

M&E PROFESSIONAL STUDIES

# AUDITING

by  
**EMILE WOOLF**

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by Emile Woolf

General Editors

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## M&E PROFESSIONAL STUDIES

Written by a team of practising lecturers and prepared under the General Editorship of a leading partnership of London accountancy tutors, the *M&E Professional Studies* series has been specially designed to meet the course needs of professional students in virtually all the examined subjects at appropriate professional, degree and diploma levels. The titles cover many of the subjects offered by the ACCA, ICA, ICMA, AIA, AAT, SCCA, ACEA, LCCI, RSA and numerous other bodies.

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## **GENERAL EDITORS**

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Emile Woolf first qualified in 1961 and joined the London Office of Deloitte Haskins & Sells. Since 1964 he has played a major part in pioneering accountancy education, first at Foulks Lynch and the London School of Accountancy, and then as founder and Chairman of the Emile Woolf Colleges in London and overseas. In 1977 he also became a partner in Halpern & Woolf with special responsibility for technical auditing standards. He is an established author, and a regular contributor to numerous professional and student journals and magazines in the UK and overseas. In 1980 he received the Distinguished Services Award for Authorship at Hartford University, Connecticut, USA. Recently he was commissioned by the ACCA to produce a series of audio cassettes and workbooks for students throughout the world. Between 1973 and 1979 he was also an Examiner for the ACCA in Advanced Auditing and Investigations. Emile Woolf lectures regularly on accountancy, financial and economic matters in Ireland, the UK, USA, Trinidad, Jamaica, Singapore, Hong Kong, Malaysia, Nigeria, Ghana and elsewhere. He also conducts seminars on financial management topics for industrial and commercial clients as well as for professional accountancy firms.

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### **Contributing authors**

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# Preface

This new text fully reflects the requirements made by certified and chartered examiners in recent years following the introduction of new (and more demanding) examination syllabi.

The new legislation introduced in the Companies Acts 1980 and 1981 is far-reaching in its consequences and its effect on auditors is more pervasive than is generally appreciated. All these changes are analysed and thoroughly discussed in Chapter 7.

Recent years have seen the proliferation of new Auditing Guidelines, whose purpose is to elucidate and explain the import of the original 1980 Standards. All of these Guidelines have been included in this book in the appropriate chapters together with appropriate commentaries and explanatory extracts from the APC publication *True & Fair*. All major APC full and draft Guidelines issued in 1983 have also been included, with special reference to going concern considerations; reliance on internal audit; attendance at stocktaking, information issued with audited financial statements; and representations by management.

Small company audits and the feasibility of introducing “review assignments”, analytical reviews of financial statements, and investigations under the Companies Acts are also discussed in detail. The chapter on the use of statistical sampling techniques (Chapter 9) reflects the increasing use made by auditors of *monetary unit sampling* on audits of all sizes, and a concise yet comprehensive explanation is given of the underlying mathematical principles. Chapter 10 (on auditors’ liability) takes into account the recent dramatic extension of potential claims against auditors by third parties.

The appendixes of selected examination questions and answers indicate the very latest trends in setting examinations in auditing. As an aid to students seeking reference to specific topics a detailed index is included at the end of the manual, whilst Chapter 4 (pages 104–12) contains a short but invaluable glossary explaining important auditing concepts and terms.

I must take this opportunity to acknowledge the considerable assistance I have had from the immensely authoritative yet practical *Auditing & Accounting Newsletter*, issued internally by my “old firm” Deloitte, Haskins & Sells for the guidance of their partners, managers and staff on matters of current importance. I am similarly indebted

to the Auditing Practices Committee of the CCAB for their kind permission to include extracts from *True & Fair* and from the 1980 Auditing Standards and subsequent guidelines; and to the Association of Certified Accountants for permission to include past examination questions and published answers at the end of the text.

My final acknowledgment is to the vast (but unrecorded) number of students who have attended my lectures, listened to my cassettes, and read my articles and texts over the past twenty years in so many parts of the world, thereby forcing me to keep abreast with auditing and related developments, as and when they arise. Long may this practice continue (although, it is hoped, not always involving the same students)!

Emile Woolf

# List of Abbreviations

Throughout the text reference is necessarily made to the official titles of professional bodies, committees, government agencies, etc., and their official pronouncements. Although these titles are spelt out in full on the first occasion they appear in the text, it may nevertheless be useful to have an alphabetical glossary to which quick reference may be made when required.

AICPA	American Institute of Certified Public Accountants
AISG	Accountants International Study Group
APC	Auditing Practices Committee
ASC	Accounting Standards Committee
CA	Companies Act
CCAB	Consultative Committee of Accountancy Bodies
CIPFA	Chartered Institute of Public Finance and Accountancy
ED	Exposure Draft
FASB	Financial Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
ICMA	Institute of Cost and Management Accountants
SE	Stock Exchange
SEC	Securities and Exchange Commission
SSAP	Statement of Standard Accounting Practice



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