

CMA – Audit II

For the purpose of practicing public accounting in Ontario, this course has not yet been approved by the Public Accountants Council of Ontario.

About this Course

Welcome to CMA Auditing Course, Part II. Below, you will find a short summary of the modules. Upon registration, further introductory resources will tell you:

- How the course is organized
- How to manage your course work for each session
- How to use the course to prepare for exams (both in-course and professional)

Session 01: Fraud Auditing and the Nature of Fraud

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What is fraud and under what conditions is it most likely to exist?
- What is the difference between fraudulent financial reporting and misappropriation of assets?
- What is the auditor's responsibility for assessing the risk of fraud and detecting material misstatements due to fraud?
- What features of corporate governance would reduce fraud risks?
- What features of control environment would reduce fraud risks?
- How should an auditor respond when there are identified fraud risks?
- What are some of the specific fraud risk areas?
- What is the auditor's responsibility once fraud is detected?

Session 02: Overall Audit Plan and Audit Program

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What are the four different types of audit tests?
- Which type of test is a dual-purpose test?
- What is evidence mix?
- How does the auditor choose the different types of audit tests to be completed?
- How are the different types of audit tests considered when designing an audit program?
- What is an audit strategy?
- Describe the four phases of a financial statement audit.

Session 03: Audit Sampling Concepts

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What is sampling?
- Why would an auditor use statistical vs. non-statistical sampling?
- What are the different types of non-probabilistic (non-statistical) sampling methods used by auditors?
- What 3 different ways can an auditor select a statistical sample?
- List 3 common statistical sampling methodologies auditors use.
- Describe the 14 steps in planning, selecting, performing the tests, and evaluating a sample.
- What are 4 additional issues the auditor should consider during the sampling process?

Session 04: Audit of the Sales and Collection Cycle - Tests of Controls

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What are typical records and transactions in the sales cycle?
- How do general controls affect the audit of the sales and collection cycle?
- Describe the methodology for designing tests of controls for sales.
- List the methodology for testing controls over: Sales returns and allowances; Cash receipts transactions; Uncollectible accounts; Account balances.
- What is the effect of the results of tests of controls over the four areas listed in the bullet above on the audit?
- What is the typical audit process for tests of controls?
- How is an audit program of tests of controls of sales organized?

Session 05: Completing the Tests in the Sales and Collection Cycle

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What is the process for designing tests of details of balances for accounts receivable?
- What is the relationship between the transaction-related and balance-related audit objectives for the sales and collection cycle?
- When and why are analytical procedures completed as part of the audit of sales and accounts receivable?
- How is the amount of substantive testing related to the audit risk model?
- Describe the audit tests that would be completed for each audit assertion.
- Why is confirmation one of the most important audit procedures?
- Provide a description of an example test of detail.
- How is Monetary Unit Sampling (MUS) executed?
- How are the MUS results evaluated?

Session 06: Audit of Cash Balances, Payroll and Personnel Cycle, and of the Acquisition and Payment Cycle

Session Objectives

After completing this Session, you should be able to answer the following questions:

Part A: Audit of Cash Balances (Chapter 15)

- What are the different types of cash accounts?
- Explain the relationship between cash and the transaction cycles.
- Describe the steps in auditing the general cash account.
- What additional procedures are conducted when there is a suspicion of fraud?
- What is "kiting" and how is it audited?
- How is an audit of the payroll cash account different from the audit of the general cash account?

Part B: Audit of the Payroll and Personnel Cycle (Chapter 16)

- Why is the payroll and personnel cycle important?
- What differentiates this cycle from other cycles?
- How are the internal controls tested in the payroll and personnel cycle?
- What misstatements could a payroll analytical review process detect?
- Which liability and expense accounts in the payroll cycle are tested using tests of details?

Part C: Audit of the Acquisition and Payment Cycle (Chapter 17)

- What are the major business functions, documents, and records in the acquisition and payment cycle?
- How are the tests of controls designed for the acquisition and payment cycle?
- Why is accounts payable considered separately from acquisitions or payments?
- Why is the auditor more concerned about understatement of accounts payable rather than overstatement?
- What is a system conversion?
- What issues does an auditor need to address during a conversion audit?

Session 07: Completing the Tests in the Acquisition and Payment Cycle – Verification of Selected Accounts; Audit of the Inventory and Warehousing Cycle; Audit of the Capital Acquisition and Repayment Cycle

Session Objectives

After completing this Session, you should be able to answer the following questions:

Part A: Completing the Tests in the Acquisition and Payment Cycle - Verification of Selected Accounts (Chapter 18)

- In addition to inventory, what are the other accounts that need to be audited?
- What process should be followed in the audit of manufacturing equipment?
- Why is the audit of prepaid expenses important?
- How are prepaid expenses audited?
- Why are intangible assets difficult to audit?
- What are some examples of typical accrued liabilities?
- How are accrued property taxes audited?
- What is the process for auditing income and expense accounts?
- Why is analytical review an important technique in the audit of operations?

Part B: Audit of the Inventory and Warehousing Cycle (Chapter 19)

- What are the components of the inventory and warehousing cycle?
- What are the five parts of the inventory and warehousing cycle that are audited?
- Provide an overview of the process used to audit the inventory and warehousing cycle.
- What role does each of the following types of tests play in the audit of inventory? (i) analytical review, (ii) physical observation of inventory, (iii) pricing and compilation tests.
- Describe how the relationship between the tests of different cycles affects the audit of inventory.

Part C: Audit of the Capital Acquisition and Repayment Cycle (Chapter 20)

- What are four characteristics of the capital acquisition and repayment cycle?
- What is the methodology for designing tests of balances for notes payable?
- What is the purpose of conducting analytical procedures for notes payable?
- What is the difference between public and closely held corporations?
- Provide examples of common internal controls over owner's equity transactions.
- What are the main concerns when auditing capital stock?

Session 08: Completing the Audit

Session Objectives

After completing this Session, you should be able to answer the following questions:

- How does the auditor search for contingent liabilities?
- What is the purpose of obtaining a confirmation from the client's law firms?
- What is a "subsequent event"?
- What are examples of procedures conducted during a review for subsequent events?
- What activities are included as part of the final evidence gathering process?
- What is a letter of representation?
- What does the auditor do to evaluate the adequacy of accumulated evidence?
- What communications is the auditor required to send after the completion of the audit?
- What are "events subsequent" and what can the auditor do if an event subsequent comes to the auditor's attention after the audit?

Session 09: Using Advanced Skills; Internal Auditing and Government Auditing

Session Objectives

After completing this Session, you should be able to answer the following questions:

Part A: Using Advanced Skills (Chapter 23)

- Explain how Webtrust and Systrust help provide assurance over information systems.
- Describe services provided by environmental auditing.
- What is a business valuation?
- What are the characteristics of advanced information systems?
- How do customized systems increase going concern risks?
- What internal controls should be implemented for database management systems?
- What is an example of a multiple information processing location risk?
- What is the most important control in a small business that affects information technology?
- Why would an auditor need information about controls at a client's service organization?
- How can a tax specialist contribute during a financial statement audit?
- Where can one find information about proposed changes in audit standards?

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Part B: Internal Auditing and Government Auditing (Chapter 24)

- What is the role of internal auditing in many organizations?
- What are the key differences between organizational auditing and financial auditing?
- Provide an example of an audit criterion of effectiveness and efficiency associated with each.
- How are the functions of an Auditor General office different from an internal audit office?
- How is independence facilitated for government and internal auditors?
- What are some sources of criteria for conducting an operational audit?
- List the phases in operational auditing.
- Where can one find sample reports for value-for-money audits?

Session 10: Enterprise Risk Management and Governance

Session Objectives

After completing this Session, you should be able to answer the following questions:

- What is the Committee of Sponsoring Organizations (COSO).
- Describe the document known as COSO I and explain its purpose.
- What are the five elements of internal control stated in COSO I and how do they correlate with the five elements in the CICA Handbook?
- What is Enterprise Risk Management (ERM)?
- Explain the relationship between COSO I (Internal Control) and COSO II (ERM).
- Describe the ERM framework for risk management.
- Describe the six capabilities that ERM encompasses.
- Define ERM and describe the seven fundamental concepts reflected in the definition.
- Describe the eight interrelated components of ERM.
- What are the similarities and differences between internal control and ERM?
- What are the limitations of ERM?

Session 11: Certification of Disclosure in Filings in Canada

Session Objectives

After completing this Session, you should be able to answer the following questions:

- Describe how a public company differs from a private company.
 - Identify the body who issues pronouncements on behalf of the provincial and territorial securities regulators.
 - Explain where you would go to find information about Canadian public companies.
 - Explain the importance of Ontario Bill 198.
 - Describe what Bill 198 required reporting issuers to do.
 - Describe what Bill 198 required CEOs and CFOs to do.
 - Describe the reporting requirements under NI 52-109.
 - Describe the design of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) under NI 52-109.
 - Describe the evaluation of DC&P and ICFR under NI 52-109.
 - Explain the meaning of the term “material weakness” under NI 52-109.
 - Explain the role of the Board of Directors and Audit Committee under NI 52-109.
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Session 12: Certification of Disclosure in Filings in the United States and the U.K.

Session Objectives

After completing this Session, you should be able to answer the following questions:

- Identify the Sarbanes-Oxley Act of 2002.
- Explain the term "issuer" in the context of SOX.
- Explain why Canadian public accountants should understand the SOX rules pertaining to auditors.
- Describe the Public Companies Accounting Oversight Board (PCAOB) and identify from who it receives its authority.
- Identify the public accounting firms that are subject to SOX and the PCAOB.
- Describe the powers given to the PCAOB over certain public accounting firms.
- Explain the term "integrated audit" in the context of the PCAOB's AS 5.
- Describe how SOX Section 201 limits the activities of certain public accounting firms.
- Identify and describe SOX Sections 203 and 204.
- Identify and discuss Section 302.
- Identify and discuss Section 404.
- Identify and discuss Section 906.
- Identify the Financial Reporting Council (FRC).
- Describe the focus of the Combined Code.
- Describe the approach taken by the U.K.'s Combined Code towards compliance with its standards.
- Identify the companies that are subject to the Combined Code.