

# Next Generation Higher National Unit Specification

## Audit: An Introduction (SCQF level 8)

**Unit code:** J7BF 48  
**SCQF level:** 8 (16 SCQF credit points)  
**Valid from:** session 2023–24

### **Prototype unit specification for use in pilot delivery only (version 1.0) June 2023**

This unit specification provides detailed information about the unit to ensure consistent and transparent assessment year on year.

This unit specification is for teachers and lecturers and contains all the mandatory information required to deliver and assess the unit.

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## Unit purpose

This unit enables learners to understand the role of auditing as an income generator for accounting practices in the UK, as well as its wider importance to society. It gives learners an overview of the practice and procedures involved in auditing a UK private limited company's financial statements.

The unit provides a mix of the professional ethos and company law with which auditors must comply. It introduces learners to the three phases of audit work, and to the tasks that must be done to satisfy legal and professional requirements for the audit of a private limited company.

Learners appreciate the importance of auditing to shareholders, the financial markets and wider stakeholder groups. They learn how standards and legislation govern the scope of auditing, and how they establish the auditor's remit, in turn ensuring auditors can obtain the evidence they need to reach an audit opinion.

The unit is primarily intended as an introduction, and is particularly suitable for learners who want to go on to further study of auditing, either at university or professional level.

Entry to the unit is at your centre's discretion. Before learners start the unit, we strongly recommend they complete the Financial Reporting and Corporation Tax unit in Higher National Diploma (HND) Accounting, or have equivalent accounting knowledge.

## Unit outcomes

Learners who complete this unit can:

- 1 explain the importance and role of audit within society and in the accounting profession
- 2 explain the issues involved with planning the audit of a private limited company
- 3 identify and recommend procedures to rectify control weaknesses within systems
- 4 describe substantive audit procedures to verify balances from the statement of financial position of a private limited company
- 5 explain the duties of an auditor to ensure audit completion and reporting comply with the latest auditing standards

## Evidence requirements

To achieve the unit, learners need a minimum mark of 70% for each outcome.

### Outcome 1

Learners must show they can:

- ◆ explain why financial statements require to be audited
- ◆ describe the expectation gap and the impact this has on the public's perception of audit
- ◆ evaluate the impact of contemporary issues on the role of audit within society
- ◆ explain the importance of, and identify factors that might have an impact on, auditors' independence
- ◆ explain the role of audit within an auditing practice, and the regulatory bodies that govern the provision of audit
- ◆ describe the routes to professional auditing qualifications
- ◆ explain the rights and responsibilities of the auditor under the current Companies Act legislation
- ◆ evaluate the possible extent of auditors' liability to third parties.

Learners must generate evidence under supervised open-book conditions.

## **Outcome 2**

Learners must show they can:

- ◆ describe the audit year for a private limited company
- ◆ describe the members of an auditing team — partners, managers, supervisors, trainees (or equivalent terms)
- ◆ explain how audit risk is assessed, and the interaction of inherent risk, control risk and detection risk
- ◆ explain how planning and performance materiality is calculated, applied and interpreted
- ◆ explain the audit planning process including a preliminary analytical review, sampling methods, and preparing audit programmes
- ◆ evaluate to what extent the auditor can rely on internal controls and third-party evidence during the audit process

Learners must generate evidence under supervised open-book conditions.

## **Outcome 3**

Learners must show they can:

- ◆ identify controls and weaknesses from a given description of two accounting sections chosen from sales, purchases, cash and bank, or wages and salaries
- ◆ devise compliance tests for each of the controls identified
- ◆ incorporate the weaknesses identified into a management letter, which also details consequences and recommendations

Learners must generate evidence under supervised open-book conditions.

## **Outcome 4**

Learners must show they can:

- ◆ identify situations where the results of an analytical review can be used as substantive audit evidence
- ◆ devise substantive tests for three sections of a statement of financial position (in which they must include at least one asset and one liability) chosen from:
  - non-current assets
  - inventory
  - trade receivables
  - cash and cash equivalents
  - trade payables
- ◆ explain and identifying procedures for attendance at the year-end inventory count
- ◆ identify tests to verify that cut-off has been achieved in either sale or purchases
- ◆ explain why computer-assisted auditing techniques (CAAT) are used

Learners must generate evidence under supervised open-book conditions.

## **Outcome 5**

Learners must show they can, with reference to the latest auditing standards:

- ◆ prepare an audit opinion, dependent on evidence gathered for the previous outcome, for an unqualified report and one type of qualified audit report
- ◆ explain the function of, and describe the elements of, an audit report for a private limited company
- ◆ take into account subsequent events in a company's trading year up to the date of their report
- ◆ explain the importance of a subsequent events review
- ◆ explain the importance of gathering evidence to support the going concern view
- ◆ ensure the appropriate level of emphasis on matters, as necessary

Learners should also be able to explain for a given scenario the form of audit qualification that is required and, for one type of audit qualification, draft suitable wording for the Opinion section of the report.

Learners must generate evidence under supervised open-book conditions.

## Knowledge and skills

The following table shows the knowledge and skills covered by the unit outcomes:

| Knowledge   | Skills  |
|---|---|
| <p><b>Outcome 1</b><br/>Learners should understand:</p> <ul style="list-style-type: none"><li>◆ the importance and role of audit within society</li><li>◆ the importance and role of audit within the accounting profession</li></ul> | <p><b>Outcome 1</b><br/>Learners can:</p> <ul style="list-style-type: none"><li>◆ explain why auditing of financial statements is required</li><li>◆ describe the public perception of audit and the expectation gap</li><li>◆ evaluate the impact of contemporary issues on the role of audit within society</li><li>◆ explain the importance of auditor's independence</li><li>◆ explain the importance of audit to the accounting profession and the role of professional bodies in governing audit</li><li>◆ describe the routes to professional auditing qualifications</li><li>◆ explain the rights, responsibilities, and duties of the auditor</li><li>◆ evaluate the limits of auditor's liability</li></ul> |

| Knowledge  | Skills   |
|--|--|
| <p><b>Outcome 2</b><br/>Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ the issues involved with planning the audit of private limited company</li> </ul>         | <p><b>Outcome 2</b><br/>Learners can:</p> <ul style="list-style-type: none"> <li>◆ describe the audit year and the roles and functions within the audit team</li> <li>◆ explain the importance of knowing the business to the planning of an effective and efficient audit</li> <li>◆ explain the components of audit risk and its impact on carrying out the audit</li> <li>◆ explain the role of materiality</li> <li>◆ carry out an analytical review to identify areas of increased audit risk</li> <li>◆ explain the function of audit programmes</li> <li>◆ explain how sampling is used when planning to gather audit evidence</li> <li>◆ evaluate the reliance that can be placed on internal controls or third-party evidence while auditing a private limited company</li> </ul> |
| <p><b>Outcome 3</b><br/>Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ identify and recommend procedures to rectify control weaknesses within systems</li> </ul> | <p><b>Outcome 3</b><br/>Learners can:</p> <ul style="list-style-type: none"> <li>◆ identify controls and weaknesses within accounting systems using appropriate testing</li> <li>◆ recommend improvements to accounting systems following appropriate testing</li> <li>◆ produce a letter of weakness for management identifying: <ul style="list-style-type: none"> <li>— weaknesses</li> <li>— the implications of these weaknesses</li> <li>— appropriate recommendations for improvements to the system</li> </ul> </li> </ul>   |

| Knowledge   | Skills  |
|---|---|
| <p><b>Outcome 4</b><br/>Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ how to devise substantive audit procedures to verify balances from the statement of financial position of a private limited company</li> </ul> | <p><b>Outcome 4</b><br/>Learners can:</p> <ul style="list-style-type: none"> <li>◆ explain how an analytical review can be used as substantive audit evidence</li> <li>◆ devise substantive tests to verify balances within the statement of financial position of a private limited company</li> <li>◆ explain procedures and tests that should be undertaken at the year-end inventory count</li> <li>◆ identify tests to verify that cut-off has been achieved in ether sale or purchases</li> <li>◆ explain why CAAT is used</li> </ul> |
| <p><b>Outcome 5</b><br/>Learners should understand:</p> <ul style="list-style-type: none"> <li>◆ the duties of an auditor to ensure audit completion and reporting according to latest auditing standards</li> </ul>                            | <p><b>Outcome 5</b><br/>Learners can:</p> <ul style="list-style-type: none"> <li>◆ explain the importance of a subsequent events review</li> <li>◆ explain the importance of gathering evidence to support the going concern view</li> <li>◆ prepare a range of audit opinions dependent upon evidence gathered for the previous outcome</li> <li>◆ explain the function of, and describe the elements of, an audit report for a private limited company</li> </ul>   |



## Meta-skills

Throughout the unit, learners develop meta-skills to enhance their employability in the accounting sector.

### Self-management

This meta-skill includes:

- ◆ focusing: identifying and filtering out non-essential information
- ◆ adapting: nurturing skills in resilience and dealing with unfamiliar situations; building an overall understanding of how the auditing process works
- ◆ initiative: building self-belief as they learn to apply new knowledge; making decisions

### Social intelligence

This meta-skill includes:

- ◆ communicating: receiving and conveying information; writing reports suitable for their intended audience

### Innovation

This meta-skill includes:

- ◆ curiosity: identifying significant elements of the task they are working on; asking questions to identify the most relevant information to the task
- ◆ creativity: exploring ideas and coming up with solutions
- ◆ critical thinking: analysing and evaluating information to solve complex problems

## Literacies

### Numeracy

Throughout some of the learning outcomes of the unit, learners apply a wide range of numerical skills to solve practical problems.

### Communication

Learners develop communication skills and computer literacy throughout the unit as they receive and convey information. They refine these skills further as they learn to write reports suitable for their intended audience.

### Digital

Learners develop digital skills and computer literacy by using spreadsheet software and word-processing software in their coursework and to complete project tasks.

## **Delivery of unit**

This unit is part of HND Accounting. You can deliver it as a stand-alone unit, or partially integrate it with elements of the Financial Accounting unit.

While the exact time allocated to the unit is at your centre's discretion, the notional time for delivery and assessment is 80 hours. The amount of time you allocate to each outcome is at your centre's discretion.

## **Additional guidance**

The guidance in this section is not mandatory.

### **Approaches to delivery**

You can deliver this unit by outcome, but you do not need to do so in numerical order, although the order presented is indicative of the audit process.

### **Approaches to assessment**

You can assess the outcomes separately using a single case study for each, and giving learners information at the point of assessment; or, you can assess some or all of the outcomes together.

To assess outcome 1, you could ask learners to produce a portfolio of evidence to demonstrate the necessary skills and knowledge required to meet the evidence requirements. Learners should evaluate the impact of contemporary issues surrounding the audit, at the time of delivery, and then consider the impact on the role of the auditor.

You could then use a case study to assess the remaining four outcomes, so that learners become familiar with the basis of the case study, which should replicate the audit process within an accounting practice. You can assess this unit using a range of sources, such as case study scenarios or individual tasks, asking learners to produce business reports, presentations, or electronic account records where practical.

## **Equality and inclusion**

This unit is designed to be as fair and as accessible as possible with no unnecessary barriers to learning or assessment.

You should take into account the needs of individual learners when planning learning experiences, selecting assessment methods or considering alternative evidence.

Guidance on assessment arrangements for disabled learners and/or those with additional support needs is available on the assessment arrangements web page:

[www.sqa.org.uk/assessmentarrangements](http://www.sqa.org.uk/assessmentarrangements).

## Information for learners

### Audit: An Introduction (SCQF level 8)

This information explains:

- ◆ what the unit is about
- ◆ what you should know or be able to do before you start
- ◆ what you need to do during the unit
- ◆ opportunities for further learning and employment

This unit introduces you to the world of auditing. In a financial context, companies (with turnover over a certain limit) are required to be audited under the current Companies Act legislation, with auditors concluding by expressing an opinion on whether the company's financial statements give a true and fair view. You learn about the role of this significant industry, which gives employment to many thousands of people worldwide. You may even want to become one of them.

This unit is primarily intended as an introduction, and is particularly suitable for learners who want to go on to further study of auditing, either at university or professional level.

Before you start the unit, you should have completed the Financial Reporting and Corporation Tax unit in Higher National Diploma (HND) Accounting, or have the equivalent accounting knowledge.

In outcome 1, you look at the importance of auditing within the accounting profession and wider society.

Outcome 2 covers the procedures that auditors follow as they plan their work, and highlights the importance of risk assessment within this. Auditing is a business as well as a profession, so it is vital that all the relevant work is done as efficiently manner as possible.

In outcome 3, you cover the basics of what auditors do to check that a company's bookkeeping systems are operating as they should, and the formal procedures for reporting weaknesses in their systems to company management.

Outcome 4 introduces you to analytical review procedures, which are how auditors interpret company results to guide them to those business areas requiring additional attention. It also focuses on a company's final statement of financial position, which has to be presented to shareholders and submitted to Companies House. You look at the tests required to verify the statement of financial position.

Finally, in outcome 5, you look at the procedures a firm must apply to conclude their audit, including the legal form of report they have to produce for shareholders. You learn about the power auditors can have over accountants, and about the sanctions they can impose on those companies that do not comply with auditors' requests. You also look at the importance of assessing the company as a going concern, and the impact that post year-end events can have on the auditor's opinion.

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You can be assessed by case studies, individual tasks and short-answer questions, under open-book or supervised open-book conditions.

### **Meta-skills**

Throughout the unit you develop meta-skills to enhance your employability in the accounting sector. Meta-skills include self-management, social intelligence and innovation.

# Administrative information

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**Superclass:** AK

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## History of changes

| Version | Description of change | Date |
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