



## Higher National Unit specification: general information

**Unit title:** Auditing

**Unit code:** FN11 35

**Superclass:** AK

**Publication date:** June 2011

**Source:** Scottish Qualifications Authority

**Version:** 02

### Unit purpose

This Unit is designed to enable candidates to understand the role of auditing in the commercial life of the United Kingdom. It provides a mix of the professional ethos and company law in which auditors operate as well as an introduction to the different phases of audit work and the tasks which need to be done in order to satisfy legal and professional requirements.

It will enable candidates to appreciate the importance of auditing to shareholders, the financial markets and wider stakeholder groups and how the scope of auditing is governed by standards and legislation which set the audit work an auditor must perform in order to obtain the evidence needed to reach an audit opinion.

This Unit is primarily intended for candidates who expect to undertake further study of auditing either at university or professional level.

On completion of the Unit the candidate should be able to:

- 1 Describe the legal and professional frameworks within which auditors work.
- 2 Explain the issues involved with planning the audit.
- 3 Prepare schedules for the audit of systems and the stock-take or inventory check.
- 4 Undertake analytical review procedures.
- 5 Devise an audit programme for the verification of the Statement of Financial Position
- 6 Explain the duties of an auditor to ensure audit completion and reporting according to latest auditing standards.

### Recommended prior knowledge and skills

Access to this Unit is at the discretion of the centre. However, it would be beneficial for candidates to have accounting knowledge equal, or equivalent, to that gained through the completion of the mandatory Units in the HNC Accounting framework.

## **General information (cont)**

### **Credit points and level**

2 Higher National Unit credit(s) at SCQF level 8: (16 SCQF credit points at SCQF level 8\*)

*\*SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

### **Core Skills**

The achievement of this Unit gives automatic certification of the following:

Critical Thinking at SCQF level 6

There are also opportunities to develop aspects of Written Communication and Using Number in this Unit and these are highlighted in the Support Notes of this Unit specification.

### **Context for delivery**

If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

### **Assessment**

This Unit may be assessed by six separate assessments. Assessment evidence will be generated under either open-book or closed-book supervised conditions.

## Higher National Unit specification: statement of standards

**Unit title:** Auditing

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The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

### Outcome 1

Describe the legal and professional frameworks within which auditors work.

#### Knowledge and/or Skills

- ◆ Training of auditors
- ◆ Responsibilities and rights of auditors
- ◆ Liability of auditors to third parties
- ◆ Independence of auditors

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by describing the legal and professional frameworks within which auditors work, by making reference to:

- ◆ routes to professional auditing qualifications
- ◆ the responsibilities and rights of the auditor under the current Companies Act legislation
- ◆ the decisions of **five** cases from the case law relating to third parties
- ◆ the Audit and Assurance Council's Standard on Independence

The evidence should be generated under supervised open-book conditions.

#### Assessment Guidelines

The evidence could be generated using short answer questions covering all aspects of the Evidence Requirements.

It is recommended that the assessment of this Outcome be completed within one and a half hours.

## Higher National Unit specification: statement of standards (cont)

**Unit title:** Auditing

### Outcome 2

Explain the issues involved with planning the audit.

#### Knowledge and/or Skills

- ◆ The audit year
- ◆ Audit staffing
- ◆ Knowledge of the business
- ◆ Audit risk
- ◆ Materiality
- ◆ Computerised auditing
- ◆ Documenting the systems using flowcharts

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can explain the issues involved in audit planning by making reference to:

- ◆ the audit year — interim, stock-take/inventory check and final audits
- ◆ auditing staff — partners, managers, supervisors, trainees (or equivalent terms)
- ◆ the use of organisation charts to gain knowledge of the business and its staff
- ◆ assessment of inherent risk, control risk and detection risk
- ◆ the Audit and Assurance Council's definition of materiality
- ◆ general controls and application controls

Candidates should also produce a flowchart, using given symbols, for one section of an accounting system which includes four controls — the candidate should be clearly told the procedures which constitute controls.

The evidence should be generated under supervised open-book conditions.

#### Assessment Guidelines

Evidence could be generated through short answer questions, and through the completion of a flowchart for a given system for sales or purchases or cash and bank or wages.

It is recommended that the assessment of this Outcome be completed within two hours.

## Higher National Unit specification: statement of standards (cont)

**Unit title:** Auditing

### Outcome 3

Prepare schedules for the audit of systems and the stock-take or inventory check.

#### Knowledge and/or Skills

- ◆ Internal controls
- ◆ Compliance tests
- ◆ Letter of weaknesses
- ◆ Attendance at stock-take or inventory check procedures

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can prepare schedules for the audit of systems and the stock-take or inventory check by:

- ◆ identifying **eight** controls and **four** weaknesses from a given description of an accounting section chosen from sales, purchases, cash and bank, or wages and salaries;
- ◆ devising compliance tests for each of the controls identified;
- ◆ incorporating the weaknesses identified into a Letter of Weaknesses which also details consequences and recommendations;
- ◆ producing instructions for a junior member of staff as to what **five** tests should be carried out at a stock-take or inventory check visit.

The evidence should be generated under supervised open-book conditions.

#### Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours.

The candidates could be presented with a case study which presents the description of two sections of an accounts system chosen from sales, purchases, cash and bank, wages and salaries. From these the controls and weaknesses could be identified, each section containing a mixture of both controls and weaknesses.

The instructions for a junior member of staff could be presented as an e-mail.

## Higher National Unit specification: statement of standards (cont)

**Unit title:** Auditing

### Outcome 4

Undertake analytical review procedures.

#### Knowledge and/or Skills

- ◆ Analytical review procedures

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that, in order to allow the comparison of a company's performance for the past three years' results with those supplied for the current year up to the end of the third quarter, they can:

- ◆ calculate relevant ratios for revenues, purchases, salaries, power, advertising, trade receivables and trade payables
- ◆ compare depreciation expense and accumulated depreciation for consistency with non-current assets cost and each other
- ◆ consequently, state with reasons which of the given balances should be selected as an area of concern
- ◆ describe audit tests for the issues identified

The evidence should be generated under closed-book supervised conditions.

#### Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours.

The required data could be supplied in the context of a short case study. The candidates could be asked to justify their choice using numeric evidence, either in £s or in ratios/percentages calculated by the candidate. They might also be asked to suggest possible causes of the variations from an established trend. As the given data is for the third quarter it means that the candidates will need to annualize it.

## Higher National Unit specification: statement of standards (cont)

**Unit title:** Auditing

### Outcome 5

Devise an audit programme for the verification of the Statement of Financial Position.

#### Knowledge and/or Skills

- ◆ Substantive tests
- ◆ Cut-off procedures at year-end for sales and purchases

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can devise an audit programme for the verification of the Statement of Financial Position with:

- ◆ **six** substantive tests for **three** sections of a Statement of Financial Position (at least one asset and one liability should be included) chosen from: Non-current Assets, Inventory, Trade Receivables, Cash and Cash Equivalents, Trade Payables, Loans, Share Capital and
- ◆ **four** cut-off tests for either purchases or sales.

The evidence should be generated under closed-book supervised conditions.

#### Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours.

## Higher National Unit specification: statement of standards (cont)

**Unit title:** Auditing

### Outcome 6

Explain the duties of an auditor to ensure audit completion and reporting according to the current auditing standards.

#### Knowledge and/or Skills

- ◆ The Auditor's report
- ◆ Subsequent events review
- ◆ Going concern
- ◆ Compliance review
- ◆ Emphasis of matter
- ◆ Modified reports with qualifications

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by explaining with reference, to the latest auditing standards from the relevant authorities, the auditor's responsibility to:

- ◆ produce an audit report
- ◆ take into account subsequent events in their client's trading year up to the date of their report
- ◆ consider if their client is or is not a going concern and report on that basis
- ◆ ascertain that the reporting requirements of the current Companies Act legislation are being met
- ◆ ensure any matter which needs emphasised is so done

Candidates should also be able to explain for **four** given scenarios the form of qualification which is required and, for one of them, draft suitable wording for the Opinion section of the report.

The evidence should be generated under supervised open-book conditions.

#### Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours.

Candidates could be given a series of short answer questions plus a case study of four different clients' situations requiring a decision on the appropriate form of qualification.



## Higher National Unit specification: support notes

### Unit title: Auditing

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 80 hours.

### Guidance on the content and context for this Unit

This Unit is primarily intended for candidates who expect to take up a career or further study in accounting.

For those candidates who successfully achieve this Unit as part of an HNC/HND Accounting Group Award, there may be opportunities to gain exemptions from a number of professional accounting bodies. Centres should contact the relevant professional bodies to ascertain their current exemption policies.

The Unit is an important option within the HND Accounting course as it builds on previous knowledge of accounting systems and an appreciation of the role of law in auditing as well as opening up to candidates another vital form of accounting-related employment.

The content of this Unit covers most of what would be covered in any introductory course on auditing which assumes no prior knowledge of the subject. It does however reach a significant enough level to prepare candidates for a university level course on auditing or indeed to undertake a traineeship in an auditing role in a professional firm or internal audit department.

**Outcome 1** gives an introduction to the auditor's legal and professional framework

- ◆ The training of Auditors
- ◆ The responsibilities and rights of Auditors
- ◆ The liability of Auditors to third parties
- ◆ Independence of Auditors

Within the delivery of this Outcome opportunity could be taken to ensure candidates' awareness of current issues in auditing. These would include matters which are being developed by the Accounting Professional bodies and authorities In addition, items of public interest which are current in the press involving auditors and audit regulation.–Time could be taken to introduce the variety of terminology current in auditing practice, eg the use of the term assurance instead of audit.

Under the training of auditors, the various routes to qualification with ICAS or ACCA can be explained, eg through HNDs and degrees or AAT. When case law is being discussed this can include relevant decisions from the early part of the 20<sup>th</sup> century to the present day.

## Higher National Unit specification: support notes (cont)

**Unit title:** Auditing

**Outcome 2** covers audit planning

- ◆ The audit year
- ◆ Audit staffing
- ◆ Knowledge of the business
- ◆ Assessing audit risk
- ◆ Materiality
- ◆ Computerised auditing
- ◆ Documenting the systems using flowcharts

Reference could be made to computer-assisted audit techniques (CAAT) that would be used in an IT environment.

**Outcome 3** involves the audit of systems and the stock-take or inventory check

- ◆ Internal controls
- ◆ Compliance tests
- ◆ Letter of weaknesses
- ◆ Attendance at stock-take or inventory check procedures

During the delivery of this Outcome opportunity could be taken to emphasise the inherent risk involved with the Stock/Inventory account including the impact on the financial statements of its being materially mis-stated. Reasons for directors to over-state or under-state the inventory figure could also be mentioned.

**Outcome 4** involves carrying out analytical review procedures (calculations and explanations)

- ◆ Analytical review

Calculations could be carried out using ratios and percentages.

**Outcome 5** covers tests for the verification of the Statement of Financial Position

- ◆ Substantive tests for assets and liabilities
- ◆ Cut-off procedures at year-end

**Outcome 6** involves audit completion and reporting duties under auditing standards

- ◆ The Auditor's report
- ◆ Subsequent events review
- ◆ Going concern
- ◆ Compliance review
- ◆ Emphasis of matter
- ◆ Modified reports with qualifications

The general principles of Auditing as they have been practised in the UK underlie this Unit but as informed by the most recent International Auditing Standards accessible through the Financial Reporting Council's (Audit and Assurance Council) website.

## Higher National Unit specification: support notes (cont)

**Unit title:** Auditing

### Guidance on the delivery and assessment of this Unit

This Unit is likely to form part of a Group Award designed to provide candidates with the knowledge and skills for further study or employment within an accounting environment.

Where this Unit is being delivered as part of the HND Accounting Group Award, it is recommended that the Unit be delivered in the second year of the Group Award.

It would be beneficial if this Unit is delivered by someone who had some experience in an Auditing job and who can therefore present the topic in a realistic way explaining the elements with anecdotal descriptions of experiences. The assessments are designed to reduce the amount of material that needs to be memorised and to foster instead true understanding of the issues which surround the audit of large companies. Thus the material a tutor uses in facilitating classes' understanding should be much larger than that merely needed to pass the assessments. Opportunity should be taken for example to explore the great depth of explanation and direction that is given in the Financial Reporting Council's (Audit and Assurance Council) latest standards. As these are available online learners should be encouraged to research the detail for themselves, perhaps with reporting back sessions to their class groups. There are usually current issues in auditing being disseminated through the Financial Reporting Council's press release system as well as in the financial media in general, and tutors should regularly be drawing these to the attention of the learners and linking them into the course.

While integration of assessments might be possible it is not recommended due to the volume of material which would need to be covered at one time.

### Open learning

This Unit could be delivered by open/distance learning. However, it would require planning by the centre to ensure the authenticity of candidate evidence. Arrangements would have to be made to ensure that evidence is generated under the assessment conditions specified for each Outcome.

### Opportunities for the use of e-assessment

E-assessment may be appropriate for some assessments in this Unit. By e-assessment we mean assessment which is supported by Information and Communication Technology (ICT), such as e-testing or the use of e-portfolios or e-checklists. Centres which wish to use e-assessment must ensure that the national standard is applied to all candidate evidence and that conditions of assessment as specified in the Evidence Requirements are met, regardless of the mode of gathering evidence. Further advice is available in *SQA Guidelines on Online Assessment for Further Education (AA1641, March 2003)*, *SQA Guidelines on e-assessment for Schools (BD2625, June 2005)*.

## Higher National Unit specification: support notes (cont)

**Unit title:** Auditing

### Opportunities for developing Core Skills

The delivery and assessment of this Unit may contribute towards the Written Communication component of the Core Skill *Communication* at SCQF level 5. Candidates may present evidence for Outcomes as well structured written reports on the work of auditors.

The delivery and assessment of this Unit may contribute towards the Using Number component of the Core Skill *Numeracy* at SCQF level 4. In Outcome 4 calculations have to be undertaken and their answers interpreted as part of analytical review procedures.

The delivery and assessment of this Unit may contribute towards the Critical Thinking component of the Core Skill *Problem Solving* at SCQF level 5. In Outcomes 3, 4 and 6, auditing knowledge has to be applied to given scenarios for decisions involving the auditor's subsequent work and choice of report.

### Disabled candidates and/or those with additional support needs

The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments, or considering whether any reasonable adjustments may be required. Further advice can be found on our website [www.sqa.org.uk/assessmentarrangements](http://www.sqa.org.uk/assessmentarrangements).

## History of changes to Unit

Version	Description of change	Date
2	Terminology and reference to financial statements revised to reflect requirements of FRS 102.	31/03/16

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## General information for candidates

### Unit title: Auditing

This Unit will introduce you to the world of auditing. In a financial context, it is a requirement for companies (with turnover over a certain limit) to be audited under the current Companies Act legislation with auditors expressing an opinion on whether the financial statements give a true and fair view. You will learn to appreciate something of this huge industry, which exists worldwide, giving highly remunerative employment to many thousands of people. You may even want to become one of them.

Outcome 1 looks at the framework which auditors operate in and how the auditing profession is governed through its various chartered associations.

Outcome 2 covers the basic housekeeping procedures which auditors follow as they carefully plan their work. Auditing is a business as well as a profession so it is vital that all the relevant work is done in as an efficient manner as possible. It will also introduce you to internal controls as you draw your own flowcharts of systems, which are in addition to routine book-keeping procedures.

Outcome 3 covers the basics of what auditors do to check that the book-keeping systems of a company are operating as they should; it includes the formal manner of reporting weaknesses in a client's systems to the company management; it also describes the role of an auditor in a company's stock-take or inventory check which is vital for arriving at the correct figure for closing inventory and therefore profit.

Outcome 4 introduces you to analytical review procedures, which are simply how auditors interpret company results in such a way as to guide them to the areas of the business which may require additional attention to normal.

Outcome 5 focuses on the final Statement of Financial Position of a company which has to be presented to shareholders and submitted to Companies House. You will look at the tests required to verify the Statement of Financial Position.

Finally, Outcome 6 looks at the procedures a firm must apply to bring a conclusion to their audit including the legal form of report they have to produce for shareholders. You will also learn, throughout this Outcome, the power auditors may have over how accountants produce their accounts as you learn about the sanctions they have at their disposal to deal with companies who do not comply with auditors' requests.

You may be assessed via case studies and short answer questions, under either open-book or closed-book supervised conditions.

You may have opportunities to develop components within the Core Skills of *Communication*, *Numeracy* and *Problem Solving* in this Unit.