC) ISQC 1 (Redrafted): Quality Control for Firms that Perform Audits and Reviews of Financial Statements . 46, 92, 278–9, 312–17, 676–7
International Standards on Auditing (ISAs)
ISA 200 (Redrafted): Overall Objective of the Independent Auditor and the Conduct of an Audit . . . 73, 83, 85, 271, 350, 362, 364, 366
ISA 210 (Redrafted): Agreeing the Terms of Audit Engagements 320–2, 324, 325, 615
ISA 230 (Redrafted): Audit Documentation 289, 291, 294–5, 297, 300, 305–6
ISA 240 (Redrafted): The Auditor’s Responsibilities Relating to Fraud . . . 85, 219, 224, 225–6, 229–42, 335, 495, 523, 594, 792
ISA 250: Section A – Consideration of Laws and Regulations in an Audit of Financial Statements 244, 246–8, 523, 595, 769–71
ISA 250 (Redrafted): The Auditor’s Responsibilities Relating to Laws and Regulations . . . 202, 769–71
ISA 260 (Redrafted): Communication with those Charged with Governance 88, 553, 591–4, 595–6, 600–3, 616, 793, 802, 809, 810
ISA 265 (Redrafted): Communicating Deficiencies in Internal Control 419, 594, 598–9
ISA 300 (Redrafted): Planning an Audit of Financial Statements 346–7, 349–50, 411
ISA 320 (Redrafted): Materiality in Planning and Performing an Audit 13, 14–5, 81, 590–5, 555
ISA 330 (Redrafted): The Auditor’s Responses to Assessed Risks 409, 412, 415, 418–19, 428, 431, 439–41, 530–1
ISA 450 (Redrafted): Evaluation of Misstatements Identified During the Audit 428, 441–3, 524, 528–30, 594, 597
ISA 500 (Redrafted): Considering the Relevance and Reliability of Audit Evidence 71
ISA 501 (Redrafted): Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures 446, 448–51, 502
ISA 505 (Redrafted): External Confirmations 453–4, 459–60
ISA 510 (Redrafted): Initial Audit Engagements – Opening Balances 462
ISA 520 (Redrafted): Analytical Procedures 431, 434–5, 528
ISA 530 (Redrafted): Auditing Sampling 468–9, 471–2, 476–7
ISA 540: Auditing Accounting Estimates, Including Fair Value . . . 524
ISA 550: Related Parties 524
ISA 560 (Redrafted): Subsequent Events 504–8, 524
ISA 570: Going Concern 510–1, 513–16, 518, 553, 595, 839
ISA 580 (Redrafted): Written Representations 521–3, 525, 527, 667
ISA 620: Using the Work of an Auditor’s Expert 283–4
ISA 700 (Redrafted): The Independent Auditor’s Report on General Purpose Financial Statements 77, 87–8, 584
ISA 700: Forming an Opinion and Reporting on Financial Statements 549, 551, 553–62, 563, 564, 565, 569, 587, 589, 603, 800, 802, 804
ISA 701: Communicating Key Audit Matters in the Independent Auditor’s Report 223, 529, 802
ISA 706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report 553, 577–8, 580
ISA 720 (Redrafted): The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements 202, 204, 533–6
inventory 383–4, 444–52
overview 444–6
existence and condition 446
procedures conducted prior to 447–8
procedures conducted during 448–9
procedures following completion 449–50
ascertaining ownership 450–1
inventory (stock)-warehousing cycle 383, 384
investors 741–3
IT 388–90
James McNaughton Papers Group Ltd v Hicks Anderson & Co (1991) cas 634, 637–8
Jeb Fasteners Ltd v Marks, Bloom & Co. (1981) cas 623, 627, 628, 630
Johnston Matthey Bankers 140
joint audits 827–9
judgment concept 81–3
ISA 200 (Redrafted): Overall Objective of the Independent Auditor and the Conduct of an Audit . . . 73, 83, 85, 271, 350, 362, 364, 366
judgmental sampling 472–3, 481–2
Kanebo Ltd. 675
key audit partners 129
knowledge 89–90
KPMG 2, 16, 101, 102, 123, 134, 222, 590, 617–18, 674
leadership responsibilities, high-quality audits 679
Leeds Estate Building and Investment Co v Shepherd (1887) case 195
legal liabilities
concepts 611–72
exposure to 612–13
limiting 708–19
overview 612–15
to third parties under common law 622–61
legislation 100, 140, 148, 151, 161–212
breaches 612–13
concepts 612–13
delegated powers to regulators 162
development of auditing 100
diagrammatic overview 164
ISA 250 (Redrafted): The Auditor’s Responsibilities Relating to Laws and Regulations . . . 202, 769–71
overview 162–5
Lehman Brothers 140, 784
limitation of audit 575–6
limited liability agreements 715–17
limited liability companies (LLCs) 675, 709–10
limited liability partnerships (LLPs) 675, 711–14
limited liability proposals
caps on liabilities of auditors 717–18
contribution negligence (proportional liability) proposals 718–19
liquidity risk 171
listed companies 110, 117, 126, 128–31, 133, 137–8, 144–5, 162, 164, 166, 167, 171, 172, 178, 180, 387
litigation threats 112, 119–20
London Oil Storage Co Ltd v Seear, Hasluck & Co. (1904) case 31, 164, 195–6
London Stock Exchange 1, 2, 145, 164, 167, 171, 177–8, 186, 208, 212
long associations, independence issues 112, 121–32
LRQA 761–2
Man Nutzfahrzeuge AG and Ors v Freightliner Ltd and Ors (2003) case 636, 658–8
management communications 146–51
integrity issues 79
internal controls 146–51
threat 135
material misstatement risk 332–6
modified audit opinion and 566–7
materiality issues amending estimates 359–61
audit planning and 350–7
characteristics 74–7
concepts 73–7
documenting 361
inconsistencies 535
financial statement level 76–7, 351–3
ISA 200 (Redrafted): Overall Objective of the Independent Auditor and the Conduct of an Audit . . . 73, 83, 85, 271, 350, 362, 364, 366
ISA 320 (Redrafted): Materiality in Planning and Performing an Audit /5, 14–5, 81, 359–3, 355
judgment concept 74–5
performance 357–8
tolerable error levels 346, 350–7, 358–61, 367, 374–5
McKesson & Robbins (1938) case 143, 164, 196, 443
Metcalf Committee 121
misstatements 536
ISA 200 (Redrafted): Overall Objective of the Independent Auditor and the Conduct of an Audit . . . 73, 83, 85, 271, 350, 362, 364, 366
ISA 450 (Redrafted): Evaluation of Misstatements Identified During the Audit 428, 441–3, 524, 528–30, 594, 597
size/nature considerations 75
substantive testing and 441–3
MLC v Evatt (1971) case 623
modified audit opinions 565–6
format 569–75
569–72, 575, 576
paragraph 570–1
monetary unit sampling 487
monitoring 684–5, 689–92
AQR team 697–702
effectiveness 702–8
PCAOB 136, 141
RSBs 105, 162, 163, 692–7
Morgan Stanley 123
Mutual Life & Citizens' Assurance Co. Ltd v Evatt [1971] case 625
naming requirements, companies 165
narrative descriptions 403–4
NASDAQ 166
National Association of Securities Dealers (NASD) 147
National Commission on Fraudulent Financial Reporting (Treadway Commission) 144
negligence 611–72
New York Stock Exchange (NYSE) 143, 147, 166
New Zealand, expectation-performance gap in 784, 785, 786–90, 794–8
New Zealand Institute of Chartered Accountants (NZICA) 797
New Zealand Society of Accountants (NZSA) 582
non-audit services 100–4, 106, 109, 111–12, 116, 117, 120–2, 126, 132–9, 148–50, 151
APB Ethical Standard (ES) 5: Non-audit Services Provided to Audit Clients 107, 111, 116, 133–8
non-compliance matters concepts 769–71
definition 242–4
documentation 250
ISA 250 (Redrafted): The Auditor’s Responsibilities Relating to Laws and Regulations . . . 202, 769–71
laws and regulations 244, 245–7
reporting 247–50
non-current assets 771–2
non-executive directors 142, 143–5
non-responses, confirmations 458–60
notes to the financial statements 106
objectives auditing 4–7
ISA 200 (Redrafted): Overall Objective of the Independent Auditor and the Conduct of an Audit . . . 73, 83, 85, 271, 350, 362, 364, 366
objectivity and independence principle 99–100, 150, 164, 200
APB Ethical Standard (ES) 1: Integrity, Objectivity and Independence 102, 104, 107, 108–11
INDEX

859

observation audit procedure 272, 439
omissions 75
operational audits, concepts 1, 6–7
‘Other Matters’ paragraph 578–80, 771
out-of-court settlements 661–3
overall audit strategy 347–9
overdue fees, independence issues 118–19
ownership of inventory 450–1
Pacific Acceptance Corporation Ltd v Forsyth and Others (1970) case 90–1, 196–8, 614
Parnimat 13, 140, 785
partners 108–11, 277
payroll and personnel cycle 383, 384
Penn Central Company 144
pension schemes, independence issues 106, 112–13
PeopleSoft Inc. 674
performance materiality 357–8
performance of auditors 162, 164
personal relationships
independence issues 107, 111, 112–15
philosophy, auditing 391–2
physical safeguarding of assets/records, internal controls 398–9
planning benefits 346–7
ISA 300 (Redrafted): Planning an Audit of Financial Statements 346–7, 349–50, 411
ISA 320 (Redrafted): Materiality in Planning and Performing an Audit 73, 74–5, 87, 350–3, 355
materiality issues 351–2, 353–7
politics, independence issues 121, 140
populations, sampling terminology 470
postulates of auditing 59–60
pre-engagement investigations 312–20, 753–4
predecessor/successor communications, communications 183, 185
presentation frameworks 168–9
preventive control benefits, auditing 11
PricewaterhouseCoopers (PwC) 2, 13, 101, 114, 123, 128, 674
professional accountancy bodies 161–5
definition 163
regulators 163
roles 163–5
Professional Oversight Board (POB) 148, 184
professional scepticism 230–1
PRO-NED 144
probability proportional to size (PPS) 487–90
proper authorisation procedures, internal controls 395–6
proportional proportional to size (PPS) sampling 474
Public Company Accounting Oversight Board (PCAOB) 47, 136, 141
public interest 131, 134, 145, 149
public limited companies (plcs) 165
purchases-payables-payments cycle 383, 384, 408
qualified opinion 570–1, 572, 573
quality control risk 81
quality controls 675–6
concepts 91–4, 110, 117–18, 128–9
ISOC 1 (Redrafted): Quality Control for Firms that Perform Audits and Reviews of Financial Statements . . . 46, 92, 278–9, 312–17, 676–7
RSBs 105
standards 92
Qwest 123
Re Kingston Cotton Mill Co Ltd (1896) case 30–1, 90, 164, 194, 220
Re London and General Bank (1895) case 30, 195
Re Thomas Gerrard & Son Ltd (1967) case 90
reasonable foreseeability, duty of care 630
reasonable skill and care 611–72
recalculation 272, 438, 439
Recognised Qualifying Bodies (RQBs) 182
Recognised Supervisory Bodies (RSBs) 12, 105, 163, 181–4, 189
records 164
regulations 161–212
audit committees 144–5
definition 162
development of auditing 100
diagrammatic overview 164
independence issues 104–39
ISA 250 (Redrafted): The Auditor’s Responsibilities Relating to Laws and Regulations . . . 202, 769–71
non-compliance matters 769–71
RSBs 105, 163
self-regulation 163
regulators
concepts 161–5
professional accountancy bodies 163–5
reporting to 812–16
related parties, ISA 550: Related Parties 524
relationships
auditors 107, 111, 112–15
proximity or neighbourhood duty of care 631
relevance/reliability of audit evidence 273–4
of corporate responsibility 766–8
remuneration
APB Ethical Standard (ES) 4: Fees, Remuneration and Evaluation Policies, Litigation, Gifts and Hospitality 107, 117–18, 120–1, 133
auditors 105–6, 117–19, 140–1, 146, 148, 184–6
Companies (Disclosure of Auditor Remuneration) Regulations 2005 105
Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 105
directors 164
reperformance 273, 438, 439
reporting 86–90, 580–90
adequacy criteria 86–7
to audit committees 808–12
auditor’s opinion on ‘other legal and regulatory matters’ 806–8
control 12
duty of care 615
format and content 549–64
ISA 700: Forming an Opinion and Reporting on Financial Statements 549, 551, 553–62, 563, 564, 565, 569, 587, 589, 603, 800, 802, 804
ISA 720 (Redrafted): The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements 202, 204, 533–6
to regulators 812–16
responsibilities 799–816
scope of audit of financial statements 805–6
unmodified opinion 549–51
unqualified 583
to users of annual reports 799–805
representation letters 525–7
resignations 100, 109, 115, 117–18, 120, 130, 137, 186–9
responsibilities 161–216
audit committees 146–51
concepts 161–212
ISA 240 (Redrafted): The Auditor's Responsibilities Relating to Fraud . . . 85, 219, 224, 225–6, 229–42, 335, 495, 523, 594, 792
ISA 250 (Redrafted): The Auditor's Responsibilities Relating to Laws and Regulations . . . 202, 769–71
reviewer 302
reviews 282–3
quality controls 129
rights of auditors 161–5, 193–4
risk assessments 386, 388, 392, 531, 768
ISA 330 (Redrafted): The Auditor's Responses to Assessed Risks 409, 412, 415, 418–19, 428, 431, 439–41, 530–1
risk-based auditing 366–73
risk management 149–50
Royal Mail (1932) case 33–5
rules, set of 3
sales-receivables-receipts cycle 385
sampling risk 80
sampling 468–70
ISA 530 (Redrafted): Audit Sampling 468–9, 471–2, 476–7
meaning and importance of terminology 470–2
Sarbanes-Oxley Act 13, 45, 46–50, 101, 106, 121, 128, 144, 428, 431, 439–41, 530–1
Sasex Finance Ltd v KPMG (2000) case 615, 617–18, 621
Satyam 785
scandals see Enron; Tyco International WorldCom scepticism concept 83–5, 103–4, 122, 135
Scope and Authority of FRC Audit and Assurance Pronouncements (FRC) 199
scope of audit, limited 575–6
Scott Group Ltd v McFarlane (1978) case 623, 626, 627–8, 630
Secretary of State
independence issues 105–6
Securities and Exchange Commission (SEC) 14, 40, 100–1, 126, 130, 135, 136, 141, 143–4, 148, 223, 387
segregation of incompatible duties, internal controls 397, 404, 416
self-interest threats 102, 104, 113–15, 117–18, 120, 121, 133
self-review threats 102–3, 104, 115, 121, 133–4, 138
shareholders 4–5, 9–10, 15, 102–118, 126, 140
panel 141–2
short form reports 581, 582
Siddell v Sydney Cooper & Partners (1999) case 635, 645, 646
skills, reasonable skill and care 611–72
small and medium-sized companies 106
social purposes 59–60
societal beneficiaries, auditing 13–15
staffing considerations 277–89
standards 100, 107, 161–212
AAA100 Assurance Standard 747–70, 752, 754, 755, 757, 788
concepts 161–5
diagrammatic overview 164
duties 161–5
negligence 614
State agency appointments 140–1, 152
Statement of Scope and Authority of APB Pronouncements (APB) 162
Statements on Auditing Standards (SAS) SAS no. 53: The Auditor's Responsibility to Detect and Report Errors and Irregularities 223–4
SAS no. 82: Consideration of Fraud in a Financial Statement Audit 224, 226
SAS no. 99: Consideration of Fraud in a Financial Statement Audit 224–5, 226, 229, 231
SAS no. 110: Fraud and Error 226–7
statistical sampling 473–4
Statutory Auditors (Transparency) Instrument 2008 207–8
Statutory Auditors’ Independence in the EU: a Set of Fundamental Principles 130
stratification, sampling terminology 471
subsequent events between financial statements date and audit report date 503–5
ISA 560 (Redrafted): Subsequent Events 504–8, 524
prior to the issuance of financial statements to shareholders 505–6
subsequent to issue of financial statements to shareholders 506–8
subsidiaries
ISA 330 (Redrafted): The Auditor’s Responses to Assessed Risks 409, 412, 415, 418–19, 428, 431, 439–41, 530–1
sales-receivables-receipts cycle example 385
substantive testing 267–9, 368, 425–63
alternative approaches 430–3
analytical procedures 430
application 435–6
as preliminary tests 435–6
complete 436
details 437–9
direct tests of balances 438–9
during interim audit 440–1
information 435
inventory and accounts receivable 443–4
misstatements 441–3
objectives 428–30
predictability of results 434
procedures 433–41
requirements 434–5
significance 426–8
transactions 437–8
sufficient appropriate evidence 531–3
supervision of audit work 282
supporting schedules 296–7, 299–300
taxation 24, 36, 38, 49, 106, 111, 119, 134–6
teams
 capabilities and competence 278–80
personnel 277–8
test data CAATs 491–2
testing, substantive 425–63
tests
 of balances 269–70, 270–1
 of detail 269–70
 of timing of audit tests 276
 of transactions 269–70
Theft Act 1968 612
third parties, duty of care 613–14
threats to auditors’ independence 100–4
time issues
 of evidence 274
 of audit procedures 276
tolerable misstatement, sampling terminology 472, 476
tolerable rate of deviation, sampling terminology 472, 476
tracing backwards 438
tracing forwards 438
transparency issues
 APB Ethical Standard (ES) 5: Non-audit Services Provided to Audit Clients 138
 reports and governance code 207–11
 Transparency Report 211
Treadway Commission 144
true and fair view 4–5, 383
CA 2006 requirements 544–9
 Twomax Ltd v Dickson, McFarlane and Robinson (1982) case 623, 628, 630
Tyco International 16, 100, 123, 130, 140, 163
UK 100
audit committees 419–20
corporate governance 131, 145, 149, 150
development of auditing 100, 144–5
legal/professional duties of auditors 161–216
London Stock Exchange 1, 2, 145, 164, 167, 171, 177–8, 186, 208, 212
UK Listing Authority (UKLA) 145, 171, 203, 205, 386–7
 concepts 386–7
 Ultramares Corporation v Touche (1931) case 622, 623, 624, 626–7, 628, 630, 663
unaudited information 533–6
understanding the client
 unmodified (‘clean’) audit opinions 564–5
 USA 13–14, 23, 32, 121, 125–7, 130, 132, 135–6
 Securities and Exchange Commission (SEC) 14, 40, 100–1, 126, 130, 135, 136, 141, 143–4, 148, 223, 387
valuations, inventory 771–2
variables, sampling 470–1, 487
Vodafone 550–2, 563, 587
Wall Street Crash (1929) 24, 32
Wiggins Group plc 507–8
working paper
 review 301–5
 form and content 291–2
 working trial balance 296
Worldcom 13, 16, 45, 46, 51, 100, 106, 123, 130, 140, 163, 784, 796
written representations 520–7
ISA 580 (Redrafted): Written Representations 521–3, 525, 527, 667
Xerox 13, 140