CHARTA LEARNING · INTERVIEW PREPARATION

Audit Fundamentals and the Interview Process

Interview preparation summary · AU track

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INT.UF.1.a · What an audit is

Explain what an audit provides and what it cannot, using reasonable assurance and the expectation gap.

An external audit gives an independent opinion on whether a company's financial statements are free from material misstatement and give a true and fair view (or present fairly) under the applicable framework. The assurance is reasonable, which is high but not absolute. Auditors test samples, not every transaction, evidence is mostly persuasive rather than conclusive, statements contain estimates and judgements, and controls can be overridden or defeated by collusion and forgery. So a properly performed audit can still miss a material fraud or error. The expectation gap is the difference between what the public thinks auditors do (guarantee accuracy and catch all fraud) and what auditing standards actually require. Management prepares the statements and is responsible for preventing and detecting fraud, while the auditor plans and performs the work with professional scepticism to obtain reasonable assurance. Interviewers ask this to see whether you understand the product honestly. A weak answer promises certainty; a strong one explains the limits without making the audit sound pointless.

WORKED EXAMPLE: WHY A SAMPLE CAN MISS ERRORS AT LINDENFOLD RETAIL

Lindenfold Retail, an invented chain, recorded 2,400 sales entries in a month. Suppose 120 of them (5%) were recorded wrongly, but the audit team does not know which. A trainee tests a random sample of 60 entries without replacement. What is the chance the sample contains no error at all, and what does that say about reasonable assurance? Convention: random sampling, errors of similar size, no other evidence.

Answer: A sample of 60 from 2,400 entries with 5% wrong finds no error about 4.4% of the time, so audit evidence is persuasive rather than conclusive. Larger and better targeted samples lower the risk, and reasonable assurance is the honest name for what remains.

> **Interview tip:** Say it in one breath: we test samples, so we reduce the risk of missing a material error to a low level but cannot remove it. Then show you are not defensive by adding what the auditor does about it: larger samples, targeting, and several kinds of evidence.

INT.UF.1.b · What an audit is

Say who relies on audited financial statements, who is responsible for what, and what true and fair means.

The users of audited statements include shareholders, lenders, suppliers, employees, regulators and potential investors, and each uses them for decisions: whether to invest, lend, extend credit, pay a bonus or buy the business. That is why materiality is judged by what would change a reasonable user's decision, not by a fixed number. Management (the directors) is responsible for preparing the statements, for the internal controls behind them and for preventing and detecting fraud. The auditor is responsible for forming and expressing an opinion on them. The auditor cannot prepare the statements and then audit them, because that creates a self-review threat. True and fair, or fair presentation, means that in all material respects the statements faithfully reflect the company's position and results under the applicable framework. It does not mean accurate to the penny, and it is not a view on the quality of the business or its future. A common mistake is to say the auditor is responsible for the accounts.

WORKED EXAMPLE: A SMALL ERROR THAT MATTERS TO A LENDER AT TARROWBY ENGINEERING

Tarrowby Engineering, an invented manufacturer, has draft operating profit (EBIT) of 4.60m and interest of 1.50m. Its bank loan requires interest cover (EBIT divided by interest) of at least 3.0x, tested on the audited statements. During the audit the team finds that EBIT is overstated by 0.12m because a supplier invoice was left out of costs. Is the error material, and why? Convention: ignore tax and any other adjustments.

Answer: The error is only 2.6% of EBIT but turns interest cover from 3.07x into 2.99x against a minimum of 3.0x, so it is material to the lender. Management corrects it; the auditor reports it.

> **Interview tip:** Show that materiality is about users: name who relies on the numbers, say what decision they make, and then say that small in percentage terms is not the same as immaterial.

INT.UF.1.c · What an audit is

Distinguish a statutory audit from a review and an agreed-upon procedures engagement and match each to a request.

Assurance engagements differ in how much work is done and what the practitioner concludes. A statutory (or other full) audit gathers enough evidence to give reasonable assurance and an opinion in positive form: in our opinion the statements give a true and fair view. A review gathers less, mainly inquiry and analytical procedures, gives limited assurance and concludes in negative form: nothing has come to our attention to suggest the statements are misstated. Agreed-upon procedures (AUP) give no assurance at all: the practitioner performs procedures the client and the user have agreed and reports the factual findings, and the users draw their own conclusions. A compilation helps to prepare information without any assurance. Requirements differ by jurisdiction and size, and many companies must have an audit by law or under a loan or shareholder agreement, so practice varies. The usual mistake is treating a review as a cheaper audit. Interviewers want you to match the service to what the user needs to rely on, and to say what each report does not tell the reader.

WORKED EXAMPLE: THREE REQUESTS AT DRAYBOURNE LTD

Draybourne Ltd, an invented packaging company, asks a firm about three requests. The firm estimates 520 hours for an audit, 190 hours for a review and 70 hours for agreed-upon procedures, at a blended rate of 85 per hour. Request 1: a lender requires audited accounts. Request 2: the owners want some outside comfort on the half-year figures before talking to a buyer. Request 3: a customer wants the royalty calculation checked against five agreed tests. Which service fits each request, what does each cost, and how many times dearer is the audit than the review?

Answer: Audit for the lender (44,200), review for the half-year comfort (16,150) and AUP for the royalty checks (5,950). The audit costs 2.7 times the review and is the only one that gives a positive opinion.

> **Interview tip:** Lead with the user's need, not the price. Then state the form of conclusion for each service and what the reader may not infer from it.

INT.UF.2.a · The profession and the interview

Describe the roles in an audit firm and a trainee's route, and plan a trainee's time between clients and study.

Audit teams are built as a pyramid. Trainees (also called associates or assistants) do most of the fieldwork: testing samples, preparing working papers and chasing queries. Seniors run the fieldwork on site and review trainees' work. Managers plan the engagement, handle the budget and review the file. In many firms directors or senior managers sit above them, and the engagement partner signs the report and carries ultimate responsibility. Trainees usually work towards a professional accountancy qualification, taking exams in stages while working, with study leave and training courses; routes, exam bodies and timing vary by country and firm. Time is a managed resource: staff are planned across several clients and measured on chargeable utilisation, which is the share of available hours charged to engagements. Busy season clusters work after common year-ends, so trainees should expect long weeks and plan study around them. A good answer shows that you know what the job day to day involves, who reviews you and how you would manage study with client work.

WORKED EXAMPLE: PLANNING A TRAINEE'S YEAR

An invented trainee has a contract of 1,950 hours a year. Planned absences are 247.5 hours of holiday and public holidays, 150 hours of study leave and 52.5 hours of firm training. The firm targets chargeable utilisation of 85% of available hours. The trainee is planned on four jobs: a retailer audit 480 hours, a charity audit 340 hours, a software company audit 390 hours and a manufacturer interim visit 120 hours. Is the plan feasible? Convention: hours are illustrative and firms measure utilisation differently.

Answer: Available hours are 1,500.0 and the target is 1,275.0, but 1330 are planned, so the trainee is 55.0 hours over and should raise it early.

> **Interview tip:** Show that you see the job as planned capacity: say the hours, spot the clash between busy season and study, and describe raising it early and with numbers.

INT.UF.2.b · The profession and the interview

Walk through the stages of an audit engagement and work out a simple timetable against a deadline.

An audit follows a lifecycle. It starts with acceptance or continuance, where the firm considers integrity, competence, resources and independence and agrees terms in an engagement letter. Planning follows: understanding the business and its environment, assessing risks, setting materiality and designing the approach. Interim work, if used, happens before the year-

end and covers understanding controls and early testing, which spreads the workload. After the year-end comes final fieldwork: testing balances, transactions and disclosures against the draft statements. Completion covers subsequent events, written representations, evaluating uncorrected misstatements, final analytical review and review by the manager and partner. The auditor then agrees the statements with management and those charged with governance, signs the report and communicates findings. Stages overlap and planning is revisited as new information arrives. Interviewers ask you to walk through the stages to see whether you understand why each exists. The common mistake is to describe only testing and forget acceptance, planning and completion.

WORKED EXAMPLE: WORKING BACK FROM A LENDER'S DEADLINE AT OAKVALE DAIRY

Oakvale Dairy, an invented company, has a year-end of 31 March 2027. Its lender needs signed audited accounts within 120 days of the year-end. The client expects to deliver its final schedules on Monday 7 June 2027. Final fieldwork needs 20 working days, completion and review need 10 working days, and the board meeting to approve and sign takes place 2 working days after completion. Can the team meet the deadline, and how much slip can it absorb? Convention: working days are Monday to Friday, holidays ignored, the first day of each stage counts as day one of that stage's work.

Answer: Yes: the plan signs on 20 July 2027, 9 days inside the deadline of 29 July 2027, and it survives a slip of up to 7 working days in final fieldwork, but not 8.

> **Interview tip:** Say the stages in order, give a date for each, and then say the float and what you would do if the client is late. Do not offer to shorten the testing to save time.

INT.UF.2.c · The profession and the interview

Explain what audit interviewers look for and how the stages work, and build a preparation plan from your own gaps.

Hiring for audit trainee roles typically runs in stages: an online application, online tests (numerical and situational), a video or phone screen, an interview and sometimes an assessment centre. Firms differ and processes change, so treat this as a general pattern. Each stage tests something different. Tests screen numeracy and judgement at volume; the screen checks motivation and communication; the interview looks at why audit and why this firm, understanding of what an audit is and is not, accounting basics, how you think about risk and evidence, commercial awareness, integrity, and teamwork and attention to detail under pressure. Candidates come from many degrees, so no one expects deep accountancy knowledge, but they do expect honest, specific answers backed by examples. A good way to prepare is to score yourself against these areas, weight them by how much they matter, and work on the biggest weighted gap first. The usual mistakes are reciting generic reasons for choosing audit and inventing experience to fit.

WORKED EXAMPLE: A SELF-SCORING GRID FOR INTERVIEW PREPARATION

An invented candidate scores themselves from 1 to 5 against five areas that interviewers commonly assess, weighted as shown: Understanding of what an audit is weight 25%, score 3; Commercial awareness weight 20%, score 2; Numeracy and accounting basics weight 20%, score 4; Ethics and scepticism weight 20%, score 4; Teamwork and communication weight 15%, score 4. What is the weighted score, which gap matters most, and what is the plan? Convention: the weights are an illustrative judgement, not any firm's scheme.

Answer: Weighted score 3.35 out of 5. Commercial awareness is the largest weighted gap (60), then understanding of audit (50), so those get the first weeks of preparation.

> **Interview tip:** Show a method, not just effort: say how you identified your gaps, which comes first and why, and what evidence you would be able to give by the interview. Be honest where you are weak.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.