Auditing Standards and Risk

Generally Accepted Auditing Standards (GAAS)
- Adequate technical training and proficiency
  - College, continuing education, knowledge
- Independence in mental attitude
  - Avoiding even the appearance of bias
- Due professional care
  - In planning, performance and reporting
- Adequate planning and supervision
  - # of staff and time required
  - Provide specific written audit program and review
- Sufficient understanding of Internal Control
  - Of client, environment and controls
  - If high audit risk- more procedures (tests of controls)
- Sufficient competent audit evidence
  - Provides basis for opinion (competent refers to quality)
- Accordance with Generally Accepted Accounting Principles
- Report circumstances where principles are not consistently observed
- Informative disclosures are adequate unless otherwise stated
- Express an opinion
  - The character of the work and degree of auditor responsibility

Auditor’s Responsibility
- Liability depends on how direct the effect of auditor’s action
- If there is a concern:
  - Auditor discusses the matter with management and notifies the audit committee
    - Describes event, circumstances of occurrence, and effect
  - If remedial action is taken, there is discipline, controls, and report
  - If no remedial action is taken, auditor should withdraw

Financial Statement Assertions
- Existence or occurrence
- Completeness
- Rights or obligations
- Valuation or allocation
- Presentation and disclosure

Types of Risk
- Audit risk: Auditor may unknowingly fail to modify opinion on misstated statements
  - When at a low level → reasonable assurance
- Inherent risk involves the nature of the industry and the client
- Control risk: that misstatement won’t be prevented or detected by internal controls the client has put in place
  - At maximum: no reliance on controls, more substantive procedures
  - Below maximum: perform tests of controls to be relied upon so that substantive procedures can be reduced
- Detection risk: that auditors would fail to detect with their procedures
  - Affects scope of substantive tests
- Audit risk = Inherent risk x Control risk x Detection risk
  (Assessed risk due to client) (Auditor’s control)