

# Auditing And Assurance

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The logo of Galgotias University is a stylized 'G' composed of three overlapping curved shapes in shades of yellow, blue, and pink. The text 'Lecture -1' is centered over this logo.

**Lecture -1**

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## Topics covered:

- Meaning of assurance
- Elements of assurance
- Examples of assurance engagement
- Types of assurance engagement
- Benefits of auditing
- Limitations of auditing
- Expectation gap

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### What is assurance?

- An engagement in which a practitioner obtains 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 evaluation or measurement of a subject matter against criteria.'
- Giving assurance means offering an opinion about specific information so the users of that information are able to make **confident decisions**

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## Elements of assurance:

Three party  
involvement

Sufficient  
appropriate  
evidence

Appropriate  
subject matter

Suitable  
criteria

Written  
assurance  
report

- 1. Three parties involved :**
  - Practitioner** e.g. auditor
  - Intended user** e.g. shareholders
  - Responsible party** e.g. directors
- 2. Subject Matter:** The information being examined e.g. financial statements
- 3. Suitable Criteria:** Subject matter is judged against the criteria e.g. IFRS
- 4. Evidence:** Sufficient and appropriate to provide a basis for the conclusion
- 5. Written Assurance Report:** Expressing a conclusion or opinion

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## Examples of assurance engagements include:

- Audit of financial statements
- Review of financial statements
- Systems reliability reports
- Verification of social and environmental information
- Review of internal controls
- Value for money audit in public sector organizations

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## Types of assurance engagement

- Reasonable
- Limited.



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## Reasonable assurance engagements

The practitioner:

- Gathers sufficient appropriate evidence
- Does enough work to be able to draw reasonable, but not absolute, conclusions
- Concludes that the subject matter conforms in all material respects with identified suitable criteria
- Gives a report in the form of a positive statement of opinion

## Limited assurance engagement

The practitioner:

- Gathers sufficient appropriate evidence to be satisfied that the subject matter is plausible in the circumstances
- Gives a report in the form of a negative statement of conclusion (“nothing has come to our attention”)

# Benefits of audit

- **H**elps improve quality of information.
- **I**ndependent scrutiny.
- **R**educes risk of management bias, fraud and error.
- **E**nhances credibility of FS.
- **D**eficiencies in internal controls highlighted.

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# Limitations of audit

- **F**S include subjective estimates and judgments.
- **I**nherent limitations of internal controls.
- **R**epresentations from management not reliable.
- **E**vidence is persuasive not conclusive.
- **D**o not test all transactions, only a sample.

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## Expectation gap

Some users incorrectly believe that an audit provides absolute assurance – that the audit opinion is a guarantee the financial statements are 'correct'. This and other misconceptions about the role of an auditor are referred to as the '**expectation gap**'.

### Examples of the expectation gap

- A belief that auditors test **all** transactions and balances – they test on a sample basis.
- A belief that auditors are required to detect **all** fraud – auditors are required to provide reasonable assurance that the financial statements are free from **material** misstatement, which may be caused by fraud.
- A belief that auditors are responsible for **preparing** the financial statements – this is the responsibility of management.

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## References

- ACCA Study Material, F8 Kaplan Publishing

