

Professional Application Questions

4.21 Compilation, review or audit

Required

Prepare notes for a meeting with your client that discuss the differences between a compilation, a review and an audit. Identify the different levels of assurance that will be given and what form that opinion will take. You should also give brief notes about the kind of procedures that would be involved in each engagement.

Compilation

Level of assurance: None

Opinion: There may be a report prepared to accompany the compiled statements which will state that the information has been compiled from information and explanations provided, that the work performed does not constitute a review or audit and that no opinion is given.

Procedures: Compilations involve taking information provided by a client and summarising and formatting the presentation of the information to meet a particular need. Examples of compilations include the preparation of a financial report from a trial balance or other books and records for an organisation or the compilation of a tax return from information provided.

Review

Level of assurance: Limited Assurance

Opinion: The opinion will state that nothing has come to the practitioner's attention to suggest that the subject matter does not comply with the criteria. This is negative form assurance and gives a lower level of assurance to the user than an audit.

Procedures: Evidence gathered is largely restricted to obtaining representations from the management team, or other responsible party and carrying out analytical procedures rather than detailed tests of control and substantive procedures. This level of work will reduce engagement risk to a level that is appropriate to the engagement.

Audit

Level of assurance: Reasonable Assurance

Opinion: The opinion will state that in all material respects the subject matter complies with the criteria. This is positive form assurance which clearly states to the users that the subject matter is free from material error.

Procedures: The auditor will plan the nature, timing and extent of procedures to provide sufficient and appropriate evidence to ensure that engagement risk is reduced to an acceptably low level. These procedures include: (1) obtaining an understanding of the engagement, (2) assessing risk, (3) responding to those assessed risk, (4) performing procedures such as substantive tests and where necessary tests of the effectiveness of internal controls, and (5) evaluating the evidence.

(4) An audit and a review of a financial report

An audit reduces engagement risk to an acceptably low level to provide reasonable assurance with a positive form opinion.

A review reduces engagement risk to a level appropriate to the engagement in order to provide limited assurance with a negative form opinion.

(5) General purpose financial reports and special purpose financial reports

General purpose financial reports (GPFR) are those prepared to meet the needs of a wide range of users, normal annual financial reports are (GPFR).

Special purpose financial reports meet the needs of a specific user for a specific purpose, for example a bank providing finance to a company might request information to be provided in a particular way to meet their information needs.

(6) Prospective financial information and historic financial information

Prospective financial information (PFI) relates to expectations of the future. PFI is in two forms: (1) forecasts which are best estimates based on assumptions that management expect to occur, and (2) projections which are hypothetical assumptions (and therefore less certain than forecasts). By its very nature PFI is uncertain and therefore assurance will be provided on the reasonableness of the assumptions made and the method of compiling the information rather than on the likelihood of the projected outcomes being achieved.

Historical financial information relates to reporting events that have already occurred and therefore evidence should be readily available to give some comfort as to the veracity of the information.

(7) Compliance, performance, forensic and continuous auditing

Compliance engagements are those which give some comfort that the processes carried out in an organisation are in compliance with some regulations, such as legislation, contractual obligations or internal policies.

Performance engagements are designed to give an opinion on the economy, efficiency and effectiveness of processes. The idea is to ensure that the organisation is achieving its objectives, reducing waste and getting value for money.

Forensic engagements investigate the causes and effects fraudulent activities or system failures that may be the consequences of fraud. A forensic audit may be held in response to a claim against a company as a result of intentional or unintentional failures of electronic systems for processing transactions.

Continuous audits allow auditors to provide opinions on information provided by organisations on a short time frame. There is very little time for evidence gathering so the auditor will rely on systems based procedures which are fully automated and integrated IT audit tools.

Case studies

4.27 Environmental auditing

Required

- (a) Explain the meaning of environmental auditing.
- (b) List some standards that have been issued in relation to environmental auditing.
- (c) Describe the types of tasks that may be involved in environmental auditing.

- (a) An environmental audit is a type of audit that specifically target a company's ability to control its environmental performance more effectively, as well as the level of compliance with a range of environmental regulations.

An environmental audit is similar to an audit on the environment, it involves obtaining and evaluating evidence about:

- ☐ Economy refers to the acquisition of resources that are environmentally-friendly (or complying with relevant regulations) of appropriate quality and quantity at the lowest reasonable costs (such as the acquisition of recycled paper at bulk for cost reduction),
- ☐ Efficiency refers to the use of a given set of inputs to maximise outputs (such as minimisation of industrial wastage, use of solar-powered equipment to reduce utility/fuel costs, etc.)
- ☐ Effectiveness focuses on the achievement of an intended outcome (such as producing cars that comply the status as Low Emission Vehicles by meeting certain future emission standards)

- (b) These are some of the relevant standards that are especially related to environmental audit:

- ☐ Auditing Guidance Statement AGS1036 'The Consideration of Environmental Factors in the Audit of Financial Statement'
- ☐ ISO 14004 guidance on the implementation of environmental management system
- ☐ ISO 19011 guidance on quality for environmental management audit
- ☐ ISO 14013/15 guidance on audit program review for environmental audits

- (c) These tasks may be involved in an environmental audit:

- Evaluation of a company's internal controls and risk management systems that are specifically dealt with natural resources management, industrial waste, treatments of hazardous materials, recycling, environmental laws and regulations, etc,
- Perform reasonableness checks on a company's disclosure in relation to its compliance to environmental regulations such as Aboriginals Land Rights (Native Titles) and extraction of resources from world-heritage protected regions,
- Reviewing the adequacy of costs on insurance premiums, covering the costs of clean-up in an event of leak in hazardous materials, or major environmental disasters,
- Reviewing a company's policy and controls on occupational health and safety and the adequacy of provisions/expenditures on workcover