IMPROVING THE CURRENT STANDARD AUDITING PROCEDURE OF BAKER TILLY A&C AUDITING AND CONSULTING CO., LTD

CASE – ZIM INTEGRATED SHIPPING COMPANY

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Bachelor's thesis

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ABSTRACT

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ABSTRACT

The thesis is commissioned by Baker Tilly A&C Auditing and Consulting Co., Ltd, the biggest company in Vietnam in accounting and auditing services. Due to the rapid rising of globalization in Vietnam, there are many international companies and corporates are aiming to start their business in this very potential country. Therefore, the demand of auditing service is rising quickly together with new policies and international standard that need to be approached. Being aware of that, A&C Company believes that their standard procedure needs to be improved in order to fit with both current Vietnam's policies and international standard.

The thesis contains four objectives. The first objective is to introduce the background of the audit including definition, categorize, principle and investigate the current audit procedure of A&C Company. The second objective of this thesis is to research the practical audit procedure through the case of ZIM Integrated Shipping Company. The third objective is to analyse both procedure to find the gaps between current standard procedure and the practical procedure. Finally, the suggestions on how to reduce the gaps will be provided in order to make the standard procedure become more realistic.

The result of this thesis is the success of ZIM project. The gaps between standard audit procedure of A&C Company and the practical audit procedure are also found out. Lastly, the recommendations of how to reduce the gaps are provided for the supervisor's consideration in order to improve the standard procedure of the company.

Keywords Standard audit procedure, practical audit procedure.

Pages 84 p. + appendices 04 p.

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1 INTRODUCTION

1.1 Background of Baker Tilly A&C Auditing and Consulting Co., Ltd.

Commencing operations since 1992, A&C is one of the leading independent auditing companies in Vietnam. A&C is also the first company which is under the management of the Ministry of Finance that has successfully performed 2 times of ownership transforming due to the stipulations of the Government and the Ministry of Finance. Those are:

- A&C transforms from a State-owned enterprise into a State-owned joint stock company(December 2003)
- A&C transforms from a State-owned joint stock company to a multi-member limited Liability Company(February 2007)

During many years of operation, A&C has successfully spread their network and the popularity of their branches in every important economic centres of Vietnam such as Ha Noi – the Capital, Nha Trang and Can Tho.

A&C has built up a team of more than 400 professional staff who have been trained in Vietnam as well as in many countries in the world. The quality of the services, the professional codes of ethics and the company's prestige are the first standards that all A&C's staff always aims at.

A&C has a local understanding of Vietnam , its people and laws and has had close co-operation with the State's authorized organs in Vietnam to help satisfy all the needs of services from our clients.

From January 2004 to April 2010, A&C was an official member of HLB International – a worldwide organization of professional accounting firms and business advisers, having head quarter in United Kingdom.

In professional activities, A&C is member of Vietnam Business Club (VBC) and of Vietnam Tax Consultancy Association (VTCA).

In social activities, A&C frequently takes part in many campaigns such as poverty fund**,** fund for building charity houses, fund for dioxin victims, etc. A&C regards these as the positive and contributively activities to the construction as well as the development of the country.

Since May 2010, A&C has officially become a member of Baker Tilly International – one of eight leading international auditing groups having head office at No. 2 Bloomsbury St. London, United Kingdom.

Currently, the chairman of the Board of Management at A&C is Mr. Vo Hung Tien. He is also the general director of Ho Chi Minh's department which is also the head quarter of A&C.

1.1.1 Baker Tilly International

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 150 firms in 120 countries and over 25,000 people worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world. The organization is ranked in the top 10 largest accounting and business advisory groups worldwide with a global annual fee income of over USD 3 billion (it ranks the world's 8th largest accountancy and business advisory network).

Baker Tilly International is big enough to provide the services required by clients, whatever their size is, and wherever they are located. Through its "Global Care" approach, member firms of BAKER TILLY INTERNATIONAL strive to ensure that all aspects of a client's financial affairs are addressed at the highest quality and professional manner.

With all honour and pride, A&C is very pleasure to become an official member of Baker Tilly International (May 2010).

1.1.2 A&C's Products and Services

Throughout many years, A&C has gradually maintained its position with various and diversified services in order to meet the more and more increasing demands of the market. Currently, A&C is concentrating on the following services:

- **Auditing of Financial Statement:** this service is currently the main operation of the company. A&C is proud of their experience in auditing the financial statement for over 1000 clients working in various industries. In addition, being aware of the market's demand, A&C also provide services such as auditing operation, auditing compliance, performing internal audits and auditing financial information.

- **Construction Inspection and Verification:** the provision of the services on inspection and verification of the finalized accounts of investment capital and construction works is one of the most successful activities of A&C. The outcome of this service will help the client complete many forms that need to get the approval of the authorities before implement the construction. Besides that, the result of service will provide the client reliable information and figures and data in order to serve the purposes of strategic decision making, mortgaging, transferring, equitizing, disposing and liquidating the businesses…

- **Project Management:** With a professional team of engineers and auditors, A&C always satisfies the client's requests for project management at the highest efficiency. A&C consulting service with high efficiency has significantly contributed to increasing trust and satisfaction of clients for our services.

- **Consulting Services:** A&C possesses many consultants who have varied knowledge in law as well as practical experience which will provide the clients with the most optimal solutions. The company is also willing to co-operate with other International Professional Organizations or State Authorities to enhance the quality and the efficiency of their services. This way of operation has made A&C's clients confident and satisfied with the services that they ordered.

- **Accounting Services:** The accounting section plays an utmost important role in providing information for the decision-making of the management. With a team of specialists mastering in both Vietnamese Accounting and International Practices and with the practical experience for many years, the accounting services of A&C have the ability to satisfy all the needs of clients.

- **Training Service:** Being aware of the need of improving professional skills and knowledge for staff in the competitive business environment nowadays, A&C has developed the training programs based on knowledge of the Board of Management who have had a lot of experience in teaching and managing at many popular economic universities in Vietnam. The training program will be designed in a way that will fit the best with the client's requests.

1.1.3 A&C's Clients

A&C has been providing services to more than 1,500 clients working in various business sectors and in various industries. Our achievements are obtained from the continuous endeavours of all A&C staff to gain the trust and the satisfaction of the clients through our performance. A&C understands that the auditing job is very challenging and always requires the experience accumulation as well as the improvement in professional skills and knowledge. Potential customers of A&C are:

- Foreign-invested capital enterprises and business cooperation contracts operating under the Investment Law and the Corporate Law of Vietnam.

- Vietnamese businesses of all economic sectors including manufacturing, construction, trading, hotel, banking, transportation, oil and gas, etc.

- International and domestic organizations, representative offices and individuals who are in need of our services.

- Projects funded by World Bank, Asian Development Bank, European Union and non-governmental organizations.

1.2 Reason for this thesis

There are several reasons for the author to choose this topic as a final thesis. Firstly, throughout the last 3 academic years in HAMK University, accounting subjects have been very interesting for the author. The Financial and Management Accounting courses gave the author a general knowledge to calculate and analyse the data for example: calculate production cost, expense, profit margin, over cost, opportunity cost etc., while the Strategic Management Accounting course prepare for the author the ability to control situation and give the decision-making base on the accounting data. Besides that, the author was born in a family whose father is an experienced and pioneer accountant. His passion and ethics in his career have affected his son and made him want to become an ideal accountant in the future.

Secondly, the demands of auditing and consulting services are rising rapidly all over the world. Vietnam became the official member of World Trade Organization (WTO) since 01/01/2012, globalization mean that there will be more opportunity for businesses and enterprises which will lift the demand of auditing and consulting service strongly. Therefore, the need of expert in this area is very high and its trend is continued to rise. Be aware of that, during this thesis, the author will research deeply in the procedure of auditing in order to earn the knowledge in this area as well as prepare for the future learning career.

Finally there are the challenges that this topic will bring. Accounting and auditing principles can be ambiguous, simple and clear for student. In addition, the practical procedure of auditing requires a lot of research and very time consuming. Therefore, there will be more challenges to the author to learn and understand these difficult issues. However, the challenges are always going together with the achievement and the author wants to see those challenges as the motivation to reach the better. Therefore, this topic was chosen.

1.3 Research question

The research question was formulated at the beginning of the thesis process in order to explain the thesis topic as well as point out which issues/ problems will be solved during the thesis. Base on this ideal, the research question of this thesis is:
How A&C analyses the differences between auditing's theoretical processes and their practical implementation?

1.4 Objectives of this thesis

The thesis contains 4 main objectives:

- **Objective 1**: The author will research the knowledge about auditing theoretical. The purpose of this objective is to provide the knowledge for the later part of the thesis.

- **Objective 2**: The standard audit procedure and practical audit procedure of A&C Company will be researched. The author want to find out what is actually happening when A&C implement their services with the client in order to identify the practical process of auditing.

- **Objective 3**: After going through both theoretical and practical procedure of auditing, the author will provide the analysis base on the research. The main purpose of this objective is to find the gaps between theory and practical process of auditing as well as reason for them.

- **Objective 4**: When the gaps are found out, the author will suggest the solutions to reduce the gaps or in other words, to bring the theory and the practical become nearer. The recommendation will also be submitted to A&C for references.

1.5 Methods of research

The method of doing this thesis will be the combination of by desk research, data collecting and analysis research

- **Desk research**: the author will use knowledge from several books, articles and also Internet's sources. The reason for using this method is due to the various knowledge that this topic will cover as well as the flexible in Internet searching nowadays.

- **Data collecting:** In this method, the writer will apply several tools which have been provided from the University like interview, survey, observation… The approach of these methods will help the author more flexible in collect the data when come to the current situation in A&C.

- **Analysis Research**: This method will contain: compare, contrast analysis. The author will approach this method to analyse the collected data in order to find the gaps between theory and practical process of auditing. In addition, throughout the analysis, the author also tries to find the reason as well as the solution to solve the thesis topic.

The method of research in this thesis can also be summarizing in the following table:

Subjects	Methods of research
Objective 1: The theories	• Books and former related theses which are available in library • Online sources: vainacat search, theseus.fi...
Objective 2: Research current situation of the commissioner company.	• Questionnaire • Interview

	• Observation • Participation, diary/log
Objective 3: Analyse Research (find the gaps)	• Compare • Contrast
Objective 4: Recommendation (reduce the gaps)	• Find solution • Reduce gaps

After 3 years of study in HAMK University, the author has enough skill and ability to research and implement this thesis. There is no perfect method and approaches, each of them have the advantages as well as disadvantages. Therefore, in the author's opinion, the thesis can only be done with the good set of chosen method

1.6 Scope of thesis

The main idea of this is to focus on comparing the procedure of auditing between theory and practical. The author wants to compare the knowledge that an auditor was taught in school or books and what he/she actually do when they come work with clients. By comparing, the different will be identified and analysed in order to make the theory of auditing become more useful and practical.

Thus, the thesis will not focus on the accounting's data or the calculation. The statistic can be expected but the thesis will not go in deeply to analyse those data like wage, expenses, profit…

2 AUDITING THEORETICAL BACKGROUND

Accounting and Auditing are 2 terms that go together. People sometimes think that they are the same. In fact, the relationship of auditing to accounting is close despite their natures are quite different. Therefore, before we get into the area of auditing and its procedure, we will find out first the relationship between accounting and auditing.

The relationship between accounting and auditing

According to Mautz and Hussein (1961, 14), accounting and auditing have a close relationship although their natures are very different. They are both business associates but their relationship is not like parent and child.

Accounting includes the collection, classification, summarization and communication of financial data. It involves the measurement and communication of business events and conditions as they affect and represent a given enterprise or other entity. The task of accounting is to reduce a tremendous mass of detailed information in order to help the process of manageable and understandable proportions.

Auditing, on the other hand, does none of these things. Although it also considers business events and conditions, auditing does not have the task of measuring or communicating them. Its task is to review the measurements and communications of accounting for propriety. Auditing is more about analytical, not constructive. It is critical, investigative, concerned with the basis for accounting measurements and assertions. Auditing pays attention to the proof and the support for financial statement data. Thus, auditing has its own principal roots which accounting has not. The purpose of auditing is to certify the true and fair view of financial statements.

Accounting requires an accountant to have accounting knowledge while auditing work required that an auditor must have accounting as well as auditing knowledge. Accounting is concerned with current data. It is constructive in nature. Auditing is concerned with past data. It is analytical in nature. The time period of accounting is usually one year. It takes one year to complete record. The time period of auditing is usually less than one year. It may be completed within one month.

The accountant is a permanent employee of the business. The auditor is an independent person. The work of an accountant starts when the work of the book keeper ends. The work of an auditor starts when the work of accountant ends. An accountant may not be a chartered accountant as per law. An auditor must be chartered accountant for public companies. The accountant has no liability for preparing final accounts. The auditor has liability after presenting audit report.

2.1 Auditing background

Definition

The word “Audit” originates from the Latin word “audire” which means “to hear”. In the earlier days, whenever there is suspected fraud in a business organization, the owner of the business will promote a person to check the accounts and hear the explanations which given by the person responsible for that account. After many years, that person now called “auditor” and the tasks of checking and hearing is now called “auditing”.

According to Montgomery (2009), a well-known author, auditing can be defined as a systematic examination of the books and records of a business or the organization in order to ascertain or verify and to report upon the facts regarding the financial operation and the result thereof.

To explain Montgomery's definition, auditing is a process of gathering and measuring the evidence about the measurable data of an account or a business record in order to report about the appropriate between those data with the settle standard. The process is implemented with person who has knowledge in both accounting and auditing area, that person called "auditor".

Categorizes of auditing

A. **Functional categorizes**: According to the functional, auditing can be divide in to 3 categorizes. Those are Audit of Financial Statement, Operational Audit and Compliance/regulatory audit.

   - **Audit of Financial Statement:** Audit of financial statements is also known as financial audit. It is a verification of the financial statements of a legal entity with a view to express an audit opinion. The purpose of financial audit is to provide reasonable assurance that the financial statements are presented fairly, in all material respects and/or give a true and fair view in accordance with the financial reporting frame work. (International Standard on Auditing 2012, 315).

     To be more clearly, audit of financial statements is the process of determining whether all financial statements of an organization which have been announced are accordance with specific standard or not. This is a process of checking the level of trustworthy of the announced financial statement. The main statement that financial audit will concern are balance sheet, income statement, statement of cash flows and accompanying footnotes…

     Financial audit are usually performed by firm of practicing accountants who are experts in financial reporting. A&C is known as a biggest company that offers financial audit service in Vietnam with over 150 customers per year.

   - **Operational Audit:** An operational audit will exam a company's internal systems and procedures used to produce its goods and services sold to consumers. It also tests production operations for efficiency and effectiveness. Operational audit may be conducted by internal employees or external auditors with appropriate knowledge in the area. Operational audit is usually provides a deeper review of company operations than financial audit. The purpose of operational audit is to improve workflow or cost allocation processes and quicker turnaround times. (Osmand Vitez 2012)

Operational audit can be understood as the process to examine and measure the level of effective and efficiency of an operation in order to find the way to improve the performance of that operation. Operational audit also review the procedure and method of any unit within organization to measure the current performance of that unit as well as suggest the solution to improve it. For example, operational audit can examine the level of effective of the calculating salary software which is installed recently in an organization. (Luyen 2009, 23-24)

In Operational audit, the standards for measurability are identified depending on each operation. There is no general standard. The selection of standard is done by the auditor and usually subjective. Operational audit can be performed by both internal and external auditor and the audited organization is the one that take the advantages of the operational audit.

- **Compliance/regulatory Audit:** A compliance audit is a comprehensive review of an organization's legitimate. It's undertaken to confirm whether a firm is following the terms of an agreement (for example, a bond indenture), or the rules and regulations applicable to an activity or practice. What, precisely, is examined in a compliance audit will vary depending upon whether an organization us a public or private company and what kind of data it handles and if it transmits or stores sensitive financial data. (Margaret Rouse 2010)

  Compliance audit examine the level of executive the law, policies or management standard of an organization. The standard uses in compliance audit are those statements that related with the organization such as tax, rule, law and policy. Those statements are usually given by the government. Compliance audit is usually performed by external auditor and government's auditor and it serve for the purpose of the authority.

B. **Implementation Categorizes:** According to the unit that implements audit, auditing can be divided into 3 categorizes. Those are independent audit, state audit and internal audit

- **Independent audit (External audit):** An independent audit is an external accounting function conducted by a public accounting company or any private certified accountant. The main objective of independent audit usually is a review of a company's financial information. There are 2 types of audit used in the business environment: internal and external. Internal audits are usually conducted by company employees for management review purposes. External audit are usually an independent audit conducted by individuals outside the business to provide an objective opinion regarding the company's financial accounting process. (Osmand Vitez 2012)

Nowadays, an independent audit is developing rapidly due to several accounting scandals were discovered in the business environment. Therefore, independent auditors are becoming more and more important in economy due to their independent characteristic. Being aware of that, A&C is providing many qualified, experienced & trustworthy accountants and auditors for independent audit's purpose.

- **State audit:** State audit is an audit function that is conducted by state audit agency. State audit usually go together with financial audit in order to assess the level of acceptant to the rules, policies and laws of the organization that are using the state's capital or asset. State auditors are usually national's officials and work under the order of the authority (government, national's court…). (Luyen 2009, 37-40)

  The purpose of state audit is to ensure that the state's capital is used effective and efficiency. State audit also investigates those situations that are suspected because of wasting state's resources or corruption. The standards for state audit are vary depend on the law and policies of each countries. However, in international case, the standard is developed and announced by The International Organization of Supreme Audit Institutions (ITOSAI).

- **Internal audit:** As defined by the Institute of Internal Auditors (IIA), "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

  In explanation, internal audit is concerned with evaluating and improving the effectiveness of the risk management, control and governance process in an organization in order to help the organization achieve their objectives.

To do this, internal auditors work with management to systematically review systems and operations. These reviews (audits) are aimed at identifying how well risks are managed including whether the right processes are in place, and whether agreed procedures are being adhered to. Audits can also identify areas where efficiencies or innovations might be made. Internal audits are organized under an on-going program of review and advisory activity this is based on the strategic needs of an organization. (The Institute of Internal Auditors in Australia 2009).

Internal auditors work in all sectors (public, private and not-for-profit) and may work as an employee of the organization, or through an external service provider.

Objective and General Principle of Audit

Under the principles of International Standards on Auditing (ISA)/ Vietnamese Standards on Auditing (VSA) 200, the objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statement are prepared, in all material respects, in accordance with an applicable financial reporting framework. The objective applies to a full scope audit of any entity's financial statement, whether or not the entity is profit oriented or the assignment is a non-statutory audit.

In carrying out an audit, the firm and each member of the engagement team is required to:

Comply with the ethical guidelines relating to audit engagements which contain the Code of Ethics for Professional Accountants (COE) as given by the respective member firm Institute. In general, each member of the engagement team is required to behave with integrity in all professional relationship which implies honesty, fair dealing, sincerity and professional independence. An auditor should be objective in all judgments and not allow prejudice, bias or any other interest that may influence the auditor's objectivity. Each member is required to respect the confidentiality of information obtained in the course of an audit and not disclose any information to a third party unless it is legally or professionally required. In addition, each member should only undertake work which is competent and experienced to perform and all professional work must be conducted with due care, skill and diligence.

Comply with the quality control requirements as stipulated in ISA/VSA 220 which requires the engagement partner to take responsibility for the overall quality on each audit engagement, but recognizes that the engagement team is entitled to rely on the firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement. Each member firm should therefore establish quality control systems that comply with the requirements of International Standard on Quality Control (ISQC 1).

Conduct the audit in accordance with ISA/VSA's which provide the basic principles and essential procedures which have to be applied in the context of explanatory notes and appendices. Moreover, both partners should consider the International Standards on Accounting (IAPS)'s applicable to the audit engagement. In determining the scope of an audit, the engagement team should comply with each ISA/VSA relevant to the audit and should not represent compliance with ISA/VSA's unless we have complied with all of ISA/VSA's relevant to the audit.

Plan and perform an audit with an attitude of professional scepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. The engagement team is required to make a critical assessment of the validity of the audit evidence obtained and should be alert to evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from the management and those charged with governance. The attitude of professional scepticism is necessary throughout the audit to reduce the risk of overlooking unusual circumstances, of over generalizing conclusions drawn from audit observation, and of using incorrect assumptions in determining the nature, timing and extent of the audit procedures and evaluating the result. The engagement team also should obtain persuasive audit evidence that those charged with governance are honest and have integrity.

Obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. This is applicable to the whole audit process and requires the accumulation of audit evidence necessary for the engagement team to conclude that there are no material misstatements in the financial statements taken as a whole. Material misstatements are considered at both the overall financial statement level and in relation to classes of transactions, account balances, and disclosures and related assertions. Due to the inherent limitations in the use of testing and the operations of internal controls, most audit evidence is persuasive and not conclusive. As absolute assurance is unattainable, an audit is therefore not a guarantee that the financial statements are free from material misstatement. Moreover, an audit opinion does not assure the future viability of an entity nor the efficiency or effectiveness with which the management conducts the affairs of the entity. Management representations should not be used a substitute for obtaining sufficient appropriate audit evidence on which to base an audit opinion

Plan and perform the audit to reduce the audit risk to an acceptably low level that is consistent with the objectives of an audit. The audit risk is the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated. The engagement team reduces this risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. Reasonable assurance is obtained when the audit risk has been reduced to an acceptably low level.

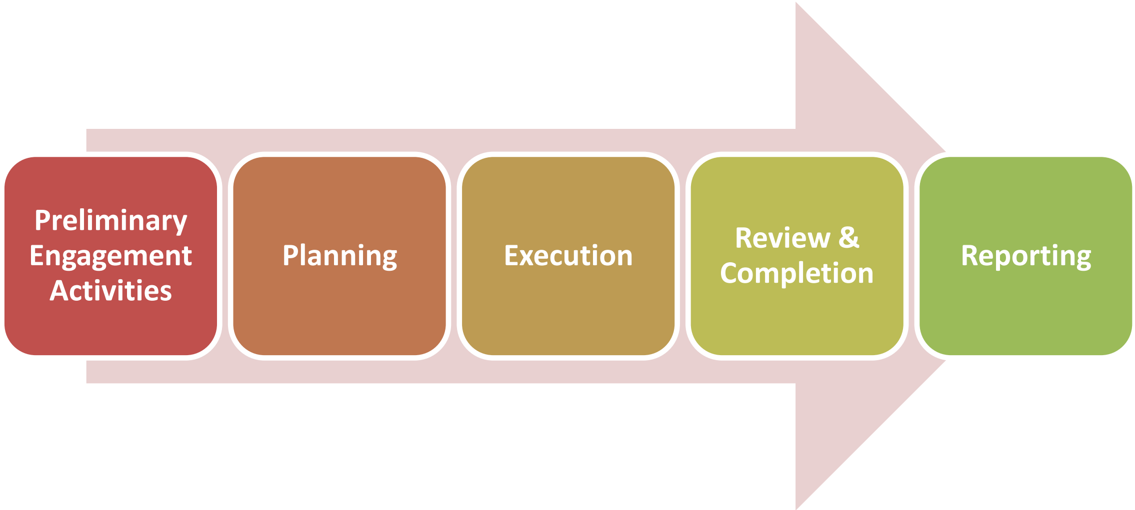
Determine whether the financial reporting framework adopted by the management in preparing the financial statements is acceptable in view of the nature of the entity and the objective of the financial statements. Each jurisdiction will have a framework that is determined by legislation or the profession. However, in exceptional circumstances, where the reporting is done for other purposes e.g. financial statements prepared for specific reporting to donor agencies or to comply with the reporting framework of the parent company, the engagement team should compare the accounting conventions adopted to the requirements of an existing acceptable framework. Where the engagement team concludes that the framework adopted by the management is not acceptable, the engagement partner should consider the implications in relation to engagement acceptance (ISA/VSA 210) and the auditor's report (ISA/VSA 700).

3 THE AUDITING PROCEDURE

3.1 Overview

Throughout many year of development, the suggested audit approach given by A&C Company is designed to gather sufficient and reliable evidence to support the audit opinion in the most efficient and effective way as well as enable the engagement team to fully understand the client's business. There is no difference between an audit of a large and a small entity except that the procedures adopted may differ depending on the particular circumstances of each audit. All the stages of an audit are following the applicable standard at each state which is set by ISA/VSA's (see appendix 1).

According to A&C, there are 5 stages of an audit. Those are showed in the following graph:



In order to make this thesis easier to follow, the layout of this thesis is designed differently from original thesis template. In detail, the author will go through each stage in the procedure. At each stage, the standard and practical procedure will be first introduced to the audience. Then the different and recommendation part will come right after the practical procedure. So the order of sections in each chapter will be:

1. Standard procedure
2. Practical procedure
3. Differentiation
4. Recommendation.

Finally, the final conclusion will be provided at the end of this thesis.

3.2 Stage 1: Preliminary engagement activities

3.2.1 Standard procedure of A&C Company

At the pre-planning stage, the engagement partner ensures that:

- The client acceptance and continuation procedures have been carried out.

- The term of engagement have been agreed in writing
- The quality control aspects for the assignment have been reviewed including review of the competency of the team to carry out the assignment, review of compliance with the ethical requirement which include review of the independence requirements.

The procedure to ensure those thing is contain 3 sections, those are:

- Audit files and working papers
- Ethical Requirements and Quality Control in Relation to Audit Engagements
- Audit engagement

Audit files and working papers

Reasons for document

Working paper is a very important part of every signed contract, it is even more important in an audit contract. There are several reasons for recording documents:

- Assist in the planning and performance of the audit and enable a methodical approach to be adopted.
- Assist in the supervision and review of the audit work performed.
- Record audit evidence resulting from the audit work performed to support the auditor's opinion.
- Provide details of problems encountered including difficult and contentious matters, how these were resolved, and conclusions reached.
- Enable an experienced reviewer, unconnected with the audit, to understand the work performed and the basis of the principal decisions taken, but not the detailed aspects of the audit.

The use of standardized working papers e.g. checklists, specimen letters and working papers can improve the efficiency with which working papers are prepared and reviewed. They facilitate the delegation of work while providing a means to control quality.

Type of audit files

The purpose of this section is to explain how typical audit files should be structured and what they should contain. Depending on the size of the assignment, it is recommended that two types of audit files will be maintained, one a current audit file ("CAF") and the other a permanent audit file (“PAF”).

The distinction between the two files is as follows:

CAF - contains information and audit evidence relating to the accounting period currently under review, the purpose of which is to support the opinions and statements made in the audit report.

PAF - contains information of continuing importance which may be updated at each audit. Such information could be useful background; other information would include terms of engagement, internal control and accounting systems notes, and other documents of historical record which are unlikely to be directly relevant to the current year audit e.g. copies of leases and copies of financial statements for prior years.

Layout of audit file

All files should follow a standard numerical and alphabetical sequence. This degree of standardization of layout is desirable from the points of view of efficiency and minimizing risk. The use of hard section dividers or colour red paper dividers should be used to clearly distinguish the file sections. Individual working papers should be numbered and filed logically within a common framework.

Working paper’s form and content

In accordance with IAS 230, the working papers should be sufficiently complete and detailed to provide an overall understanding of the audit. The working papers should contain information on planning the audit; the nature, timing and extent of the audit procedures performed and the results of it, and conclusions drawn from the audit evidence obtained. They should contain the engagement team’s reasoning on all significant matters which require the exercise of judgment together with the conclusions thereon. In addition, on areas involving difficult questions of principles or judgment, the working papers should contain the relevant facts that were known by the engagement team at the time the conclusions were reached.

ISA/VSA 230 states that the form and contents of the working papers is affected by the:

- Nature of the engagement.
- Form of the auditor’s report.

- Nature, size and complexity of the business.
- Nature and complexity of the entity's internal controls.
- Needs in the particular circumstances for direction, supervision and review of work performed by assistants.
- Specific audit methodology and technology used in the course of the audit.

The contents should include the following:

- Information obtained in understanding the entity and the environment in which it operates.
- Evidence of the auditor understands of the accounting and internal control and assessment of the control environment.
- Evidence of the planning process including audit programs and changes thereto.
- Evidence of the auditor's consideration of the work of the internal audit function and the
- Conclusions therefrom.
- Analysis of significant trends and ratios.
- Analysis of transactions and balances, including the nature, extent and timing of the tests.
- Identified and assessed risks of material misstatement at the financial statement and assertion level.
- Record of the nature, timing and extent of the audit procedures performed in response to risk at the assertion level and the results of such procedures.
- An indication as to who performed the audit procedures and when they were performed.
- Evidence that the work performed by assistants was supervised and reviewed.
- Correspondence and notes of discussions including engagement letters and material weaknesses in internal controls.
- Letter of representation.
- Conclusions reached by the engagement team on significant aspects of the audit, including how exceptions and unusual matters, if any, disclosed by the audit procedures were resolved.
- Evidence that consultations have been documented and any contentious issues fully resolved.
- Copies of the financial statements and the auditor's report.

File notes should be prepared of all telephone and other conversations with clients or with third parties, concerning the entity's affairs. The notes should record the entity's name and date of conversation, the persons involved, the matters discussed and any conclusions reached or action agreed. The note should be filed in the audit file, and if appropriate, a copy sent to the other party to confirm the accuracy.

Care should be taken to safeguard working papers and working paper files. When working at a client's premises, wherever possible, files should not be left at the premises overnight. If they have to be left overnight, they must be stored securely under lock.

Ethical Requirements and Quality Control in Relation to Audit Engagements

This section provides a framework which covers the key aspects of International Standard on Quality Control 1 (ISQC1) and the Code of Ethic for professional accountants (COE) in relation to audit engagements which may be adopted or modified. The policies and procedures in relation to ISQC 1 and the COE should be communicated to the firm's personnel and others subject to them.

The engagement partner must remain alert to evidence of non-compliance with ethical requirements. If such matters come to the engagement partner's attention through the firm's systems or through inquiry and observation during the engagement, the partner, along with other partners, should determine the appropriate course of action in accordance with the firm's Staff Policies and Procedures.

Part A and Part B of the COE establish fundamental principles which are required to be followed by the firm and it's included:

1. Integrity and Objectivity

Integrity implies not merely honesty but also fair dealing and truthfulness. The principle of **Objectivity** imposes an obligation on all professional accountants to be fair, intellectual, honest and free of conflict of interest. While it is not possible to identify all potential cases of conflict of interest, partners and staff should be constantly conscious of and be alert to factors which give rise to such conflicts. The following are some of the situations which may impair objectivity:

- Undue pressure exerted by the client or an overbearing supervisor or partner. Relationships, including family and personal, which allow prejudice, bias or influence should be avoided. Reasonableness should prevail in establishing relationships that could impair objectivity.

- Accepting or offering gifts which might have a significant or improper influence on professional judgment or which bring the profession into disrepute.
- Being asked to act contrary to a technical and / or a professional standard.
- Divided loyalty between the professional accountant's superior and a professional standard.

Where ethical conflicts arise, the following should be considered:

- Review the conflict with an immediate superior. If this does not resolve the issue, then go to the next higher level. Where the superior is involved in the conflict, then one should go to the next higher level.
- Seek counselling on a confidentiality basis with an independent adviser, Baker Tilly
- International or the professional accounting bodies they are members of.
- If the significant ethical conflict still exists, one should consider resigning from the position and submit the appropriate details to an appropriate representative of the organization. One could also consider reporting the issue to the professional accounting body which one is a member of.

2. Professional Competence

The firm or its personnel should not portray as having expertise or experience unless they possess the necessary **professional competence**. Professional competence is obtained through obtaining the necessary professional qualifications, practical experience and through continuous professional development which includes keeping abreast of developments in the accountancy profession.

3. Confidentiality

Partners and staff of the firm have a duty to maintain **confidentiality** on all information obtained during the course of professional services and not to use such information for personal gain or advantage or for the advantage of a third party. The duty continues even after the end of a professional relationship with the client or with the employer who services the client. In certain cases, the working papers may have to be availed to third parties where required by law or if there is a professional duty e.g. for quality control and peer reviews. To protect the firm, the instances where the papers may be availed to third parties must be agreed with the client in the terms of engagement. It is the duty of the firm to ensure that staff and persons who form part of the engagement or from whom professional advice is obtained also respect the principle of confidentiality.

4. Professional Behaviour and Independence

Partners or staff should not do anything that will bring themselves, the firm or the profession into disrepute.

Independence requires:

- **Independence of mind** that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- **Independence in appearance** which involves the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude that the firm's or a member of the engagement team's integrity, objectivity or professional scepticism have been compromised.

Audit engagement

Client Acceptance

In order to accepting an audit engagement, the firm should consider:

- The integrity of the principal owners, key management and those charged with governance.
- Whether the engagement team is competent to perform the audit engagement and has the necessary time and resources.
- Whether the firm and the engagement team can comply with the ethical requirements which include integrity, objectivity, competence, confidentiality and professional behaviour. There must be evidence that the engagement partner has formed a conclusion on compliance with independence requirements including:

    - Identifying and evaluating circumstances that create threats to independence.
    - Evaluating identified breaches.
    - Taking action to eliminate threats or reduce them to an acceptable level by applying safeguards.

In addition to the above considerations, engagements may need to be declined where:

- An entity is operating in a specialized industry in which the auditor lacks the required expertise and expert assistance is not available.
- An entity operates a significant branch network where the firm is not presented, and there are no alternative audit procedures that can be adopted to cover these branch operations.
- The entity reporting deadlines coincide with existing client pressures.
- A quality control review is required and no suitably qualified and objective reviewer is available.

It is vital that the firm is not exposed to the risk of its reputation or future profitability by accepting new clients without proper vetting procedures. To adhere to the COE and in particular, the aspect of client confidentiality, the firm should inform the entity that it will seek information from certain persons as required by ISQC 1.

Term of Audit Engagement and Changes Thereto

ISA/VSA 210 requires that the auditor and the entity should agree on the terms of the engagement, preferably prior to the commencement of the engagement, in an audit engagement letter or other suitable form of contract.

The purpose of the engagement letter is to:

- Help avoid any potential misunderstandings in respect to the engagement.
- Document and confirm the auditor’s acceptance of the engagement, the objective and scope of the audit, the extent of the auditor’s responsibilities to the entity and the form of any reports.

The form and the contents of the audit engagement letter may vary for each engagement, but would generally include reference to:

- The objective of the audit of financial statements.
- Management’s responsibility for the financial statements.
- The scope of the audit, including references to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.
- The form of any reports or other communication of results of the engagement.

- Identification of relevant persons charged with governance with whom audit matters of governance interest will be addressed.
- The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal controls, there is an unavoidable risk that some material misstatements may remain undiscovered.
- Unrestricted access to whatever records, documents and other information requested in connection with the audit.
- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other entity staff.

Where any proposed changes to the terms of engagement would provide a lower level of assurance, the firm will consider the appropriateness of the change including the legal, professional or contractual implications of the change. The firm will not agree to a change of engagement where there is no reasonable justification for doing so. Where the firm agrees to the new terms of engagement, it should confirm the new terms through a new engagement letter and issue a report based on the revised terms of engagement. Where the firm is unable to agree on the change in the scope and is not permitted to continue the original engagement, it should withdraw from the engagement and consider whether there is any obligation, either contractually or otherwise, to report to shareholders, those charged with governance and regulatory bodies on the circumstances necessitating the withdrawal. It would be appropriate to obtain legal counsel on such communication.

3.2.2 Practical procedure of preliminary engagement activities.

After received the order from ZIM Company, the board have an internal meeting to elect the appropriate engagement team. The engagement team is chosen according the size and the international of the client. This project prefers auditors who have a fluently language skill and have experience in working with international clients. After the meeting, the engagement team is formed which has 5 members:

- Mr Le Huu Phuc – the director manager of consulting department at A&C. He’s also the project leader.
- Ms Hoang Thanh Hai – Vice manager of audit department at A&C.
- Mr Ho Van Tung – Vice manager of audit department at A&C
- Ms Le Tran Phuong Thao – professional auditor

- Mr Phat Le (the author) – internship assistance.

The engagement team is required to start their job as soon as possible. The preliminary engagement activities stage is done after 3 days of working between the engagement team and the client.

Day 1

After, be informed about the election. Mr Le Huu Phuc decides to meet up with the engagement the next day. At the meeting, we introduce each other, discuss about the style of work and the frame work in this project. We have agreed that the precise of this project will be accuracy. The engagement team does not want any mistake during the project which may affect the result of audit and the popularity of the company. The project leader emphasize the important of the professional and the accuracy in implement this project.

The engagement team then starts discovering more about the client. We search for information and share with each other about ZIM Integrated Shipping Services Ltd – our clients. The overview of this company is:

- ZIM Integrated Shipping Ltd was established in 1945, and has developed into one of the largest leading carriers in the global container shipping industry. The headquarters of ZIM is located in Haifa (Israel), Norfolk, Virginia (USA), Hamburg (Germany) and Hong Kong. The current chairman of ZIM is Mr Nir Gilad.
- The company offers global shipping service which promised to the clients around the world a reliable, flexible shipping solution. For ZIM, there is no cargo challenge that cannot be met. ZIM's customers enjoy the peace of mind that comes from working with a carrier that offer proven shipping solutions, including out-of-gauge cargo, perishable goods, or hazardous cargo. Whether it is an elephant or ice cream, ZIM can carry it.
- The annual turnover of ZIM in 2011 is approximate 3.8 billion USD. The company owned around 6000 employees with the number ports of calls is 180 throughout the world with 10 strategically located hubs. ZIM has more than 450 offices and representatives in over 135 countries throughout the world in which China is the strongest department with over 30 offices.

The engagement team is aware of the size and the popularity of the client as well the important of the project. We will try our best to implement the project successfully.

Day 2

In day 2, the engagement team discuss together in order to compose the term of engagement. The type of audit is identified as audit of financial statement. The contract will cover the financial statement of ZIM during 2011 operation in Vietnam. The ethical in legislation will follow ISA and VSA. The engagement will be implemented within around 2 month (from 23/6/2012 to 20/8/2012).

The engagement team then prepares the working paper, print out all the needed forms (CAF & PAF) and categorize in specific area. The forms then are filled one by one by 4 members so the team and are double checked by the project leader. All the forms are followed the standard procedure of A&C. After all, all the form is filed and submitted to the board in order to be approved.

Mr Le Huu Phuc then presents some of critical ethical requirement for the members. He’s emphasize the professional and intelligible needed as well as remind some ethical issue that the engagement team may face during the process of the project.

Finally, the engagement team set up the contract signing meeting with ZIM Company. The contract will be signed 23/6/2012 at A&C’s office.

Day 3

The engagement meets the client on time. The ZIM’s representations are:

- Mr Yaki Mendel – General Counsel and Company Secretary.
- Mr Shai Babad – General Manager in Israel and Near East Area.
- Ms Chau My Linh – Head of Vietnam department

At first, the engagement team explains to the client about the sections in term of engagement which was composed and approved before. Then there is a discussion between the client and the engagement team about some section in the agreement. One of them is the duration of the engagement, the previous length of the engagement are 2 months, however, the client want the financial statement have to be announced before September due to the deadline of the governance. The engagement team finally agreed to reduce the time of the project and increase the price of the service to the new appropriate price. The new duration of this engagement is from 23/06/2012 to 07/08/2012

There is a highly united effort between both companies in almost every section of the contract. The process to get client acceptance is going quite smoothly due to the experienced of the engagement team. Beside the signed service, ZIM Company wants A&C to become the representative for them in front of taxation's agent. This year is the first time that ZIM operate in Vietnam; they want an experienced and trustworthy local audit company to represent for them with that legislation's issue.

After both side of the engagement agreed with all the term of agreement, the contract is signed between Mr Le Huu Phuc from A&C and Mr Yaki Mendel from ZIM. The engagement team now officially has the permission to implement the audit of financial statement to ZIM Integrated Shipping Ltd.

3.2.3 Differences between the standard and the practical procedure

Well, the preliminary stage is the shortest of the stages in the auditing procedure, it's usually take 1-5 days in the whole audit process. However, this stage has a big impact with the whole procedure, the stage will enable the company to approach the audit process into the client as well as gain the permission to implement any audit's investigate in order to gather audit's evidence that needed to produce audit's conclusion and statement. In this stage, the standard procedure is created and updated through many yeah of implementation; therefore, this stage is almost close to the practical process.

However, from the event that ZIM Company demand A&C to represent for them in front of the tax office, the author has asked the project leader whether this situation is prepared and is the company usually facing some additional demand like this. The project leader said that the company usually received additional demand not only in this project but also in other project. Those additional demand can be tax's representation service (this situation), accounting service, recruitment service etc. The firm usually not prepare for these situations, when the clients ask for that service, it's depending on the engagement team to consider whether the company's ability can fulfil that demand or not. If yes, the additional engagement letter will be composed and signed from both side like a second agreement. Due to the variation of the additional service, these situations are not stated in the procedure and this is the difference between the standard and the practical audit procedure.

3.2.4 Recommendation for A&C Company

From the answer of Mr Le Huu Phuc, the author has done the research and discovers that those situations are formed in to a section called **non-audit engagement.**

Beside audit related engagement, the firm can also provide other services to the client that does not compromise the firm's independence, its called **non-audit engagement**. Those services can be

- **Tax service:** this is the ZIM company situation, the client want A&C to carry the tax paper and represent them in front of tax's agent
- **Accounting service**: sometime the client company does not have their own internal accountancy or the company does not need a permanent accountant employee (they only need accounting for a short period of time). Therefore, they can require the accounting service in the agreement.
- **Recruitment service:** the company may requires the experts from A&C company to come and help them in some recruitment campaign that need accounting and auditing related knowledge and experience.
- **Legal service:** The client is sometime asking for the consultant of A&C to consult them in some legal issue especially with local policies and laws.
- **Information technology training service:** when the company client applies a new audit/accounting program, they can ask for training service from A&C or sometime, if they want to purchase the software, they can also order it from A&C.
- **Valuation service & actual valuation service:** sometime, the client company wants to evaluate their entity for purpose like transferring or mortgage, they can also demand in in the agreement.
- **Litigation support service:** when the client company is in litigation, if the litigation is in A&C ability, the client can ask for advice and support from A&C experts.
- **Transaction related service:** Transaction related services are clearly distinguishable from the audit of financial statement service. In this service, the accountant acts as adviser in connection with the management of a corporate finance transaction
- **Corporate finance service:** A&C may offer a comprehensive range of services to assist in the delivery of a corporate finance transaction. Services may be broadly divided into those that are offered to support a proposed deal i.e. "Transaction Support" ser-

vices and those where we are leading and coordinating a deal "Lead Advisory" Services…

The COE provides a safeguard through the use of different partners or teams with separate reporting lines for the provision of non-audit services to assurance clients. However, even when this is used, the firm should consider that relying heavily on an entity for its fee income or letting persons not engaged in the audit work to influence the audit could influence the independence requirements. Where other services are provided, it is recommended that separate engagement letters should be issued for each of the services including tax, accounting and management advisory services. The COE requires that where the firm is requested by an entity to undertake additional work which is clearly distinct from the one being carried out by the existing auditor, the firm should inform the entity of the professional obligation to communicate with the existing accountant and should immediately do so advising, in writing, of the approach made by the client and the general nature of the request as well as seeking all relevant information, if any, necessary to perform the assignment.

Where the entity insists that the existing auditor should not be informed, the firm should decide whether the client's reasons are valid enough not to communicate with the existing auditor.

3.3 Stage 2: Planning

3.3.1 Standard procedure of A&C Company

Why plan?

ISA/VSA 300 requires the auditor to plan the audit so that the engagement is performed in an effective manner. Planning also helps the firm perform the engagement efficiently. Planning involves establishing **and documenting** the overall audit **strategy for** the engagement and **developing and documenting** an **audit plan**, in order to reduce audit risk to an acceptably low level. Effective audit planning ensures:

- That appropriate attention is devoted to key audit areas and significant risks.
- Those potential problems are identified and resolved on a timely basis.

- That the engagement is properly organized and managed in order to be performed in an effective and efficient manner.
- Proper assignment of work to the engagement team and also makes the engagement team aware of their responsibilities.
- Proper direction and supervision of the engagement team and review of their work, and assists, where applicable, in the coordination of work done by the auditors of components and experts.

Planning is not a discrete phase of an audit, but a continual process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning should in any case start before the accounting year-end to take into account year-end procedures which need to be carried out e.g. attendance at the annual inventory count or circularization of receivables. The nature and extent of planning will vary according to the size and complexity of the entity, previous experience with the entity and changes in circumstances that occur during the engagement.

Planning – Overall Audit Strategy

The development and documentation of the overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. It also helps to ascertain the nature, timing and extent of the resources necessary to perform the engagement. In developing the audit strategy, the engagement team may consider the experience gained on other engagements performed for the entity. The key components of an audit strategy include:

- Review and updating the client background information.
- Location of the components of the entity.
- Financial reporting framework used and industry specific reporting requirements.
- The timing of the audit and reporting deadlines.
- Key dates for communicating with management and those charges with governance.
- Materiality.
- Identification of areas where there may be higher risk of material misstatement.
- Preliminary identification of material components and account balances.
- Preliminary indication of whether the auditor may plan to obtain evidence regarding the effectiveness of internal controls.
- Identification of recent significant entity-specific, industry, financial reporting or other developments.

- Initial assessment of the overall resource requirements including the use of experts on complex matters.
- Initial assessment of resource allocation to specific audit areas, e.g. the allocation of team members to observe inventory count at material locations, extent of review of the other auditor’s work in the case of group audits.

Beside the strategy, the final audit plan also relies on the discussion between A&C with the clients, the review of last year’s file as well as the initial engagement.

- **Discussion with clients:** Discussions with the client will be an essential aid to developing the audit strategy. The discussions would usually take place before the accounting year-end. It would be preferable to have a pre-audit meeting but in some cases a telephone conversation may be adequate. Discussions should also aim to:
    - Obtain the latest financial information to help in setting materiality levels and in performing preliminary analytical review work.
    - Agree a timetable (including inventory counts and visits) and any specific deadlines.
    - Agree schedule requirements and on any other accounting work to be produced by the client.
    - Find out the actions taken on the points raised in last year's management letter.
    - Agree settlement of any outstanding fees.
    - Identify any specific areas of concern to the client and their impact on the audit scope.

- **Review of last year’s file:** The last year's audit file should be reviewed for:
    - Points brought forward to be considered during the engagement.
    - Any areas where time or cost savings could be made, any unnecessary audit work and any other ways in which the effectiveness of the audit could be improved.
    - Any previously unidentified areas of audit risk.

- **Initial engagement:** In case of initial engagements, while the planning elements remain the same as for recurring engagements, the auditor may need to expand the planning activities as the auditor does not necessarily have the previous experience with the entity that is considered when planning recurring engagements. Additional matters that may be considered in planning initial engagements include:

- Where possible and where not prohibited by law, consider arrangements with the previous auditor to review the working papers.
- Review any major issues, including the application of accounting principles or auditing and reporting standards discussed with management or those charged with governance in connection with the initial selection as auditors, and how these affect the audit strategy and audit plan.
- Obtaining sufficient appropriate audit evidence regarding opening balances.
- Involvement of another partner or a senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance.

Furthermore matters that an Auditor May Consider in Developing an Audit Strategy can be seen in the appendix 2 (see appendix 2)

Audit Plan

The audit plan includes the nature, timing and extent of the audit procedures to be performed by the engagement team in order to obtain sufficient appropriate audit evidence to reduce the audit risk to an acceptably low level. Audit planning is evidenced in two ways by the Audit plan and Audit program

Audit plan: The audit plan documents the assessment of risk and the response to assessed risk by setting out the nature, timing and extent of the overall audit procedures to be performed by the engagement team in order to obtain sufficient appropriate audit evidence to reduce the audit risk to an acceptably low level. The plan also reflects the auditor's decision on whether to test the operating effectiveness of controls and the extent of planned substantive procedures.

The audit plan will often be prepared by the manager, although preparation of parts or all of it may be delegated to the senior. In the case of high risk audits, the partner may also be involved in preparing the plan, particularly in the areas of materiality, risk assessment and approach to assessed risk and sample sizes. The plan together with the tailored audit programs setting out the nature, timing and extent of the audit procedures to be adopted during the engagement should be completed and approved by the partner prior to commencement of the engagement. In the case of sole proprietorships or small audit firms, the partner may be actively involved in developing the audit plan and programs.

Audit program: The audit program documents the nature, timing and extent of audit procedures to be performed at the assertion level for each material class of transactions, account balance and disclosure. The program sets out the nature, timing and extent of the audit procedures required to implement the overall plan and serves as a set of instructions to the engagement team and as a means to control and record the proper execution of the audit.

The audit program will often be drafted by the senior and reviewed by the manager and approved by the engagement partner. However, the extent of the manager's role will depend on the senior's previous experience and knowledge of the entity.

Communication with Those Charged with Governance

The engagement partner or manager may discuss elements of planning with those charged with governance and the management as part of the overall communication required to be made or to improve the effectiveness and efficiency of the audit. The overall audit strategy and audit plan, however, remain the auditor's responsibility and the engagement team should exercise care not to compromise the audit by making the audit procedures too predictable by discussing the nature, timing and the extent of the audit tests. The matters normally communicated would include the overall audit strategy, the timing of the audit, any limitations on the scope of the audit and the audit requirements.

Time costing & time budgeting

The auditor's service to a client is based on the level of staffing involved on the engagement and the time spent by each staff on the engagement. It is therefore important that the firm adequately costs it's time to ensure that it is running a commercially viable practice and keeps an adequate record of time spent on each engagement. ISQC 1 requires that an auditor develops policies and procedures on compensation of human resources. Such polices can only be sustained on a long-term basis by ensuring that staff costs and operating overheads are recovered from the engagements undertaken.

Time budgets are an essential tool for monitoring the progress of an engagement, in determining actual performance against the budget and to assist in future planning of audits.

The aim of preparing budgets is:

- To aid in planning, so that the engagement team may use their time efficiently.
- To monitor the actual costs of the engagement.
- To estimate and negotiate the fees.

When preparing budgets, the following factors should be considered:

- The level of detail i.e. whether the budget is to be broken down into individual audit areas or prepared for the assignment as a whole.
- The time to be spent in planning, review and completion procedures.
- Any additions in the scope of the engagement.
- Contingency factors such as future staff salary increases.
- A comparison of last years' time spent with this year's budget. Any significant differences should be explained.

When conducting the audit, the engagement team should aim to keep within the budget in so far as is possible, but should **never** compromise the standard of their audit work, to keep within budget. If it appears that there will be significant discrepancies between the budgeted time and the actual time, the senior / manager should inform the manager / partner as soon as possible, particularly where additional time arises due to the client's shortcomings.

Time summaries should be prepared for all engagements and the total time spent should be compared with the budgeted time and reasons given for significant variances. A record should be kept of work which the engagement teams have had to complete as a result of client shortcomings, as a basis for additional charges if necessary.

Risk assessment

The engagement team should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risk of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. The audit procedures used to obtain an understanding of the entity and its environment including its internal controls are referred to as risk assessment procedures, as some of the information obtained by performing such procedures may be used by the engagement team as audit evidence to support assessment of the risks of material misstatement. The extent of the understanding required is a matter of professional judgment, and is based on the primary consideration on whether it is sufficient to assess the risk of material misstatement of the financial statements and to design and perform further audit procedures. The level of understanding required is however less than that required by the management in managing the entity.

In addition, in performing risk assessment procedures, the engagement team may obtain audit evidence about classes of transactions, account balances, or disclosures and related assertions and about the operating effectiveness of controls, even though such audit procedures were not specifically planned as substantive procedures or tests of controls. The engagement team may choose to perform substantive procedures or tests of controls concurrently with risk assessment procedures because it is efficient to do so.

Risk assessment at planning stage

ISA/VSA 315 requires the engagement team to identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. Obtaining an understanding of the entity and its environment establishes a frame of reference within which the engagement team plans the audit and exercises professional judgment about assessing risks of material misstatement and responding to those risks throughout the audit. The engagement team is also required to assess the risks of material misstatement due to fraud. The engagement team at the planning stage should summarize the key risks attached to the entity and factors that may minimize or eliminate those risks. (See more at appendix 3: Conditions and Events that may Indicate Risks of Material Misstatement)

Recording and Assessment of the Accounting and Information Systems

Entities which are subject to statute are usually required by their governing law to keep proper accounting records which reflect all the business transactions. Entities which are subject to taxes on profits need to keep accounting records sufficient to enable periodic financial statements to be prepared. Engagement teams of such entities are required to report to the members if, in their opinion, governing legislation has been complied with, and on whether proper accounting records have been kept.

The recording of the accounting system should identify the major transaction cycles, significant accounting records, the in-built controls and the financial reporting process.

An understanding of the accounting system, together with internal controls in-built into the system, provides an answer to whether proper and reliable accounting records have been kept, and whether there is a recognizable control system in operation.

Engagement team's Response to Assessed Risk

ISA/VSA 330 requires that in order to reduce audit risk to an acceptably low level, the engagement team should determine the overall responses to assessed risks, including the risk of material misstatement due to fraud or error at the financial statement level, and should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risk of material misstatement at the assertion level. In designing the audit approach, the engagement team should develop a clear linkage between the nature, timing and extent of further audit procedures and the risk assessment, taking onto consideration:

- The significance of the risk.
- The likelihood that a material misstatement will occur.
- The characteristics of the class of transactions, account balance or disclosure involved.
- The nature of the specific control used by the entity and in particular whether they are manual or automated.
- Whether the engagement team expects to obtain audit evidence to determine if the entity's controls are effective in preventing or detecting and correcting material misstatements.

The nature, timing and extent of the audit procedures are a matter of the engagement team's professional judgment. In some cases, the engagement team may determine that only by performing tests of controls may the engagement team achieve an effective response to the assessed risk of material misstatement for a particular assertion. In other cases, the engagement team may determine that performing only substantive procedures is appropriate for specific assertions and, therefore, the engagement team excludes the effect of controls from the relevant risk assessment. This may be because the engagement team's risk assessment procedures have not identified any effective controls relevant to the assertion, or because testing the operating effectiveness of controls would be inefficient. However, the engagement team needs to be satisfied that performing only substantive procedures for the relevant assertion would be effective in reducing the risk of material misstatement

In the case of very small entities, there may not be many control activities that could be identified by the engagement team; the engagement team's further audit procedures are likely to be primarily substantive procedures. In such cases, the engagement team also considers whether in the absence of controls it is possible to obtain sufficient appropriate audit evidence.

Test of control

ISA/VSA 330 requires the engagement team to perform tests of controls when the engagement team's risk assessment includes an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. The engagement team is required to obtain sufficient and reliable audit evidence that the controls were operating effectively at all relevant times during the audit. Testing the operating effectiveness of controls is performed only on those controls that the engagement team has determined are suitably designed to prevent, or detect and correct a material misstatement in an assertion. In making the decision, the engagement team considers the following factors:

- Key controls.
- The degree of reliance required.
- Which controls address similar assertions to substantive procedures?
- How easily controls can be tested.
- The evidence gained from previous years and the impact of any changes.
- The IT environment.
- Cost effectiveness and staff requirements.
- Any specific legal or regulatory requirements.

In practice, most small and medium sized entities will not have any reliable system of internal control and therefore the engagement team may have to obtain audit evidence primarily from substantive procedures. Even where apparently reliable systems do exist, it will often not be cost effective for the engagement team to carry out tests on internal control in the small to medium sized entities.

3.3.2 Practical procedure of planning stage.

Day 1&2

Planning is the most important stage in the auditing procedure, it is even more important than the execution stages. The audit plan must be composed carefully and conducted every sector that related to the engagement. In the first day of working for planning stages, the engagement team discusses and composes the overall audit strategy. The outcome of the working can be summarizing as follow:

- The period of ZIM that required to be audited is 3 months/time for the whole 2011's operation.
- The accounting approached standards are the combination of Vietnamese Accounting Standard (VAS) and International Financial Reporting Standard (IFRS).
- About the level of independency, the engagement team assess that there is no factor that can affect the independence of the auditors.
- There is no possibility of changing environment or client structure during the engagement
- There are also no possibility of changing accounting system and financial reporting.
- The currency convert will be used is the ratio of City Bank
- ZIM has not any internal audit and accounting; therefore, there is no extent on reliance on the work of internal audit, any other experts and other auditors and service organizations.
- The client's record is good, ZIM had not made any fraud or guilty in operation before.
- The level of risk is low enough for A&C continue accept the client. The only thing that may cause the risk of material misstatement and fraud or may affect the engagement is that there are some delays in invoice recorded. The amount of money that already paid for ZIM's supplier was not updated in the record which leads to the misstatement in the data. ZIM's liabilities from the suppliers still appear in the record although ZIM had already paid that amount. The engagement team also responds to that risk and asks ZIM to double check their invoice and updates their record no later than 30/06/2012.

The next day, the engagement team meet to evaluate the level of acceptance with the existing client (ZIM Integrated Shipping Ltd). The objective of this meeting is to ensure the sufficient information has been obtained to enable the firm to decide whether to continue the audit engagement. Information and questionnaire must be completed each year after conclusion of the last audit.

- According to the analysis of the engagement, ZIM has not changed compare to last year which is a good thing. The principle shareholders and members of the firm still remain as well as the board of the management. Those lower positions like the directors or affiliates are also remain their job. There is also no change in associated companies and related party transactions with ZIM.

Other issues such as legal and regulatory, financial condition, accounting and audit and issue that related to A&C company also be discussed in the assessment. Overall there is no critical factor that may prevent the success of this engagement. The risk assessment of the client is medium. A&C has decided to continuing accept ZIM company as a client. Mr Le Huu Phuc as a project leader has signed to the assessment to confirm this.

Day 3

In the next day, the engagement working on the time budgeting excel sheet. The process of planning time budgeting is completely similar in compare with the standard process. Time budget for each member of the engagement team is calculated and documented. The time budget per hour is varying depend on the position of a person in a company. For example, time budget per hour of the project leader is 1.2 million VND (approximate 40 Euro) while the amount that a normal auditor earner per hour in this project is 0.8 million VND (app. 26.5 Euro). The lowest time budget per hour is the intern assistant (the author) 0.35 million VND (app. 11.5 Euro). The engagement team also set the expected working hour for each member in order to calculate the total time budget of this project. As a result, the expected total working hour of this project is 164 hour which will cost 116.4 million VND (app. 3880 Euro).

Day 4&5

In the next day, the team is working on the assessment of fraud risk. The objective of this stage is to obtain an understanding of the company sufficient to identify and assess the risk of material misstatement of the financial statement due to fraud. The project leader emphasize that the engagement team is required to maintain an attitude of professional scepticism during the audit. Each member of the team should maintain a proper state of mind throughout the audit regarding the potential material misstatement due to fraud and consideration of types of circumstances that, if encountered, might indicate the possibility of fraud. Circumstances identified should be documents and the approach to address the risk recorded as part of the amendments to the Audit Strategy and Plan.
The assessment is implemented between the members of the team. At first, we assess factors that are identified as risk related to the fraudulent preparation of financial statement. The factors are formed into yes/no

question and the answer will be given by the team after considered carefully. Here are examples of factors that we assessed:

- Effects of economic situation, occupational or operational conditions of the company on the financial stability or profitability.
- High pressure on the company's management to meet the demands or expectations of the third parties
- Financial position, income of members of the management or the Board of Management are affected by the financial results of the company
- Chances leading to the fraudulent preparation of financial statements.
- Attitudes, acts leading to the fraudulent preparation of financial statements

  …

We also assess the risk from the embezzlement of assets such as:

- Motivation, pressure leading to the embezzlement of assets.
- Chances leading to the embezzlement of assets
- Attitudes, acts showing the doubt of asset embezzlement

  …

As a result, ZIM Integrated Shipping Ltd. received the answer "no" for every fraud risk questionnaire. The conclusion of the engagement team is that the company has no identification of areas susceptible to fraud. A&C Company is now ensured free from fraud risk.

We also work on the points that brought forward from previous audit. The objective of this stage is to bring forward from the last year's audit file items which may affect the conduct or cost of the audit this year and the purpose is to ensure that the points brought forward schedule from the previous year is brought forward and properly dealt with. According to the previous audit report, there are some small points related to tax, assurance and reward mechanism of the clients last year. The engagement team has recorded and highlighted the problem in order to clearance for further related action during the audit procedure.

Day 6

On day 6, the engagement team working on the independence confirmation statement. The statement is composed base on the standard ethical of A&C Company. All the members of the engagement team have read, agreed and signed in the statement.

After that, we work on the permanent audit file review checklist. The purpose of this process is to set out the minimum documentation that should be included in the client's file. The original working paper in the permanent file must be updated at each audit. Superseded information should be transferred either to the current year's Audit file. The checklist included 8 sections:

- General information
- Legal document
- Accounting information
- Tax information
- Personnel information
- Agreement information
- Audit information
- Group information.

All the reviewing and unnecessary documents can be rejected from audit file (document beside below 8 sections).
Finally, the engagement team assign duties to members of the team. At this stage, the project leader has the analysis about the strong and weakness of each member in the team. The tasks are allocated to each member due to their ability and experience. The duties and assigned member are formed into a document and delivered to each member of the team.
After the members of the team have read their duties, there is a meeting among the team. At the meeting, Mr Le Huu Phuc talks about some specific task that needs to be paid extra attention. He also emphasizes the important of being qualified and being on time. The members can discuss about their task if there are any problems. The purpose of the meeting is to ensure that every member understands their task and responsibility and they are happy with their duties. The members are required to have responsibility for their task and ensure the outcome must be professionally qualified and submitted on time.

3.3.3 Differences between the standard and the practical procedure

In comparison with the standard audit procedure, the practical procedure at planning stage has 4 main different points.

Firstly, the planning stage in practice is the most important stage in the whole audit procedure while in the standard, the planning stage is less important than the execution stage. The audit plan has listed out all the tasks that need to be done and which member responds for which tasks. The plan brings out the risks that may occur during execution as well as the solution for that risk. In addition, the audit plan also covers the tasks allocated and the assessment for the outcome. In A&C Company, the audit plan is required to be detail enough for the execution stage to totally rely on.

According to Mr Le Huu Phuc, planning stage is taken 40% of the whole audit procedure's pie, execution stage is follow up with 30%, preliminary stage take 10% and other 20% are review, complete and report. He's also emphasize that planning stage is require more effort and attention of the engagement team than other stages because when the engagement team has done the audit plan, it's mean that they have done almost half of the job and the engagement team can just stick with the plan from now on. He's also stage that the more detail the plan is, the easier the execution will be.

Secondly, in the first day of planning working stage, we worked on the level of acceptant of client which do not stated in the standard procedure. The objective of this stage is to ensure the sufficient information has been obtained to enable the firm to decide whether to continue the audit engagement. Information and questionnaire must be completed each year after conclusion of the last audit. In practical, this stage is one of the critical stages. There are quite a lot clients were declined or need to solve the risk in order to continue audit engagement. The client has the responsibility to ensure that there will be no risk during the audit procedure, this policy is stated in the agreement between A&C Company and clients, therefore, if there are any problems that affect or prevent the work of the engagement team, the client have the duty to solve it. Otherwise, the contract will be terminated automatically and the client has to pay penalty fee or lose their deposit. A&C Company has the right to bring any conflict situation into governance court.

Thirdly, the permanent audit file review checklist process, this process is also not listed in the standard procedure. The purpose of this process is to set out the minimum documentation that should be included in the client's file. At this stage, all value documents in the project will be gathered in to a file. This file will be kept at a ware house of company. This file can be used as evidence if there are any legally dispute may occur or can be used as a sample as well as last year review for similar projects in a future.

Lastly, there is 1 more process that happens in real life but not stated in the standard procedure. That is the assigning duties to member of the team step. The purpose of this step is to link that tasks that need to be done with the members of the team. This is a critical step that the standard procedure forgets to bring in. This step help member know what their duties are and position in the project as well as inform the member about the desired quality and deadline of the outcome. Follow up with this step is a meeting where the team can discuss together in order to solve the personal problems of the member with his or her tasks. According to Mr Le Huu Phuc, this step is very important and always need to be done before the execution begin. The reason this step is forgotten in the standard procedure maybe because this step is very obvious so it is understood as a default at planning stage without stated.

Besides the 4 listed main different points, there are some other minority different points such as the order of each step in the procedure and the layout of some planning document…

3.3.4 Recommendation for A&C Company

As a recommendation for the current standard procedure, firstly, the author wants the standard procedure to emphasize more about the important of audit planning stage. The planning stage should be the most important stages in a whole audit procedure but not execution. In real life, the planning stage is always taken more time consuming and effort of the engagement team than other stages. Most auditors will tell you the worst way to approach an engagement are to go into it without preparation. The key factor when I plan an engagement is to gain an understanding of the organization and its management. By gaining this understanding, the engagement team can develop an expectation of the organization's financial needs. This also helps set an expectation of the areas where the organization has the most risk - both financially and in its operations. By the time analytical procedures are conducted, the team will have a good idea of areas that will need to be tested during fieldwork. The engagement team can set up the tests and select the samples once they get to the field. Proper planning can reduce fieldwork and report time, which reduces the overall cost of conducting an audit, and in many cases results in a lower fee charged in time costing and other risk. Once the audit strategy has been established, then the auditor is able to develop the more detailed audit plan to address the matters identified in the overall audit strategy. The auditor should then reduce the audit risk to an acceptably low level. Audit risk is the risk that the auditor will arrive at the wrong opinion.

As a conclusion for the first recommendation, the planning stage of the audit is an extremely vital area. Going in to an audit ‘blind’ is wreck-less and does not conform to the ISAs relating to planning – namely ISA 300 and ISA 315. The core principle involved in the audit planning is to ensure the audit is carried out efficiently and that sufficient attention is devoted to important audit areas.

Secondly, the author wants to add some processes into the standard procedure. Those processes are nearly happen in every audit projects at planning stages but not listed in the standard procedure. Those typical processes are **existing client acceptance, permanent audit file review check list** and **tasks allocation.**

- **Existing client acceptance:** in this step, the company will assess the risk from the client in order to estimate the level of acceptant of the company with the client. There is a standard measurement for the company to decide whether the client is qualified enough to continue the engagement or not. This process is taken a critical role in risk assessments which also include fraud risk. By assess the level of client's acceptance; the company not only protect themselves from potential hidden risks but also protect the client by informs them if there is anything wrong with their company. In real life, A&C Company always has to do the existing client acceptance's document before the execution stage. Therefore, this process should be stated in the standard procedure together with risk assessment part.

- **Permanent audit file review checklist:** In this process, the engagement team work on the audit document that need to be include in the client's permanent file. The original working paper in the permanent file must be updated at each audit. Superseded information should be transferred either to the current year's audit file. In real life, this process usually is done after the audit plan is ready. The entire needed document will be formed into a file under the client name. The author suggests that this process should be added into the standard procedure after the risk assessment part. The checklist may not add any value to the audit plan but it ensures that the audit plan is included all needed document and avoid missing statement that may happen during the execution and review stages. Therefore, this step is importance enough to add into the standard procedure.

- **Task allocation:** in this step, the project leader lists out all the tasks that need to be done in this project. After identify the tasks list, he or she will allocate the human resource into appropriate tasks due to the strength and weakness of each member in the team. The outcome of this process is the task allocating document. The document will be delivered to the members of the team and follow up with a meeting to sync the project leader expectation with the member's expectation. Although this step is not auditing related, it is playing an crucial role in the planning stages. Imagine that before a sports team goes out to play a game, a large amount of time is spent deciding which player will play a particular position. The position that a player is placed in will often be dependent on their level of skill. It will also be dependent on the estimated performance of the opposite team. It is the leader who is responsible for picking the right players to play in a certain position, and this is called task allocation. Task allocation is just as important in business as it is in sports. Learning how to put the right people in the right position will mean the difference between success and failure. Task allocation can decide whether the project wills success or not. Therefore, the author suggests that there should be a chapter about task allocation in the standard audit procedure. The position of this task should go after everything in the planning stage. This is the last process in the planning stage and right before the execution stage.

Planning stage is the most importance stage; therefore, it is importance to make the standard procedure of this stage better in time. A&C Company should consider updating the standard procedure through collecting the idea and feedback of the employee after every project in order to complete their own standard procedure. And finally, like Mr Le Huu Phuc said:" The more detail the plan is, the easier the execution will be".

3.4 Stage 3: Execution

3.4.1 Standard procedure of A&C Company

The key components of the execution stage are:

- Carrying out the test of controls and substantive tests on transactions and balances including substantive analytical procedures to obtain sufficient and appropriate audit evidence to enable the engagement team to draw reasonable conclusions on which to base the audit opinion.
- Evaluating significant assumptions used in fair value measurement to determine the reasonableness of the basis used and the disclosures.
- Identification of related parties and obtaining sufficient and appropriate audit evidence in respect of measurement and disclosure of related party transactions.
- Documenting the nature, timing and extent of the audit procedures performed and the results and conclusions drawn from the audit evidence obtained.

Audit evidence

ISA/VSA 500 defines Audit Evidence as *"all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes the information contained in the accounting records, underlying the financial statements and other information"*.

In the conduct of an engagement, the engagement team should obtain sufficient appropriate audit evidence to enable it to draw reasonable conclusions on which to base the audit opinion. The engagement team is not expected to address all information that may exist as they may use sampling approaches and other means of selecting items for testing. The team may find it necessary to rely on evidence that is persuasive rather than conclusive.

Audit evidence should be evaluated by its characteristics which include:

- **Sufficiency:** is the measure of the quantity of audit evidence needed to form the audit opinion. The judgment on what is sufficient will be influenced by:

    - The risk of misstatement (the greater the risk, the more evidence is likely to be required).
    - The assessment of the accounting and internal control procedures.
    - The materiality of the item being examined.
    - The experience gained during past audits.
    - The source and nature of the evidence available

- **Appropriateness:** a is the measure of the quality of audit evidence and relates to:
    - **Relevance:** The relevance of audit evidence has to be considered in relation to the objective of forming an opinion and reporting on the financial statements. When assessing the relevance of audit evidence relating to tests of controls to support the assessed level of control risk, the engagement team should consider 2 aspects: Design and Operation
        - **Design:** Whether the accounting and internal control system is capable of preventing or detecting material misstatements
        - **Operation:** Whether the controls exist and have operated effectively throughout the relevant accounting period.

- **Reliability:** The reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

- **Consistency:** The engagement team would ordinarily obtain more assurance from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually.

External Confirmation

External confirmation is the process of obtaining and evaluating audit evidence through direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements. In deciding to what extent to use external confirmations, the engagement team considers the characteristics of the environment in which the entity being audited operates and the practice of potential respondents in dealing with requests for direct confirmation.

External confirmations are frequently used in relation to obtaining evidence regarding account balances and their components, but may also be used as a request of external confirmation of the terms of agreements or transactions an entity has with third parties. The confirmation request is designed to ask if any modifications have been made to the agreement, and if so, what the relevant details are.

Examples of situations where external confirmations may be used include:

- Bank balances and other information from bankers.
- Accounts receivable balances.
- Stocks held by third parties at bonded warehouses for processing or on consignment.
- Property title deeds held by lawyers or financiers for safe custody or as security.
- Investments purchased from stockbrokers but not delivered at the balance sheet date.
- Loans and other borrowings.
- Contingent liabilities including off-balance sheet items and legal cases.
- Accounts payable balances.

The engagement team should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence to support certain financial statement assertions. In making this determination, the engagement team should consider the assessed risk of material misstatement at the assertion level and how the evidence from other planned audit procedures will reduce this risk to an acceptably low level for the applicable financial statement assertions.

Analytical procedure

ISA/VSA 520 requires that the auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit.

Analytical procedures are defined as *"evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts"*.

Analytical procedures are used for the following purposes:

a) At the **planning stage** as a risk assessment procedure to obtain an understanding of the entity and its environment;
b) As **substantive procedures** during the execution phases, when their use can be more effective or efficient than tests of details in reducing the risk of material misstatement at the assertion level to an acceptably low level; and
c) As an overall review of the financial statements at the **completion stage** to confirm that the financial statements as a whole are consistent with our understanding of the entity.

Benefits of Analytical review:

a) Preliminary risk assessment: Assists in gaining an understanding of the business and helps direct audit work to key audit areas.
b) Substantive procedures: May be an efficient way of obtaining substantive assurance thereby providing audit evidence to support the audit opinion.
c) Completion: Assists in the overall review of the financial statements.
d) Other benefits: Conclusions reached may provide a source of recommendation to the client.

Type of Analytical Technique

Analytical techniques can be classified under three broad headings:

Trend analysis: This is the analysis of changes in a given item over time. Trend analysis procedures could include:

- Period by period comparisons.
- Graphs of recent and historic results.
- Weighted averages of recent and historical results.
- More complicated statistical techniques such as regression analysis.

One danger of trend analysis is that trends may be explained by general explanations without further investigation being undertaken.

Ratio analysis: Ratio analysis procedures compare relationships between items in the accounts over time, or between different entities. Ratio analysis may involve comparison of financial ratios, or items compared with other items (for example, cost of sales as a percentage of sales).

In order for ratio analysis to be helpful, the ratios compared must have been calculated on a consistent basis and the relationship between the factors in the ratio should be stable.

Reasonableness tests: Reasonableness procedures aim to develop an estimate of an item based on the auditor's understanding of relationships involving relevant financial and operating data. Examples of reasonableness tests include overall verification procedures (such as total revenue divided by the room charge to determine the occupancy level) and proof in total tests (such as opening inventory, plus inventory produced, less inventory sold, equals closing inventory, which should equal inventory counted at the accounting year-end). For reasonableness tests to work, all relevant factors have to be considered.

Recording of Analytical Review

Analytical procedures must be documented in order to provide valid support for the audit opinion. Any working papers which detail analytical procedures used as substantive tests should include:

- The objectives of the tests.
- The sources of the information used.
- Details of the procedures performed (such as trends, ratios, or reasonableness tests).
- The basis of calculations and the documentation of the expectations against which to compare the outcomes.
- All assumptions used.
- Other factors affecting the procedures used.
- Any predictions made and tolerable ranges or results accepted.

- The extent and nature of variations, highlighting significant fluctuations.
- Explanations obtained for variations, including their origin.
- Tests carried out to verify explanations received.
- Any re-calculations and other procedures considered necessary.
- The extent of any effect on the audit plan.
- The conclusions reached, including an estimate of the amount of misstatements.

Analytical Procedure as Conclusion

ISA/VSA 520 requires the auditor to apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the financial statements, as a whole, are consistent with the auditor's understanding of the entity. The conclusions drawn from the results of such audit procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements and assist in arriving at the overall conclusion as to the reasonableness of the financial statements. However, they may also identify a previously unrecognized risk of material misstatement. In such circumstances, the engagement team may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.

Substantive testing of transactions and account balances

Substantive tests are tests of detail of transactions, balances and disclosures which seek to substantiate the completeness, accuracy and validity of the information contained in the accounting records or financial statements. They include inspection of records, documents or assets and external confirmations. The objective of these tests, together with other procedures such as analytical review, is to verify the substance of the income, expenditure, assets and liabilities, which have been incorporated in the accounting records. Tests are also necessary to verify that no material omissions have occurred in compiling the records. Substantive tests must be performed for each material class of transactions, balances and disclosures even if all risks have been assessed as low.

Substantive procedures also include:

- Agreeing the financial statements to the underlying records.
- Examining the journal entries passed while preparing the financial statements.

- Evaluation of whether the overall presentation of the financial statements, including disclosures, is in accordance with Vietnamese accounting standards/International Financial Reporting Standards (IFRS).

Directional testing

In order to design an efficient program of substantive tests, the primary aim of each test needs to be defined. Consideration also needs to be given as to what extra assurance can be gained from the tests contemplated, as well as the assertions being sought. Use of directional testing enables this to be done.

The principle of directional testing is that the objective of an audit test is usually to detect either understatement or overstatement (and in rare cases, both). Accordingly, an audit test should only be expected to find errors consistent with its objective (i.e. a test for overstatement of receivables should only be relied upon to find errors in relation to overstatement of receivables and should not be relied upon to find errors of understatement of the same). However, due to the features of double-entry bookkeeping, an error of overstatement results in <u>either</u> an understatement or an overstatement of another item in the accounts, depending on whether the items concerned are assets or liabilities. For example, if an asset is overstated, there is a possibility that either:

a) Another asset is understated for example a posting error between two classes of assets;
b) A liability has been overstated for example an invalid liability has been established to finance an invalid asset;
c) An item of expenditure has been understated for example an asset has been incorrectly capitalized
d) An item of income has been overstated for example an incorrect amount of investment income has been accrued.

Sampling

As per ISA/VSA 530, “Audit Sampling (sampling) involves the application of audit procedures to less than 100% of items within a class of transactions or account balance such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or a non- statistical approach”.

Factors Determining the Use of Sampling

There are 2 factors that determine the use of sampling in auditing procedure:

- **Audit objective:** The objectives of the sampling process should be considered, in particular, whether overstatement or understatement is being tested, or whether controls are being tested.
- **Assurance required:** Each audit test should be designed to be no more extensive than is necessary to obtain sufficient evidence or to keep the audit risk within acceptable limits. This means that materiality will be a key factor.

Method of selecting sample

The methods of selecting sample may vary depend on the audit's objectives. The principles of method sample selection are as follow:

100% testing: this is the most appropriate method to examine the entire population of items that make up a class of transactions or account balance. 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details.
Systematic selection: in this method, the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined randomly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables.

Haphazard selection: the sample is selected without following a structured technique in this method. Although no structured technique is used, one would nonetheless avoid any conscious bias or predictability and thus attempt to ensure that all items in the population have a chance of selection.

Block selection: this technique is rarely used in audit sampling's selection. This involves selecting a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.

Value weighted selection: In this method, the currency unit value rather than the physical unit is used as the sampling population. Each individual monetary unit is given an equal chance of selection (for example, one CU amount is selected out of the first ten thousand, and thereafter, each ten thousandth CU amount is examined). As an individual currency unit cannot be examined, the item which includes that CU amount is chosen for examination. The chance of each item being selected is proportional to the value of the item. A result of value-weighted selection is that high value items have a greater chance of being selected, and confirmation regarding a large proportion of the population can often be gained.

The decision as to which approach to use will depend on the circumstances, and the application of any one or combination of the above means may be appropriate in particular circumstances. While the decision as to which means, or combination of means to use is made on the basis of the risk of material misstatement related to the assertion being tested and audit efficiency, the engagement team.

Performing the Audit Process

After the appropriate samplings are selected, the engagement team should perform audit procedures appropriate to the particular audit objective on each item selected.

If a selected item is not appropriate for the application of the audit procedure, the audit procedure is ordinarily performed on a replacement item. For example, a cancelled delivery note may be selected when testing operating effectiveness of controls over sales. If the engagement team is satisfied that the delivery note has been properly cancelled such that it does not constitute an error, an appropriately chosen replacement can be examined.

In certain instances, the engagement team may be unable to apply the designed audit procedures to a selected item because, for instance, documentation relating to that item has been lost. If suitable alternative audit procedures cannot be performed on that item, the engagement team ordinarily considers that item to be in error. An example of a suitable alternative audit procedure might be the examination of subsequent receipts when no reply has been received in response to a positive confirmation request.

Evaluating the result

The engagement team should evaluate the sample results to determine whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised. The following steps should be taken:

- Analyse the effect of errors found.

- Project the error or deviations found.
- Assess the risk of an incorrect conclusion.

Audit of accounting estimates

Accounting estimates are defined by ISA/VSA 540 as "an approximation of the amount of an item in the absence of a precise means of measurement".

ISA/VSA 540 also provides the following as examples of accounting estimates:

- Allowances to reduce inventory and accounts receivable to their estimated realizable value.
- Depreciation on property, plant and equipment.
- Accrued revenue.
- Deferred tax.
- Provision for a loss from a lawsuit.
- Losses on construction contracts in progress.
- Provision to meet warranty claims.

The responsibility of making provisions for accounting estimates in the financial statements lies with the management of an entity. The risk of material misstatement is normally greater when accounting estimates are involved and these are made in conditions of uncertainty regarding the outcome of events that have occurred or are likely to occur and involve the use of judgment. In some cases, the engagement team may determine that the risk of material misstatement related to an accounting estimate is a significant risk that requires special audit consideration.

Audit procedures to be adopted on testing of accounting estimates

The engagement team will design and perform further audit procedures to obtain sufficient appropriate audit evidence as to whether the entity's accounting estimates are reasonable in the circumstances and, when required, appropriately disclosed. The audit evidence available to detect a material misstatement in an accounting estimate is usually more difficult to obtain and less persuasive than audit evidence available to detect a material misstatement in other items in the financial statements.

An understanding of the procedures and methods including relevant control activities used by management in making the accounting estimates is important for the engagement team to identify and assess risks of material misstatement in order to design the nature, timing and extent of the further audit procedures.

Evaluation of results

The engagement team makes a final assessment of the reasonableness of the entity's accounting estimates based on the understanding of the entity and its environment and whether the estimates are consistent with other audit evidence obtained during the audit.

The engagement team will consider whether there are any significant subsequent transactions or events which affect the data and the assumptions used in determining the accounting estimates.

Because of the uncertainties inherent in accounting estimates, evaluating differences can be more difficult than in other areas of the audit. When there is a difference between the engagement team's estimate of the amount best supported by the available audit evidence and the estimated amount included in the financial statements, the team should determine whether such a difference requires adjustment. If the difference is reasonable, it may not require adjustment. However, if the engagement team believes the difference is unreasonable, management would be requested to revise the estimate. If management refuses to revise the estimate, the difference would be considered a misstatement and would be considered with all other misstatements in assessing whether the effect on the financial statements is material.

The engagement team should also consider whether individual differences, which have been accepted as reasonable, are biased in one direction, so that on a cumulative basis, they may have a material effect on the financial statements. In such circumstances, the engagement team would evaluate the accounting estimates taken as a whole.

Related Parties

Related party - A party is related to an entity if:

- Directly, or indirectly through one or more intermediaries, the party:
- Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- Has an interest in the entity that gives it significant influence over the entity; or iii. Has joint control over the entity;
- The party is an associate (as defined in IAS 28, "Investments in Associates") of the entity;

- The party is a joint venture in which the entity is a venture (see IAS 31, “Interest in Joint Ventures”);
- The party is a member of key management personnel of the entity or its parent;
- The party is a close member of the family of any individual referred to in (a) or (d);
- The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Related party transactions - A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The engagement team should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements.

However, it should be noted that an audit cannot be expected to detect all related party transactions due to the degree of uncertainty associated with assertions regarding completeness of related parties. ISA/VSA 550, “Related Parties”, identifies audit procedures aimed at providing sufficient appropriate audit evidence regarding identification of related parties and transactions with them. If the engagement team becomes aware of circumstances that increase the risk of material misstatement beyond that which would ordinarily be expected, or indicate that a material misstatement regarding related parties has occurred, and then the team should perform modified, extended or additional audit procedures as are appropriate in the circumstances.

Subsequent events

IAS 10 state that “Events after the Balance Sheet Date”, defines subsequent events as “those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorized for issue”. There are two types of events:

- **Adjusting events:** those events that provide evidence of conditions that existed at the balance sheet date
- **Non-adjusting events:** those events that are indicative of conditions that arose after the balance sheet date

Audit procedures for subsequent events

ISA/VSA 560 requires that "The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified". These procedures are in addition to routine procedures, such as checking for subsequent receipts from customers, testing of inventory cut-off and payments to suppliers, which are applied after the date of the financial statements to obtain audit evidence on account balances at the date of the financial statements.

A subsequent events review is performed as near as practicable to the date of the auditor's report and would normally include the following procedures:

- Reviewing managements' procedures over identification of subsequent events.
- Reviewing minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
- Reviewing the entity's latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
- Inquiring of the entity's lawyers concerning litigation and claims.
- Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
    - The current status of items that were accounted for on the basis of preliminary or inconclusive data.
    - Whether new commitments, borrowings or guarantees have been entered into.
    - Whether sales of assets have occurred or are planned.
    - Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned.
    - Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
    - Whether there have been any developments regarding risk areas and contingencies.
    - Whether any unusual accounting adjustments have been made or are contemplated.

- Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.

Recording and Conclusion

The engagement team will need to ensure that any identified subsequent events, which materially affect the financial statements, are properly accounted for and adequately disclosed in the financial statements.

Action after the audit report is signed but before the financial statements are issued

As per ISA/VSA 560, it is not the auditor's responsibility to perform audit procedures or make inquiries regarding the financial statements after the date of the auditor's report. Should any matters which materially affect the financial statements arise after the financial statements have been issued, it is the responsibility of management to inform the auditor of these matters.

When, after the financial statements have been issued, the firm becomes aware of a fact which may materially affect the financial statements, the engagement partner should consider whether the financial statements need amendment and should discuss the matter with management. The engagement partner should take appropriate action in the circumstances.

If management amends the financial statements, the engagement partner should carry out the audit procedures identified in Section 20.2 above and issue a new audit report, which should be signed after the date of approval of the amended financial statements.

If, even after the engagement partner has asked management to amend the financial statements and management refuses to do so, but the auditor's report has not been released to the entity, the engagement partner should express a qualified opinion or an adverse opinion. Where the audit report has already been sent to the entity, the engagement partner should ask management not to issue the financial statements and auditor's report to third parties. If the financial statements have already been released, the engagement partner should seek legal advice on how to prevent reliance being placed on the auditor's report.

Action after the financial statements are adopted by the members

When, after the financial statements have been issued, the firm becomes aware of a fact which existed at the date of the auditor’s report and which, if known at that date, may have caused the firm to modify the auditor’s report, the engagement partner should consider whether the financial statements need revision and should discuss the matter with management. The partner should take appropriate action in the circumstances.

If management amends the financial statements, the engagement team should carry out the audit procedures identified in Section 20.2 above. In addition, the team will need to review the steps taken by management in informing all recipients of the previously issued financial statements and auditor’s report of the situation.

The engagement partner will need to issue a new audit report on the revised financial statements which should be signed after the date of approval of the amended financial statements. The new auditor’s report should contain an emphasis of matter paragraph referring to a note to the financial statements that discusses the amendment to the previously issued financial statements and earlier auditor’s report.

Where management does not amend the financial statements and does not take necessary steps to inform all recipients of the previously issued financial statements and auditor’s report of the situation, the engagement partner may need to seek legal advice on the best course of action to take to prevent reliance being placed on the auditor’s report.

3.4.2 Practical Procedure of execution stage.

At first, the author want to inform the audiences that this part is the part that the author has much less involve than the other parts in ZIM’s project because this part need a very deep knowledge of auditing and consulting which is out of author’s ability. However, the author has observed the basic processes of this stage. The implementation of execution stage can be summarized in 4 periods of works.

Period 1 – Gather Audit Evidence

At the first period of execution stage, the engagement team comes to work with ZIM Company at their office. In the morning, A&C Company and ZIM Company talk about the audit plan. The engagement team has presented the prepared plan for the client. ZIM Company has review and agrees almost of the plan. There are some discussion about the time table of work, time budgeting and time costing but all the problems are solved within the meeting through the cooperation of both A&C and ZIM. The purpose the meeting is to unique the plan with the client and therefore, avoid any misunderstand or conflict that may happen during the execution process.

In the afternoon's working, the list of required audit evidence is delivered to the clients. The list of audit evidence is followed strictly to the standard of ISA and VSA. Those documents such as:

- Cash and cash equivalents
- Prepaid expenses (short and long-term)
- Fixed assets and construction in progress
- Payable to employees
- Other payable
- Capital
- Selling and administrative expenses

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There are 68 documents that need to be gathered according to the procedure. The client's company has the duties to deliver all required audit evidence and ensure the accurate of those evidences. After that, another meeting is organized between the engagement team and ZIM's board. The purpose of the meeting is to explain the need of those audit evidence that A&C required. ZIM Company has the right to ask questions if there is anything unclear in the list. Mr Le Huu Phuc also presents the important of the quality of those audit evidence. The engagement team demands the client to ensure that all characteristics of those audit evidence such as **sufficiency, appropriateness, reliable and reliability** is qualified enough. The meeting hold for 3 hours, the outcome is that the deadline that ZIM Company has agreed to deliver those audit evidences as the demanded quality in a week. Those documents will be delivered to A&C no later than 10/07/2012.

ZIM Company has delivered the required audit evidence in 3 parts. Each part comes after the other 3 days. As a result, all the audit evidences are delivered into A&C office in the morning of 10/07/2012. After received the evidences, the engagement team immediately checks the package and compare with the required list. As the result, all the audit evidence was delivered by ZIM Company on time.

Period 2 – Analysis Audit Evidence

The period 2 of execution stage start with the method to choose sampling. On the next day after fully receive all audit evidences from ZIM Company; the engagement team has a meeting to discuss about method of using sampling in this project. As mention before in the theory, all audits involve sampling because the auditor cannot examine 100% of the transactions. Auditors need an efficient and effective way to reach a judgment about a population that is too large to examine completely. As the result of the meeting, due to the size and characteristic of the client, the engagement decides to choose the method of selecting the sample is **systematic selection**. By this method, there are 22 samples chosen from almost 70 audit evidences in order to implement audit process.

After the appropriate samplings are selected, the engagement team starts to perform appropriate audit procedure for each item. The audit processes are performed by 2 professional auditors of the team and is double check by Mr Le Huu Phuc and Ms Hoang Thanh Hai. The engagement team also cooperates with accounting department in some audit evidence that need to be account. The methods to test the transaction, account balance and disclosure that are introduced in the standard procedure such as **substantive testing, directional testing or audit of accounting estimates** are all used in the audit process.

As this part, the involvement of the author is limited due to the lack of knowledge in audit area. Therefore, the content of the audit process cannot be summarized in this thesis. However, the author has asked the project leader about the different of the audit process between standard and practical, Mr Le Huu Phuc denied all the different and strongly emphasize that all audit process need to follow strictly with the standard audit procedure which is ensured by him. Therefore, there is no different as well as recommendation for this part of the procedure.

In the next day of work, the engagement team has a meeting to discuss the analytical review of ZIM Company. The content of the meeting can be summarized as the table below:

Trend analysis:

- **Revenue**: The revenue compare to last year is fluctuating reduced about 2 billion VND which equivalent 6.15%. Although there is a growth in the last period of this year but in total the revenue is still lower than the previous year. The reason of this reduction is because the economic crisis situation of this year is harder than last year, express through the number of clients (fewer clients lead to less revenue).
- **Cost of management:** Increase 5.2 billion VND which equivalent 27% in compare with last year. The wage budget is also raising 4.2 billion VND (35%) due to the inflation of the market as well as the rise of the basic salary policy (started in January 2011).

- **Cash flow:** Raise 3.5 billion VND (12%) in compare with last year.
- **Tax:** Raise heavily in compare with last year according to the rise in corporate income tax

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Profitability ratio:

- **Net profit from revenue's operation:** Reduction over the previous year, from 50% over the revenue into 23%. The reason for this reduction is difficult business situation caused by the economic crisis.
- **Profit before taxes on capital:** Also reduce from previous year, from 189%over the capital into 102%. This also caused by the impact of the economic crisis.

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Liquidity ratios: This ratio is quite good and almost the same with the previous year.

Employee ratios: the average revenue per employee is almost the same with previous year, however, the average employee's expenses is rise in compare with last year. It happens due to the inflation of the market that leads to the rise in employee's salary.

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The meeting is hold for 4 days with a lot of areas and sections that need to work on. The author just summarizes some of the result of the audit processes. The analytic the audit evidences period is the longest period of work in execution stage. All the selected samples are tested carefully by the engagement team.

The last step of period 2 is called going concern, this is the new step that is approached by VSA this year but it not a new step in international audit. The objective of this step is to ensure the going-concern assumption of the Directors in the preparation of the financial statements is reasonable. In this step, the engagement team considers many factors that affect the going-concern of the client such as:

- Determine the events leading to the doubt about the going concern assumption of the company by interviewing the Directors and obtaining related events.
- The company has the current portion of long-term debts, which are unable to enjoy grace period or unable to be paid, or the company depends too much on short-term loans to finance its long-term assets, outstanding debts or stop paying dividends.

- Reducing business prospect: the values of stocks decrease, the operating expenses increase, etc.
- Outer-company difficulties: the company loses a big market, copyright license or a supplier or important customers, etc.

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As a conclusion of the engagement team, based on the works already done and the audit evidences obtained, ZIM Company has appropriate going concern. The company is formed ready to run long-term business.

Period 3 – Subsequent Events and Related Parties

After all the audit evidences are tested, the engagement team starts working on subsequent event of this project. The purpose of this step is to ensure the material subsequent events have been determined and appropriate reflected in the financial statement.

At first, we start checking whether any significant events have occurred subsequent to the balance sheet date which should be disclosed or reflected in the financial audit report. This step include the assess of effectiveness of management procedures in ensuring all subsequent events which have been identified, considered and properly evaluated as regards their effect on the financial statements as well as considering other evidence to ensure all subsequent events have been accounted for. We also check the management account, legal correspondence as well as other evidence of known risks areas, known uncertainties and contingent liabilities… As a result, the conclusion of the engagement team base on the works already done and the audit evidences obtained is that no subsequent events required adjust/disclose in the financial statements.

In the next day, we work on the related parties which in this project are governance's tax agent and city bank.

- Because, ZIM require in the agreement that A&C will be their representative in front of Tax agent, the governance's tax agent require us to bring a copy of ZIM's financial statement with a certificate that the statement is tested and ensured accurately by A&C company.
- About the City bank, they are playing a key role as a partner of ZIM Company. All the transactions of ZIM have to go through City Bank and the main account of ZIM in Vietnam is opened at City bank. Therefore, the engagement team needs the certificate statement from City bank that ensures the accurate of all transactions related to ZIM, the City bank will have legally responsibility if there are any problems related to those transactions.

Period 4 – Recording and Giving Conclusion

After the entire audit evidences are tested as well as all the subsequent events and related parties are recorded, the engagement team starts working on giving the audit conclusion for ZIM's project. At first, there is a meeting of the engagement team. The purpose of this meeting is to gather all the individual tasks which were given for each member of the team. All the document of this project is gathered in order to prepare for giving the audit report. The results of tested samples are also included in this document as well as any problem that related to the data or the financial statement of the client. Each audit selected samples have their own report. The final audit report is a file which included the entire tested sample's report plus the overall audit conclusion statement and the financial statement of the client. The first proposed audit report is made by the team but the final audit report must be made by the project leader and included his/her signatures.

After the proposed audit report has been composed, they are submitted to the project leader in order to make the final audit report of the project. In most case, the proposed audit report is also the final audit report. The project leader had double check those tested sample during the audit processes, therefore, the proposed audit report usually has no mistake and no change that need to be made. The project leader then gives his signature to each document to officially recognize those documents as the outcome of this project. After that, the audit report is submitted to the board of A&C to approve. The process of approve is usually taking no longer than 3 days. In this case, after 2 days, the final audit report of ZIM Company is approved by the board. The final audit report is now ready to deliver to the clients.

On Monday 06/08/2012, the meeting between the engagement team and ZIM Company is implemented. In this meeting, the final audit report is adopted by ZIM Company. ZIM Company has 15 days to review the audit report in order to suggest change or request any explanation as well as any complains. After 15 days, the engagement team will not respond to any complains that related to the final audit report as well as make any requested change. In case the client wants to change or add any transactions and event after 15 days, there will be a new contract and additional fee. The engagement team also submits the final audit report to governance's tax agent as a part of the agreement with ZIM Company. If there are any problems in the audit report, the tax agent will work directly with A&C as ZIM Company's representation. The duties of A&C's engagement team in this project are officially end when the final audit report is adopted by both tax agent and ZIM Company.

3.4.3 Differences between the standard and the practical procedure

The execution stage is in a way having less different between standard and practical procedure than planning stage. At first, as the author has mentioned in the planning stage, in the standard procedure, the execution stage is playing the most important role while in real life, planning stage is more important than execution. This was mentioned above so the author is not going to talk this issue again here.

Secondly, at the period 2 of execution stage, there is new approved process that is not updated in the standard procedure. That is the "going concern" stage. The going concern assumption is a fundamental principle in the preparation of financial statements. It implies that the entity will continue in operation for the foreseeable future. It assumes that the entity has neither the intention nor the necessity of liquidation, or of curtailing materially the scale of its operations. Therefore, when financial statements are prepared on a going concern basis:

- It is assumed that the entity will continue in operating existence, for at least the next twelve months from the balance sheet date;
- Assets are recorded on the basis that that the entity will be able to realize them at their recorded values in the normal course of operations; and
- Liabilities are recognized on the basis that they will be discharged during the normal course of business.

The engagement team should consider the appropriateness of management's use of the going concern assumption in the preparation of financial statements. The engagement team should further consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.

Finally, in the standard procedure does not mention the proposed audit conclusion step. This is the step before the final audit conclusion is produced. According to Mr Le Huu Phuc, the proposed audit conclusion is always implemented in his projects. He's not sure about other leaders in the company. However, all the A&C's auditors as members of the engagement team are familiar with the proposed audit conclusion step. Therefore, this step is suggested to be added into the standard procedure under the recording and conclusion part.

3.4.4 Recommendation for A&C Company

The recommendation about the order of importance is mentioned in planning stage's recommendation; therefore, we will talk about other thing here. The first recommendation that the author made for A&C Company is about the process of gather audit evidence. This process plays a critical role in execution stage. The purpose of this process is to ensure that the engagement team collects all the document of the client that needed to implement audit process. In the standard procedure did not mention about the procedure for obtaining audit evidence. It just introduces about audit evidence, as well as its characteristics and categorizes. Therefore, the author has suggested the audit procedure for obtaining evidence as follow:

Designing Audit Procedures for Obtaining Evidence
Audit evidence is obtained to enable the auditor draw reasonable conclusions on which to base the audit opinion. The following are the audit procedures that can be used to obtain audit evidence:

- **Risk assessment procedures** - These are used to obtain an understanding of the entity and its environment including its internal control, to assess the risks of material misstatement at the financial statement and assertion levels.
- **Tests of controls** - Test the operating effectiveness of controls in preventing, or detecting and correcting material misstatements at the assertion level.
- **Substantive procedures** - Detect material misstatements at the assertion level and include tests of details of classes of transactions, account balances and disclosures, and substantive analytical procedures.

Risk assessment procedures are performed to provide a satisfactory basis for the assessment of risks at the financial statement and assertion levels. However, as risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion, they need to be supplemented by further audit procedures in the form of tests of controls and substantive procedures themselves.

Tests of controls are necessary when the engagement team's risk assessment includes an expectation of the operating effectiveness of controls, or when substantive procedures alone do not provide sufficient appropriate audit evidence.

Substantive procedures are performed by the engagement team in response to the related assessment of risks of material misstatement, which includes the results of tests of controls, if any. However, as the auditor's risk assessment is judgmental, it may not identify all risks of material misstatement. In addition, there are inherent limitations to internal control such as the risk of management override, the possibility of human error and the effect of systems changes. Therefore, substantive procedures for material classes of transactions, account balances, and disclosures are always required to obtain sufficient appropriate audit evidence.

The engagement team should use a combination of the above audit procedures to obtain audit evidence.

Secondly, there are 2 steps should be added in the standard procedure because they are implemented in the practical procedure not only for this project but for almost for all the projects that are implanted in 2012. Those are “first proposed audit conclusion” and “going concern” step.

First proposed audit conclusion is the step before the audit conclusion of the project is made. In this step, the outcomes of individual’s work are gathered to a file; this file will be processed to reduce unnecessary information as well as completed through testing. This step is implemented by the member of the engagement team. When the complete file is done with processing, this called first proposed audit conclusion. The file then is submitted to the project manager, he or she will have a look at the file and check again to ensure that the file is reached the standard quality. After that, the proposed audit conclusion will be converted in to the final audit conclusion with the signature of the project leader on it. In case there are any mistakes, the project leader can fix it by him/her or he/she can give it back to the engagement team to fix it and produce the second proposed audit conclusion. The process will go on until the proposed audit conclusion is qualified enough to become the final audit conclusion.

Going Concern is the step should go after the subsequent events and related parties are checked and it should be added in planning procedure. This process is not familiar in international auditing. However, start from January 2012, VSA require that the auditing process must be included the going concern process. In auditing, "going concern" refers to a company's ability to continue functioning as a business entity. It is the responsibility of the directors to assess whether the going concern assumption is appropriate when preparing the financial statements. A company is required to disclose in the notes to the Financial Statements whether there are any factors that may put the company's status as a going concern in doubt. Financial statements are prepared on the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. This is one of the fundamental concepts of accounting. Different bases of measurement may be appropriate when the entity is not expected to continue in operation for the foreseeable future.

According to VSA 570, “In obtaining an understanding of the entity, the auditor should consider whether there are events or conditions and related business risks which may cast significant doubt on the entity’s ability to continue as a going concern”. They also state that:” When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements”. Assessing the entity’s ability to continue as a going concern at the planning stage allows for more timely discussions with management, review of management’s plans and resolutions of any identified going concern issues. It will also affect the nature, timing and extent of the auditor’s further procedures in response to the assessed risks.

The engagement team should also remain alert throughout the audit, for any events or conditions that may indicate that the entity’s ability to continue as a going concern is doubtful, and assess the impact of those events or conditions on the assessment of risks of material misstatement.

The engagement team should note that there may exist events or conditions that may cast a significant doubt on the entity’s ability to continue as a going concern and that there might be factors mitigating those events or conditions, e.g. the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management’s plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

The recommendations are submitted to Mr Le Huu Phuc for his consideration. He admitted that the standard procedure should include the instruction for gathering audit evidence as well as first proposed audit conclusion and going concern steps. He appreciates the suggested procedures and steps of the author and promise will take them for consideration in the next discussion with the board to update the standard procedure.

3.5 Stage 4&5: Review, Completion and Report

3.5.1 Standard procedure of A&C Company

Audit completion procedures are carried out to ensure that:

- Sufficient audit evidence has been obtained to support the audit opinion;
- All decisions taken have been documented;
- The audit file has been completed; and
- Any audit matters of governance interest have been documented and discussed with the client.

Audit completion procedures include:

- Applying analytical procedures
- Review of subsequent events
- Confirmation that the entity is a going concern
- Review of presentation and disclosure - do the financial statements comply with requirements of International Financial Reporting Standards (IFRS's) and the Companies Act?
- Consultation, where necessary.
- Obtaining written representations from
- Engagement partner review.
- Engagement quality control review.

Completion of Audit areas

Analytical Review

Analytical review procedures should be summarized and notes made of explanations of material changes and variations. This enables the reviewer to corroborate conclusions formed during the audit of individual components or elements of the financial statements and assist in arriving at the overall conclusion as to the reasonableness of the financial statements.

Audit area conclusion

While ISA/VSA 230 requires a conclusion on all significant aspects of the audit, it is recommended that a conclusion be drawn for each audit area by the engagement team member in charge of the audit area.

Before drawing a conclusion, the engagement team member in charge of the audit area should ensure that the audit has been carried out in accordance with the Audit Strategy and Plan and that audit procedures indicated in the audit programmes have been carried out as required.

The working papers should also be updated by the audit senior to reflect responses to queries raised by reviewers

Internal control and other weaknesses should also be summarised and included in

Any areas where the engagement team has had to rely on representations should be included in

Any points identified during the audit, which are particularly relevant to the planning of the following year's audit, should be included in.

Point for partner's attention

The points for partner's attention is ordinarily drafted by the senior, completed by the manager and reviewed by the engagement partner. The points for partner's attention include any material problems or other uncleared matters encountered during the course of the audit. Unusual matters noted should also be included in the points for partner's attention for information purposes, even if these have been cleared during the course of the audit.
Points for partner's attention would ordinarily include the following points:

- Major points for the engagement partner's attention.
- Analytical review at the completion stages.
- Errors found, distinguishing between adjusted errors and unadjusted errors
- Information that contradicts or is inconsistent with the engagement team's final conclusions regarding a significant matter, including how the contradiction has been addressed.

All matters recorded in the points for partner's attention should be reviewed by the engagement partner, who should sign the document to confirm that all matters have been cleared satisfactorily.

Review of Financial Statements

The financial statements will be checked for compliance with local legal requirements and the entity's applicable financial reporting framework.

The financial statements will also be presented and disclosures made in accordance with legal requirements and the entity's applicable financial reporting framework.

The engagement team should consider the use of checklists (e.g. IFRS disclosure checklist, Companies Act checklist etc.) or compare the entity's financial statements with the firm's model set of financial statements to ensure consistency and compliance with requirements. The financial statements should also be proof-read to ensure that clerical errors are eliminated.

The audit senior should ensure:

- All the additions and cross-casts are correct.
- Items shown in more than one place on the financial statements are all shown at the correct amounts.
- Cross-references and page references are complete and correct.
- The audit opinion is supported by the audit evidence on the file.
- Comparative figures agree with the previous year's financial statements.
- All pages and paragraphs are numbered and follow in sequence.
- Dates have been changed from the previous period's financial statements.
- All page and column headings are correct.
- There are no errors of fact (for example, directors' names are correct).

The review of the financial statements, together with the results of other appropriate audit procedures, should enable the auditor to give an opinion on the financial statements.

Review of File

The objectives of review of the audit file and working papers are to:

- Check for compliance with the firm’s and professional standards of work.
- Ensure that the work has been carried out in accordance with the audit plan and strategy, modified as necessary during the course of the audit.
- Confirm that working papers provide sufficient appropriate audit evidence to support conclusions reached.
- Assess whether work has been performed efficiently, within timetable and budget.
- Identify areas of weakness in the client’s system of internal controls and opportunities for provision of additional services to the client.
- Communicate learning points to those whose work is being reviewed, so as to develop their understanding and professional competence.

When reviewing the working papers, the reviewer should check for the following:

- Each schedule is headed, dated, initialled, and indexed.
- Cross-referencing is complete.
- Audit ticks used are clearly explained.
- Working papers are organized in a logical fashion.
- The tests carried out are explained.
- Sample sizes appear adequate.
- The method and basis of sample selection has been explained.
- All outstanding points from the tests have been cleared.
- Errors and exceptions have been properly treated, and where appropriate, entered on the summary of errors' schedule.
- Conclusions to tests are meaningful, accurate and supported by the evidence.

Manager and engagement partner review

Depending on the structure of the engagement team, the manager should review the senior's working papers in detail, and enough of the audit assistants' working papers, to ensure that the senior has carried out a proper review of the audit assistants' work.

The manager should normally review the audit file at the client's premises and should also review the financial statements in detail, taking an overview to ensure the important issues affecting the financial statements have been satisfactorily treated, and there is sufficient appropriate audit evidence to support the audit opinion.

Before the auditor's report is issued, the engagement partner, through review of the audit documentation and discussion with the engagement team should be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached for the auditor's report to be issued. The engagement partner is also responsible for ensuring that any contentious areas discussed with the client, including conclusions reached have been recorded.

Overall audit conclusion

During the final stages of the audit, there are usually one or more meetings between the engagement partner, audit manager and senior members of the client's staff. At these meetings, any final adjustments are agreed, any other matters identified in the 'points for partner's attention' are discussed, and all outstanding points are cleared. Notes should be made of all such meetings, including notes of any contentious areas discussed and conclusions reached.

After the final adjustments have been made, the overall audit conclusions schedule should be completed, noting any outstanding matters (usually, only matters to be signed at the same time as the financial statements, such as the letter of representation) and the engagement partner should countersign this schedule.

The engagement partner should also sign off the overall audit conclusion prior to release of the financial statements for the board's approval to ensure that all outstanding matters have been cleared.

Engagement quality control review

Quality Control, ISQC 1 requires the firm to establish policies and procedures requiring for appropriate engagements, an engagement quality control review that provides an objective evaluation of significant judgments made by the engagement team and the conclusions reached in arriving at the audit opinion. Refer to Section 4 of the Manual on audits where an engagement quality control is required, the process for carrying out the review and the completion requirements.

Audit Report

The basic elements of the auditor's report are:

a) **Title**

The title in the auditor's report should clearly indicate that it is the report of an independent auditor. This affirms that the firm has met all the relevant ethical requirements regarding independence and distinguishes the independent auditor's report from reports issued by others.

b) **Addresses**

The auditor's report should be addressed appropriately as required by the circumstances of the engagement and local regulations. Ordinarily, the auditor's report is addressed to the shareholders (members), or those charged with governance of the entity.

c) **Introductory Paragraph**

The introductory paragraph in the auditor's report should identify the entity whose financial statements have been audited and should state that the financial statements have been audited. The introductory paragraph should also:

- Identify the title of each of the financial statements that comprise the complete set of financial statements (as defined by the applicable financial reporting framework e.g. financial statements prepared in accordance with IFRS"s include a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes).
- Specify the date and period covered by the financial statements.

The introductory paragraph in the auditor's report need not specifically refer to supplementary information that is presented as an integral part of the financial statements as reference to the explanatory notes in the description of the components of the financial statements is sufficient.

d) **Management's Responsibility for the Financial Statements**

The auditor's report should state that the management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

In certain circumstances, it may be appropriate for the engagement partner to add to the description of management's responsibilities to reflect additional responsibilities as required by a particular jurisdiction or nature of the entity.

e) **Auditor's Responsibility**

The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the fair preparation and presentation of the financial statements.

The auditor's report should also state that the audit was conducted in accordance with International Standards on Auditing and that those standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. This will give the reader of the financial statements the assurance that the audit has been carried out in accordance with established standards.

f) **Auditor's Opinion**

When the engagement partner concludes that the financial statements give a true and fair view or are presented fairly in all material respects in accordance with the applicable financial reporting framework, an unqualified opinion should be expressed.

When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording, in which case the prescribed wording should be used).

When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.

When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in the opinion paragraph.

g) **Other Reporting Responsibilities**

Standards, laws or generally accepted practice in a jurisdiction may require the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. The auditor may also be required to express an opinion on the financial statements e.g. reporting certain matters if they come to the auditor's attention during the course of the audit, or the auditor may be asked to perform and report on additional specified procedures, or express an opinion on specific matters such as the adequacy of accounting books and records maintained. Such matters may be addressed in a separate paragraph following the auditor's opinion.

h) **Auditor's signature**

The report should be signed in the name of the audit firm or the personal name of the auditor or both, as appropriate for the particular jurisdiction. The jurisdiction may also require the auditor to declare the auditor's professional accountancy designation or the fact that the firm has been recognized by the appropriate licensing authority in that jurisdiction.

i) **Date of Report**

The auditor should date the auditor's report no earlier than the date on which sufficient appropriate audit evidence on which to base the opinion on the financial statements has been received. This includes evidence that the entity's complete set of financial statements has been prepared and the management has asserted that they have taken responsibility for them. The auditor should obtain evidence of the approval of the financial statements by the management before dating the auditor's report.

The date on the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

j) **Auditor's Address**

The auditor's address is normally the location in the country or jurisdiction where the auditor practices.

3.5.2 Practical Procedure of review, completion and report.

After the final audit conclusion is ready, the engagement team moves to the final stage of the audit procedure which is the review complete and report. At first, the team reviews the overall audit conclusion checklist. This checklist is used to ensure that all relevant audit procedures have been satisfactorily completed. It does not preclude the use of judgement in deciding whether all the audit objectives have been achieved and the items listed are not exhaustive. In the check list, there are 2 main sections. Both sections will be assessed by the project leader. Those sections are **manager's conclusion and partner review & completion.**

Manager's conclusion: in this section, the project leader will give his conclusion on many matters that related to the procedure and process of this project. Those matter such as:

- Has the audit been carried out in accordance with the Audit Strategy and Audit Plan, and the audit evidence obtained is sufficient to justify the opinions and the statements made in the Audit Report?
- Has all permanent information held on the client been updated with the relevant changes?
- Have all applicable independent confirmations been received from third parties?
- Have all subsequent events have been considered?
- Is the overall conclusion on Analytical Review consistent with our understanding of the entity?
- Is the overall conclusion on Assessment of Fraud consistent with our understanding of the entity?
  …

If there are any problems in every sections of the checklist, the project leader can require explanation from members who respond for that section. After review all the section in the checklist, the conclusion of the project leader is that there is no matter that require further consideration in ZIM's project.

Partner review and completion: in this section, the project leader assesses the level of corporate of partner as well as the sufficient of audit evidences. The matters of consideration for these sections are:

- Is there sufficient evidence on file to show that the audit was performed in accordance with the Audit Strategy and Audit Plan?
- Have all consultations been adequately recorded and have issues of differences and opinions been adequately resolved?
- Based on the audit evidence obtained, is an unqualified opinion appropriate? If not, has adequate consultation taken place in accordance with the firm's procedures?
- Have events occurring between the balance sheet date and the date of the audit report been reviewed and the implications action?
- Has the time budget and summary been completed?
  …

If there are any problem in this section, the engagement team will notice the partner, in this case is ZIM Company. The given conclusion for this section is The audit approach taken and the work carried out and evidence thereof are sufficient to justify the opinions and statements made in the audit report.

After the overall audit conclusion checklist is completed. The engagement team starts works on the "calling over checklist". The purpose of this step is to ensure that the financial statements have been called-over to ensure that the information therein is in agreement with the audit file and all errors are identified and corrected prior to issue to the client. There are 5 sections need to be assessed in this checklist. Those are:

- **General:** all the general matters is gathered in this section such as:
  - Is the presentation in accordance with the Vietnamese standards and accounting system?
  - Have all pages been cast and cross-cast including comparatives?
  - Are the spellings, grammar and alignment correct?
  - Are notes correctly referenced to the income statement, balance sheet, cash flow statement and other notes?

    …
- **Audit report:** this section consider whether the audit report in accordance with the firm's approved format or not? And if applicable, in respect of going concern, is a qualification or an emphasis of matter incorporated?

- **Balance sheet and income statement:** in this section, the total assets is assessed to check if it figure agree to the total equity and liabilities or not? And do the figures on the income statement and the balance sheet agree with all the relevant notes on the financial statements?

- **Statement of changes in equity:** this section considers 3 matters:
  - Are the opening balances correctly brought forward?
  - Does profit / (loss) shown in the retained earnings column agree to the amount on the income statement?
  - Do closing balances agree to the balance sheet and the respective notes?

- **Cash flow statement:** this is the final section of the check list, the project leader will consider / has the reconciliation of the profit before tax and cash generated from operations been correctly computed? And do the cash and cash equivalents agree with the relevant note?

After considered all above section, the engagement team and the project leader have given the conclusion that the financial statement have been called over. The information in the agreement as well as all errors are identified and corrected prior to issue to the client.

In the final working day of this project, the engagement team has a final meeting among the team's member. The purpose of this meeting is to review the effectiveness of the team in this project. At first, we look backward at the whole procedure and point out those difficult points that we met during the project. Then we will analyse those difficult points. The engagement team assesses the possibility that those problems can be faced again in future projects and suggests solution for each problem. After that, ZIM Company's feedback is analysed. ZIM is very pleased with our services and provides good feedback to the engagement team. They appreciate the processional and cooperate of the engagement team during the project.

Finally, the project leader provides the assessment of each member in this project. All the strength and weakness of the member are assessed. He praises the spirit and professionalism of the team and said that he is appreciating the team effort and thanks for all contribution of the team members. He also wishes every member will be successful in further project in the future.

3.5.3 Different between the standard and the practical procedure and recommendation for A&C Company

The review and completion stage is the shortest stage in audit procedure. It includes less process to be implemented than other stage. All the guidance in standard procedure is summarize in 2 checklists that the engagement team has done. Therefore, the practical procedure of review and completion stage is in a way has no different in compare with the standard procedure. However, the author notices that in the standard procedure does not have the final meeting among team member to assess the effective of project as well as assess the performance of each member. According to Mr Le Huu Phuc, this meeting is a traditional of company and always implemented after every project. The outcome of this meeting is recorded to use as a resource for the following project. Therefore, the author has suggested adding a part in the standard procedure called "effectiveness review". This part will be put at the end of the review and completion stage and cover the following content:

Effectiveness Review

Effectiveness review is an essential part of the audit process, necessary to ensure that lessons and improvements to efficiency are identified, and personal development is enhanced. The key elements of effectiveness review are:

De-briefing meetings: The aims of de-briefing meeting are:

- To consider whether the overall audit approach should be changed in the following year.
- To identify any audit areas where changes in the approach or audit programs should be made (e.g. where the audit was either ineffective or inefficient).
- To consider how factors that caused delays this year can be prevented in the following year.
- To identify any other points to be carried forward to next year's files.
- To seek opportunities to help the client.

Ideally, all members of the audit team, including the partner, should be able to contribute at a de- briefing meeting.

Appraisals: Appraisals of all staff, including managers should be made after every assignment. In general, the appraiser should be the person to whom the individual has reported in the first instance. Appraisals can be informal or formal, but a formal appraisal should generally be carried out for lengthy assignments.

In order for appraisals to be effective, they must be carried out promptly. The following questions are relevant when an appraisal of an assignment is made:

- Have the objectives of the task or role been met satisfactorily?
- Has the individual performed well?
- If not, where were the problems and what action needs to be taken to resolve them?
- Did the individual feel he or she was well briefed?
- Was the work allocated appropriately?
- Did the individual feel challenged by the task?
- Was the work too difficult for them and if so, how?
- Did unexpected problems or complications arise? If so, how well did the individual cope with them?
- Did the individual's performance exceed expectations and if so, how?
- Are there any changes that should be made to existing work patterns?

- Are there any new development areas that may benefit the individual?

4 CONCLUSION

4.1 Conclusion about the standard procedure

As mention before, A&C Company has started doing business since 1992, therefore, the standard procedure of the company has been gone through many year of developed and innovated. The standard procedure is conducted by both experience and knowledge of several generations of auditors in A&C Company. It has covered well every section of every stage in the whole audit procedure with the specific appendixes as well as notes.

There is no specific period for updating the standard procedure. Normally, when there are some big changes or the coming of new policies, the procedure will be considered to upgrade. However, the standard procedure is usually assessed once per year to measure the level of effectiveness and efficiency. Therefore, the standard procedure of A&C Company is quite up to date with the new policies and changes which come from ISA, VSA, COE or ISQC.

During the working time with the standard procedure, for several reasons, the author has noticed some missing of steps in it such as the first proposed in planning stage or the de-briefing and appraisal meetings in the review and completion stages. There is also a step that was added due to the change of VSA started this year. That is “going concern” step. Those steps are proven faced in several projects and need to be mentioned in the standard procedure in order to ensure the perfection of the procedure and to avoid any confusions or mistakes that may happen in practical future projects.

The biggest challenge that the author has been faced during working with the standard procedure of A&C Company is the language. A&C’s standard procedure is written and circulated among the company by Vietnamese language. Therefore, the author has to go through the Vietnamese version of standard procedure first. Then the author compare with the international version of ISA to find the English resource of each section in order to complete this thesis. Some sections of the standard procedure are belonged to VSA which mean that there is only Vietnamese version of that section. Therefore, the author has to translate himself those sections and submits to the supervisor for correction before using it in this document. That process is time consuming and requires effort to research even through its belonged to theory part of the thesis. The standard thesis template has separate theory and research part but in this document, the 2 parts are some kind of mixed together. This is one of the reasons that this thesis template is different than the standard template.

Overall, the standard procedure of A&C Company is trusted, reliable for the employees of the company to follow. This procedure is a guide line as well as a standard for every audit project that A&C has been signed for.

4.2 Conclusion about the practical procedure/ ZIM's project

The overall of ZIM's project has been gone well. The procedure is implemented smoothly and tightly. There was not any big problem that happened during the project, there are only some minor problem such as the expiration date of the contract and the additional service that ZIM want to add in to the agreement. Those issues were handled well and the project was successfully implemented.

The engagement team has been worked together very well. During the project, the team has shown the enthusiasm, the professional and the kindness. The supervisor is very helpful, friendly and devoted to the project. The working environment is flexible, friendly and strictly but not so stressed. There are not any disciplines that were given during the project. The appraisal of the project leader is reasonable and fair. Each member of the team has contributed their best to the project.

The client's feedback is highly positive. ZIM Company appreciates the professional of the team to make their financial statement ready on time. They also give good feedback about the consultant service and taxation service that A&C has provided successfully. As in the feedback, there are not any complain of ZIM Company to the engagement team. All the considerations and questions from the client are responded appropriately and clearly. The client is highly happy and promise that A&C will have advantages in the future consideration when there is new project.

There are several challenges that the author has faced during the project. The biggest challenge is the knowledge in the audit area. The author walked into this project with the basic knowledge of accounting that is gained through 3 academic years in the university. Therefore, auditing is kind of a total new area in the beginning. The author had a tough time to get used to work in audit area. However, there are some parts of audit area that need to be educated systematically from the audit's school in order to work with. Thus, the purpose of the author in this thesis is to focus on present the procedure of auditing (theory and practical) and not go into deep with the audit data. In addition, some results of the project cannot be brought into this thesis due to the agreement between A&C and ZIM Company. That information is secretly and only available between both partners. This thesis is the best summarized version of this project with the detailed analysis and recommendation.

4.3 Conclusion about the gaps and the recommendation

Throughout the research and analysis of the author between the standard and the practical audit procedure of A&C Company (according to ZIM's project.), there are several gaps that had been discovered in every stages of the procedure. The appropriate recommendations are also suggested by the author. The recommendation is the result of analysis, compare and research in many available resources in order to give the best possible way to improve the standard procedure. Let's have a quick review in each stage of the procedure:

Preliminary Activities: As mentioned before, this stage is the shortest stages in the auditing procedure. Therefore, the gaps of this stage are quite close. In detail, there is the additional service that ZIM want to add into the agreement with the engagement team. They want A&C to be their representative in front of tax office. This situation is usually not prepared in covered in the standard procedure.

The author has suggested adding the non-audit engagement services into the standard procedure as the recommendation for this stage. The recommendation has been covered all the possible additional services that an audit firm can provide when being asked for the client beside the audit engagement. The recommendation also provides the procedure of adding new non audit service into the agreement between the company and the client.

Planning: this is the toughest part in the audit procedure. There are 4 different points have been found out in planning stages. Firstly, planning is the most important stage in the practical procedure while in the standard procedure execution is the most important stage by default. Secondly, the assessment of level of acceptant of the client needs to be added as a part in the standard procedure. Thirdly, the permanent audit file review also needs to be added in standard procedure because this process is always implemented in practical procedure. Lastly, at the end of the planning stage, the assigning duties to member of the team step need to be implemented. This is more project management oriented than audit oriented but for the perfection of the standard procedure, this step is also needs to be added in.

As the recommendation for planning stage, the author suggests that the standard procedure should emphasize more about the important of audit planning stage. The standard procedure should be noted as the most important stage and therefore need the most effort in the whole audit procedure. The author also suggests adding 3 processes into the standard procedure. Those processes are “Existing client acceptance”, “Permanent audit file review” and “Tasks allocation”. The author has provided the description as well as the position of each process should be in the standard procedure. Those steps are familiar in every audit project and playing necessary roles in the audit procedure at the planning stage. Therefore, these additions are reasonable and needed to be taken in consideration.

Execution: The execution stage is the stage that has less involve from the author due to the capability in the audit area. However, based on the research and observation, the gap in this stage contain of 3 points. First point is about the level of important in compare with the planning stage. Second point is about the new stage that just got approved this year by VSA. That is the “Going concern” process. This process will definitely get update in the standard procedure but by the time the author work with the standard procedure, it’s not updated yet. The last different point is about the “proposed audit conclusion” process that needs to be added in the standard audit procedure.

In the execution stage’s recommendation, the author suggests to change the order of level of important in the standard procedure. The author also suggests introduction, description and procedure for “Going concern” process. The first proposed audit conclusion is also summarized base on the practical experience that the author has gained during the project. In addition of all above recommendation, the author also provides 1 more suggestion for A&C Company about the process of gathering audit evidence. From the need of the guidance on obtaining audit evidence, based on the research and analysis, the author has suggested the process of “designing audit procedure for obtaining audit evidence”. This suggestion has received highly appreciation from the supervisor.

Review, completion and report: Because the volume of work need to be done in the last 2 stages are short and the length of the gap is quite close, the author had decided to combine the differentiation of the last 2 stages in to 1 section. The only different point that can be count in the last 2 stages is the last meeting of the project. It’s called effectiveness review’s meeting. It’s not an official meeting but this meeting is kind of a traditional of A&C Company and the standard procedure is made specifically for A&C Company. Therefore, the author thinks that the step should be added.

By researched and analysed some project management's resource, the author has been able to provide the introduction and description for the effectiveness review meeting as the recommendation for the last 2 stages in the audit procedure.

4.4 Feedback from supervisor

After two and a half months of working on ZIM's project under the observation of the project leader and also the supervisor Mr Le Huu Phuc, the author has learned a lot of new knowledge and experience about working as a team in a professional company in general and working in the audit area in specific. That is also the prestige for the future career of the author. This thesis is like a door steps between the things that the author have learned during three and a half years study at HAMK and the future career that the author want to follow, being a professional auditor. Be honestly, without the help of the supervisor and the team members, this thesis can never be completed. Therefore, on the behalf of both the author and HAMK University, the author want to say thank to A&C Company, the supervisor Mr Le Huu Phuc and all the members of the engagement team of ZIM's project. The author highly appreciates the experience, the kindness and the helpfulness in which the author had been treated during the internship's time in A&C Company. The author also hopes that there will be more projects in the future that the author can corporate with A&C Company no matter as a partner or an employee.

On the A&C's side, the company highly appreciates the contribution of the author in this project. The supervisor praises the author for the hard working attitude and the excellent English skill which was very helpful because ZIM is an International corporate company and the outcome of this project is done by English. He also gives a positive feedback about the ability to work in a professional team and the supportive that the author had made during this project. The supervisor also notice the abilities to observe and record the author, those skills are very needed and useful not only in ZIM's project but also in other project in the future career of the author. He also praises the creativity in the given solutions and recommendations that the author brought into this project as well as encourage the author try to be more confidence at work. The company want to thank HAMK University to make this internship happen and they are very welcome if there will be more international students from HAMK University that are interested to work in the audit area to come to Vietnam and intern at A&C Company in the future.

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Appendix 1

Stages of an Audit and The ISA/VSA's Applicable at each stage

STAGES OF AN AUDIT AND THE ISA/VSA's APPLICABLE AT EACH STAGE				
Preliminary Engagement Activities	**Planning**	**Execution**	**Review and Completion**	**Reporting**
210 - Terms of Audit Engagement 220 - Quality Control for Audits of Historical Financial Information 300 - Planning an Audit of Financial Statements 510 – Initial Engagements - Opening Balances	• 200 - Objective and General Principles Governing an Audit of Financial Statements • 230 - Documentation • 240 - The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements • 250 - Consideration of Laws and Regulations in an Audit of Financial Statements • 260 - Communication of Audit Matters with Those Charged with Governance • 300 - Planning an Audit of Financial Statements • 315 - Understanding the Entity and its Environment and Assessing the Risk of Material Misstatement • 320 - Audit Materiality • 330 - The Auditor's Procedures in Response to Assessed Risks • 505 - External Confirmations • 520 - Analytical Procedures • 600 - Using the Work of Another Auditor • 610 - Considering the Work of Internal Auditing	• 230 - Documentation • 330 - The Auditor's Procedures in Response to Assessed Risks • 500 - Audit Evidence • 501 - Audit Evidence - Additional Consideration for Specific Items • 505 - External Confirmations • 520 - Analytical Procedures • 530 - Sampling and Other Means of Testing • 540 - Audit of Accounting Estimates • 545 - Auditing Fair Value Measurements and Disclosures • 550 - Related Parties • 600 - Using the Work of Another Auditor • 610 - Considering the Work of Internal Audit • 620 - Using the Work of an Expert • 710 - Comparatives	• 220 - Quality Control for Audits of Historical Financial Information • 230 - Documentation • 520 - Analytical Procedures • 560 - Subsequent Events • 570 - Going Concern • 580 - Management Representations	• 260 - Communication of Audit Matters with Those Charged with Governance • 700 - The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements • 720 - Other Information in Documents Containing the Audited Financial Statements

Appendix 2

Matters That an Auditor May Consider In Developing an Audit Strategy

A. Scope of the Audit Engagement

- A summary of the terms of the engagement.
- Industry specific reporting and legal requirements and how the entity is complying with these.
- Any specific legal responsibilities of the auditor.
- The financial reporting framework to be used in preparing the financial statements and need for reconciliation to another reporting framework.

B. Entity Specific Issues

- Changes in the client background information.
- The nature of the business including number and location of components to be audited, contact person at each component, and working hours.
- Any special circumstances.
- The need for specialised knowledge including involvement of specialist staff and non-audit experts.

- The reporting currency to be used including any translation requirements.
- Internal audit and the extent of reliance that can be placed on work of the internal audit function or work of other experts or specialists.
- The group structure, including the nature of control between the parent and its components, the need for standalone financial statements, the consolidation requirements and the extent to which components are audited by other auditors.
- The expected use of audit evidence obtained in prior years, e.g. audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit processes, including the availability of data and the expected use of computer-assisted auditing techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- Discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- Availability of client personnel and data.

C. Business and Regulatory Environment

- Details of any significant changes in industry conditions affecting the entity’s business (for major clients, consideration should be given to discussing industry conditions with economists or industry regulators or obtaining industry publications).
- Changes and trends in the business including new activities, products or locations; changes in governance and senior management; general level of competence of management; legal disputes; and financial performance and trends.
- Changes in the client's accounting systems; issues emanating from review of reports from the internal audit function; and changes in accounting standards, policies or regulatory pronouncements and their effect on the entity.

D. Reporting Objectives, Timing of the Audit and Communications Required

- The entity’s timetable for reporting including interim and final audits.
- The nature and timing of reports or other communications that are expected under the engagement including the auditor’s report, management letters and communications to those charged with governance.
- The outcome of meetings with management and those charged with governance regarding the expected communication on the status of the audit work throughout the engagement and the ex-

pected deliverables from the audit process taking into account the nature, extent and timing of the audit work.

- Communication with auditors of components regarding the expected types and timing of reports to be issued and other communication in connection with the audit of components.
- The expected nature and timing of communication among the engagement team members, including the nature and timing of team meetings and timing of the review of the work performed.
- Statutory or contractual reporting responsibilities arising from the audit and any other expected communication with third parties.

E. Other Issues to Consider when Setting the Direction of the Audit

- Materiality:
    - Setting materiality for planning purposes.
    - Setting and communicating materiality for auditors of the components.
    - Reconsidering materiality as audit procedures are performed during the course of the audit.
    - Identifying material components and account balances.
- Identification of audit areas where there is a higher risk of material misstatement and discussions among the engagement team on these.
- The impact of assessed risk of material misstatement at the overall financial statement level on the direction, supervision and review.
- Time budget including the allocation of the appropriate amount of time for areas where there may be higher risk of material misstatement and the selection of an engagement team, (including, where appropriate, an engagement quality control reviewer) and the assignment of task to members of the engagement team with suitable and appropriate experience.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal controls.
- Assessment of the control environment and evidence of management's commitment to design, document and ensure the operation of sound internal controls and the importance attached to internal controls throughout the entity to successful operations of the business.
- Results of previous audits that involved evaluating the operating effectiveness of internal controls, including identified weaknesses and actions taken to address them.

Appendix 3

Conditions and Events That May Indicate Risks of Material Misstatement

- Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies.

- Operations exposed to volatile markets, for example, futures trading.
- High degree of complex regulation.
- Going concern and liquidity issues including loss of significant customers.
- Constraints on the availability of capital and credit.
- Changes in the industry in which the entity operates.
- Changes in the supply chain.
- Developing or offering new products or services, or moving into new lines of business.
- Expanding into new locations.
- Changes in the entity such as large acquisitions or reorganisations or other unusual events.
- Entities or business segments likely to be sold.
- Complex alliances and joint ventures.
- Use of off-balance-sheet finance, special-purpose entities, and other complex financing arrangements.
- Significant transactions with related parties.
- Lack of personnel with appropriate accounting and financial reporting skills.
- Changes in key personnel including departure of key executives.
- Weaknesses in internal control, especially those not addressed by management.
- Inconsistencies between the entity's IT strategy and its business strategies.
- Changes in the IT environment.
- Installation of significant new IT systems related to financial reporting.
- Inquiries into the entity's operations or financial results by regulatory or government bodies.
- Past misstatements, history of errors or a significant amount of adjustments at period-end.
- Significant amount of non-routine or non-systematic transactions including inter-company transactions and large revenue transactions at period-end.
- Transactions that are recorded based on management's intent, for example, debt refinancing, assets to be sold and classification of marketable securities.
- Application of new accounting pronouncements.
- Accounting measurements that involve complex processes.
- Events or transactions that involve significant measurement uncertainty, including accounting estimates.
- Pending litigation and contingent liabilities, for example, sales warranties, financial guarantees and environmental remediation.