

Session F4-F: Finalization and Review Procedures

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Audit Training of Trainers



CFRR >>

**Centre for Financial
Reporting Reform**



Road to Europe: Program of Accounting
Reform and Institutional Strengthening



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Content of this session

- » ISAs relevant when the work of “others” is used during financial statement audits:
 - » ISA 620 *Using the Work of an Auditor's Expert*,
 - » ISA 402 *Audit Considerations Relating to an Entity Using a Service Organization*,
 - » ISA 610 *Using the Work of Internal Auditors*.
- » ISAs regarding finalization and review audit procedures:
 - » ISA 450 *Evaluation of Misstatements Identified during the Audit*,
 - » ISA 520 *Analytical Procedures*,
 - » ISA 560 *Subsequent Events*,
 - » ISA 580 *Written Representations*.

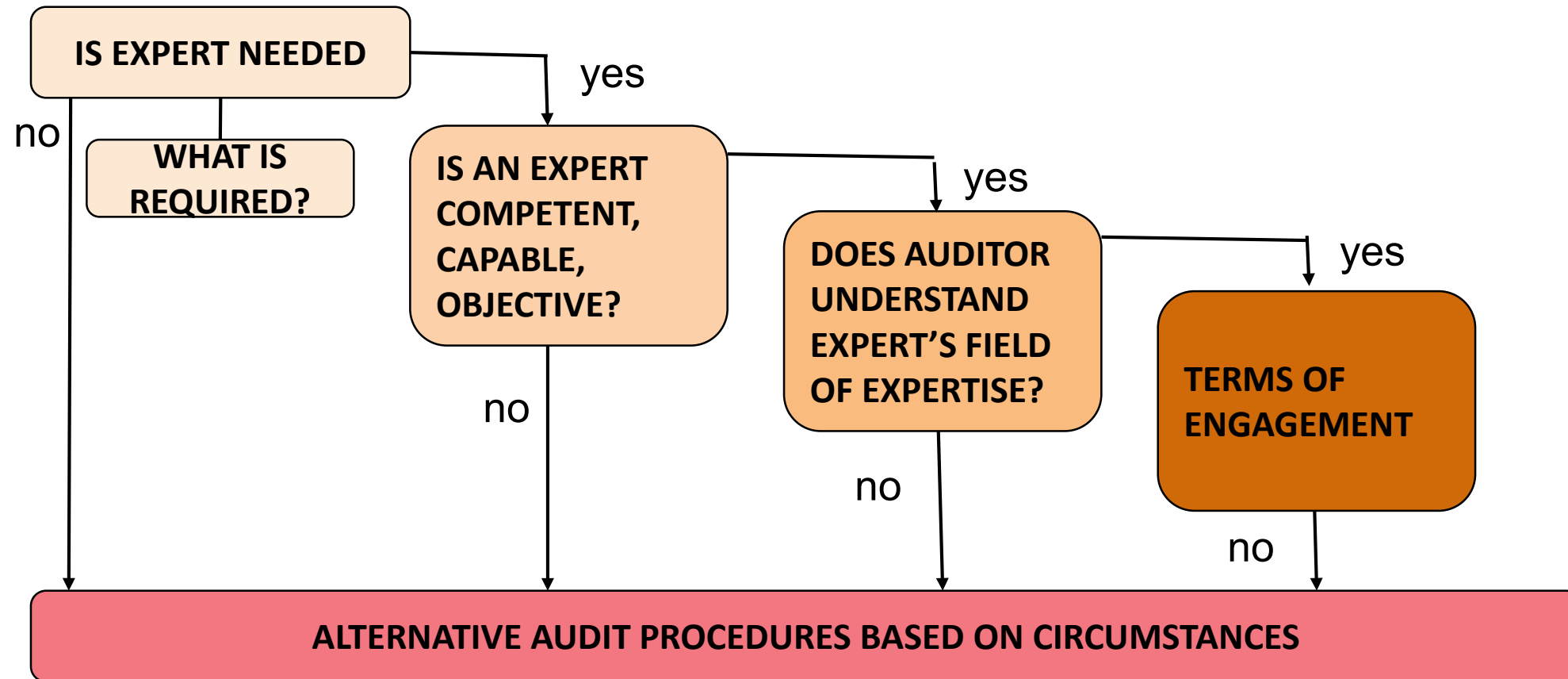


ISA 620, Using the Work of an Auditor's Expert

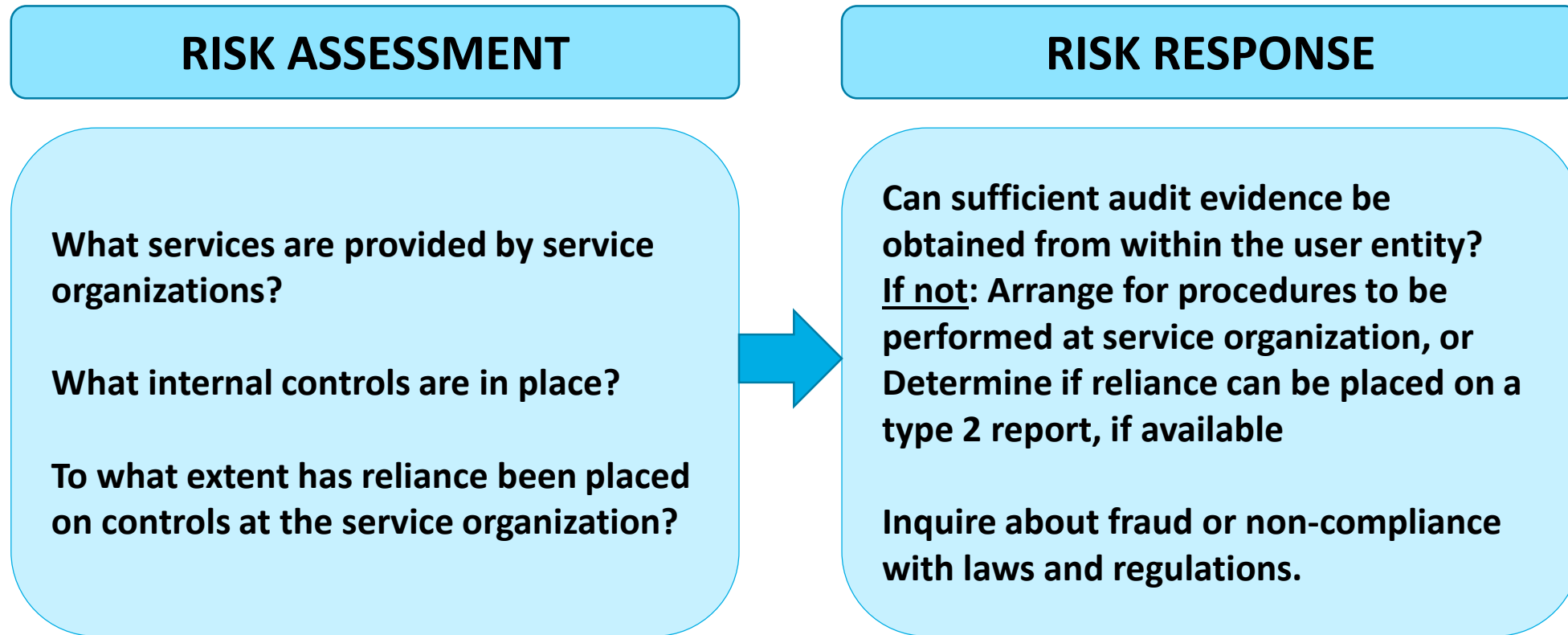
- » Specialized inventory count/counters;
- » Valuations of assets;
- » Determination of quantities or physical condition of assets;
- » Determination of amounts using specialized techniques or methods;
- » The analysis of complex or unusual tax-compliance issues;
- » The measurement of work completed, and to be completed, on contracts in progress; and
- » Legal opinions concerning interpretations of agreements, statutes and regulations



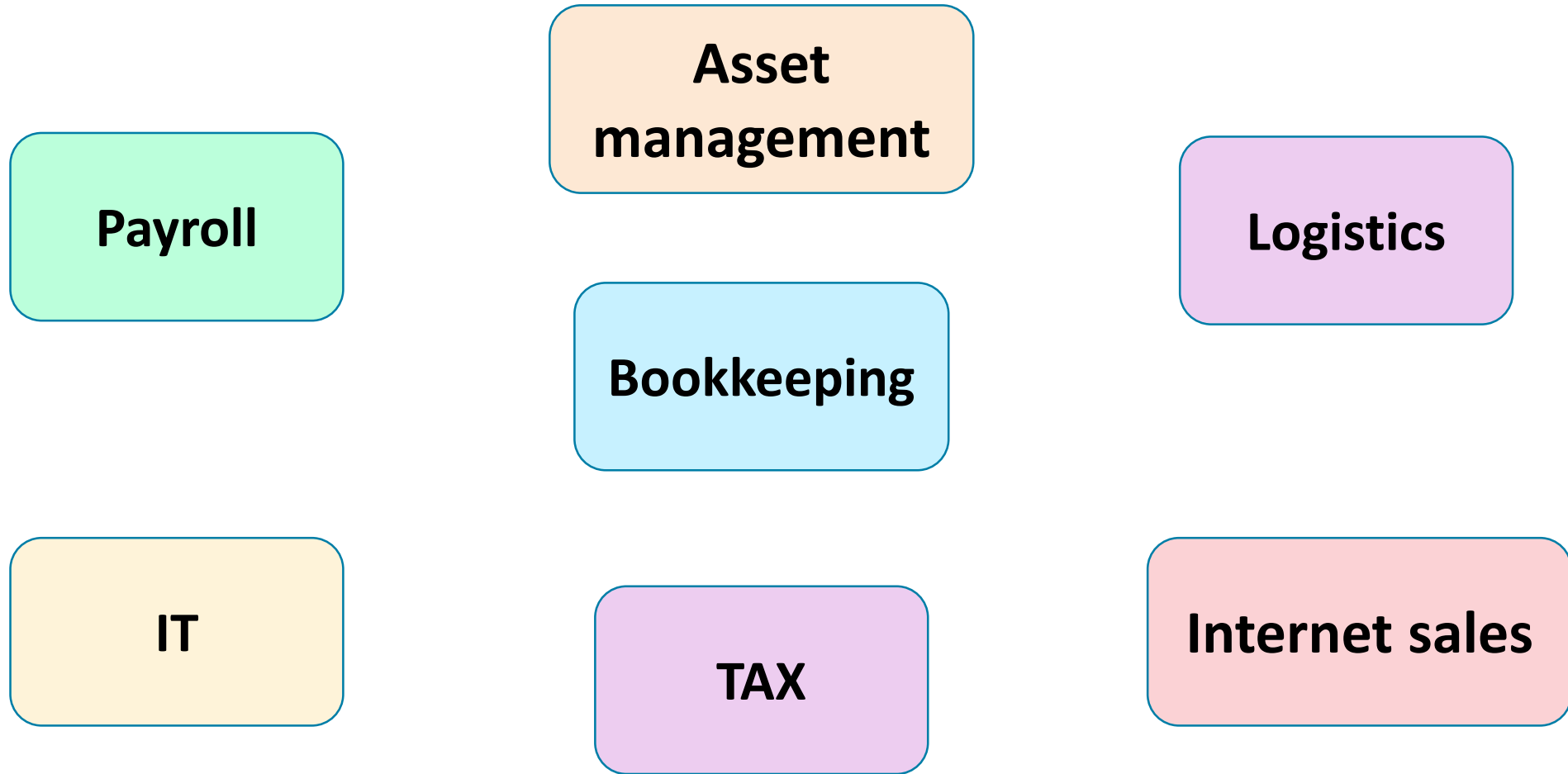
ISA 620, Using the Work of an Auditor's Expert



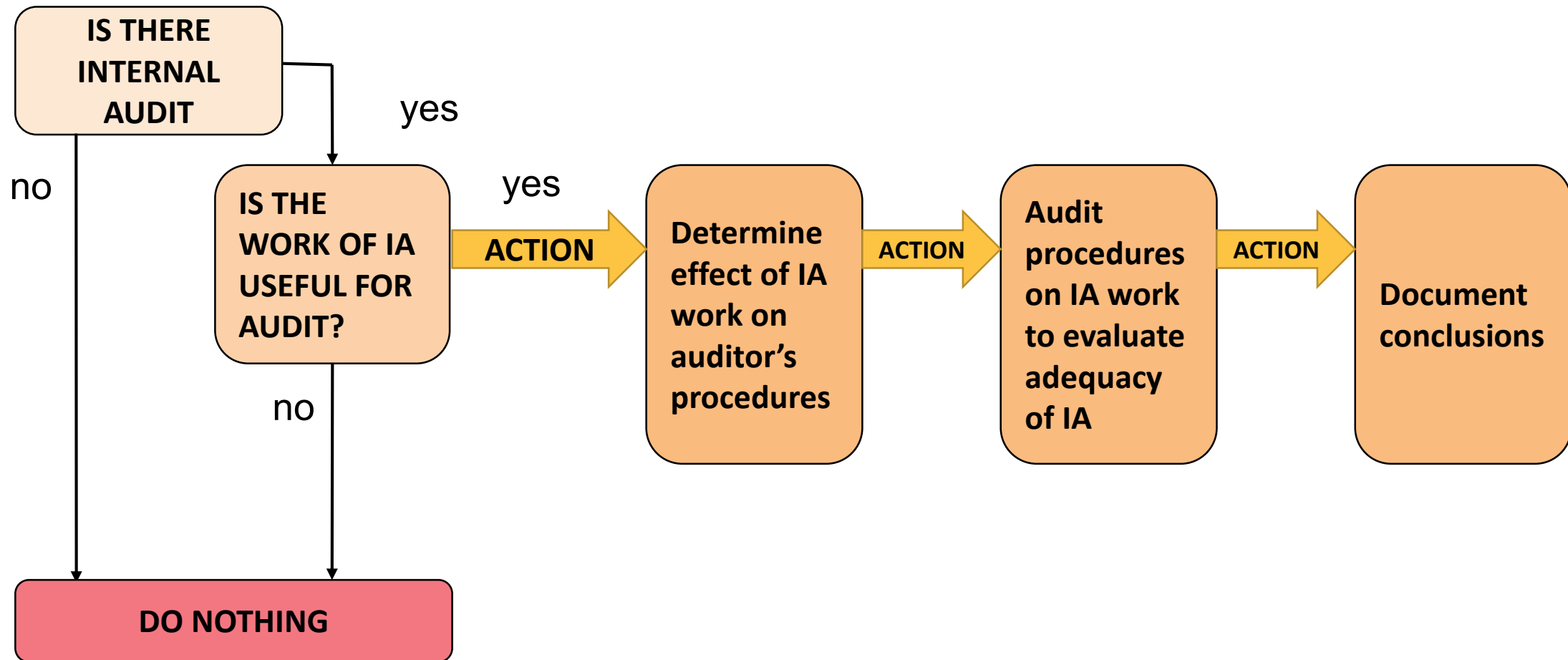
ISA 402, Audit Considerations Relating to an Entity Using a Service Organization



ISA 402, Audit Considerations Relating to an Entity Using a Service Organization



ISA 610, Using the Work of Internal Auditors



ISA 610, Using the Work of Internal Auditors

» IS THE WORK OF IA USEFUL FOR AUDIT?

- » Objectives and scope of IA
- » Objectivity/Independence of IA
- » Competency of IA
- » Due professional care of IA
- » Effective communication between IA and EA



ISA 610, Using the Work of Internal Auditors

» **PERFORM AUDIT PROCEDURES TO EVALUATE ADEQUACY OF IA WORK FOR EA USE**

- » Adequate technical training and proficiency of IA?
- » Was the work properly supervised, reviewed, and documented?
- » Adequate audit evidence obtained to enable the IA to draw reasonable conclusions?
- » Were the conclusions reached appropriate?
- » Were reports done by the IA consistent with the results of the work performed?
- » Exceptions or unusual matters disclosed by IA properly resolved?



ISA 450, Evaluation of Misstatements Identified during the Audit

- » **The objective of the auditor is to evaluate:**
- » The effect of identified ***misstatements*** on the audit; and
- » The effect of uncorrected misstatements, if any, on the financial statements.

Misstatement – A difference between the:

AMOUNT

CLASSIFICATION

PRESENTATION

DISCLOSURE

ISA 450, Evaluation of Misstatements Identified during the Audit

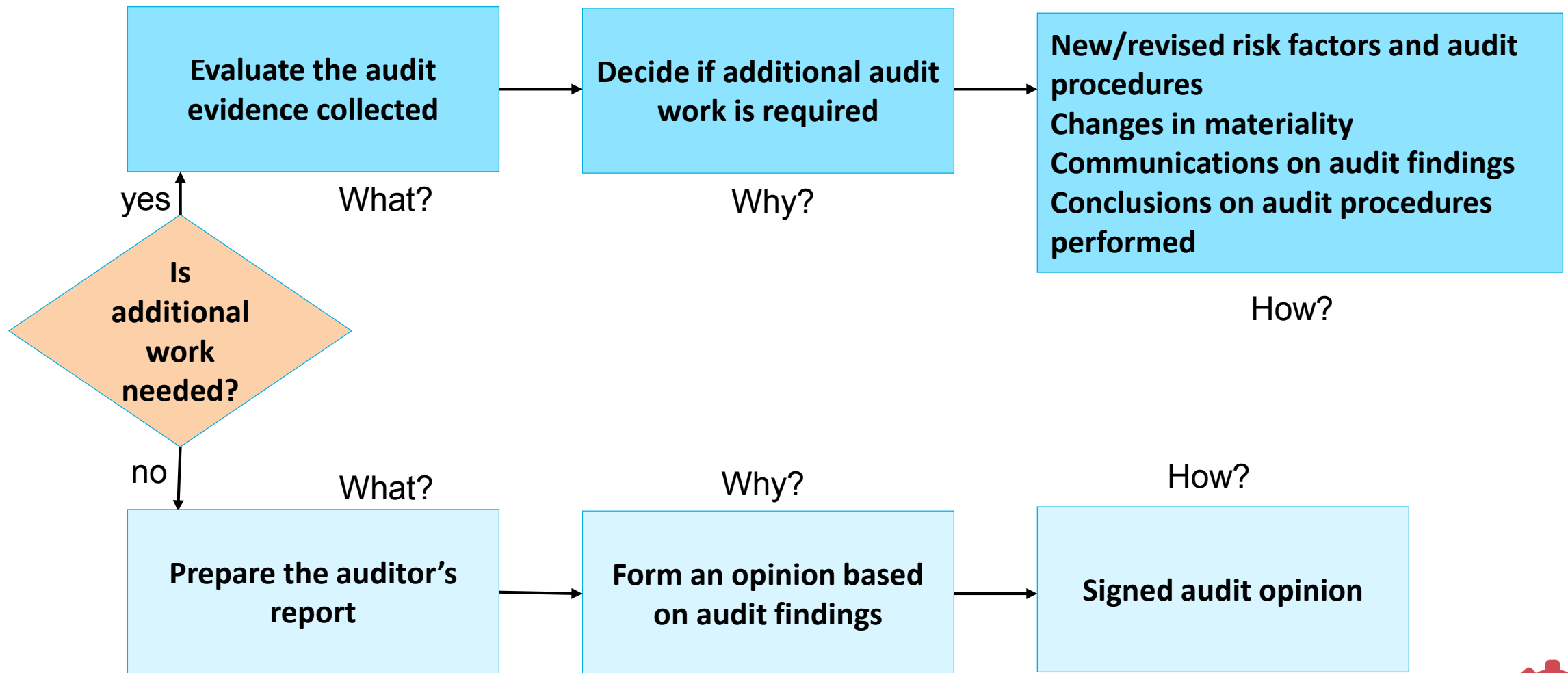
- » Uncorrected misstatements
- » To accumulate misstatements identified during the audit (other than trivial)
- » To determine if the audit strategy and audit plan need to be revised if:
 - » The nature of misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or
 - » The aggregate of misstatements accumulated during the audit approaches materiality determined



ISA 450, Evaluation of Misstatements Identified during the Audit

- » Communication and Correction of Misstatements
- » Evaluating the Effect of Uncorrected Misstatements
- » Written Representations
- » Documentation

Evaluating audit evidence



ISA 520, Analytical Procedures

- » Objectives:
 - » To obtain *relevant* and *reliable* audit evidence when using substantive analytical procedures;
 - » To design and perform analytical procedures *near the end of the audit* that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

ISA 520, Analytical Procedures

- » If analytical procedures performed in accordance with this ISA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:
 - » *Inquiring* of management and obtaining appropriate audit evidence relevant to management's responses; and
 - » *Performing* other audit procedures as necessary in the circumstances.

ISA 560, Subsequent Events

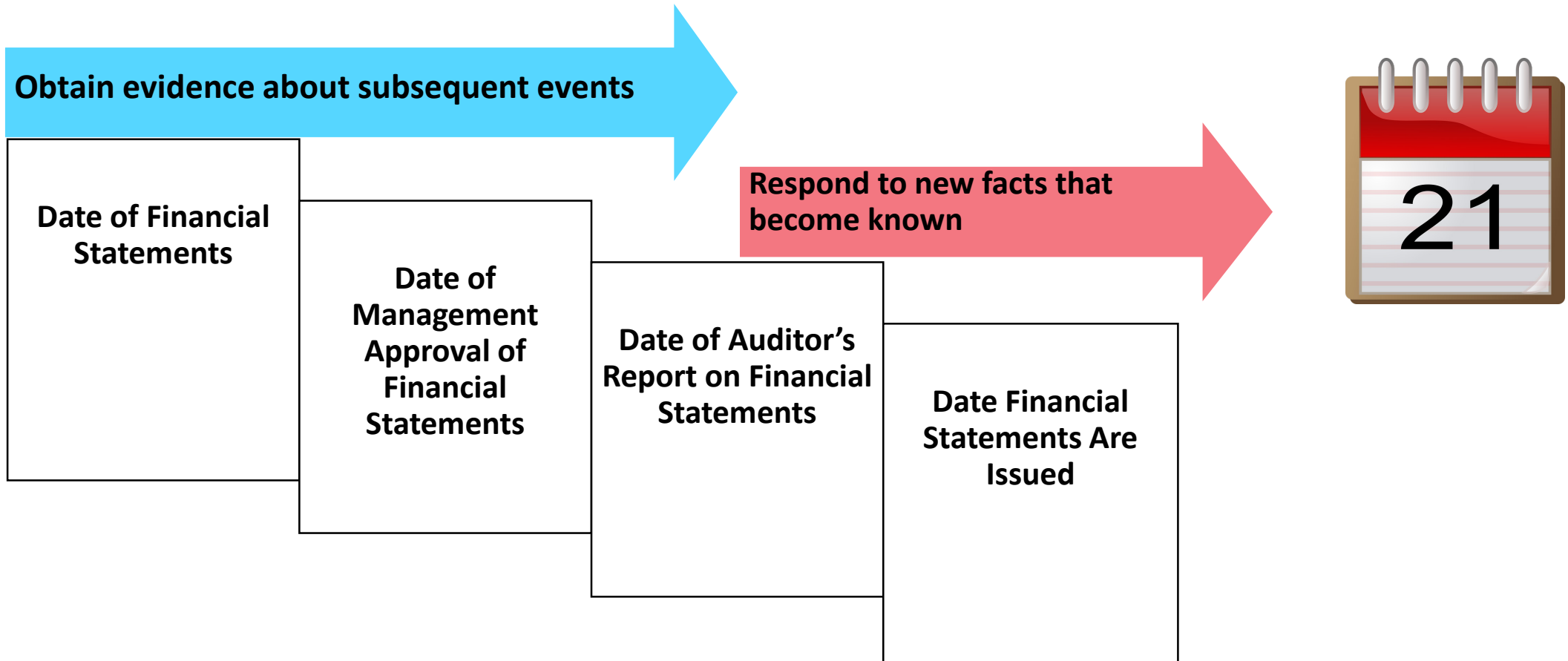
» **Subsequent events:**

- » events occurring between the date of the financial statements and the date of the auditor's report, and
- » facts that become known to the auditor after the date of the auditor's report.

» **Identify Any Subsequent Events:**

- » Perform audit procedures to identify any subsequent events:
 - » understand management procedures to identify subsequent events;
 - » make inquiries of management (and those charged with governance);
 - » read minutes of the meetings (management and those charged with governance) held after the date of the financial statements;
 - » read financial reports produced after the period end.

ISA 560, Subsequent Events



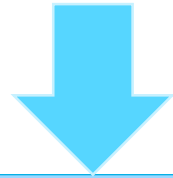
ISA 560, Subsequent Events

- » Facts Become Known to the Auditor:
 - » *After date of auditor's report but before Financial Statements are issued, or*
 - » *After the Financial Statements are issued*

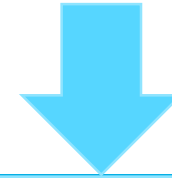
ISA 560, Subsequent Events

» Facts Become Known to the Auditor:

» *After date of auditor's report but before Financial Statements are issued*



**Management does
not amend the
financial
statements**



**Management does
amend the
financial
statements**

ISA 560, after date of Auditor's Report but before Financial Statements are issued

- » Discuss with management (and those charged with governance);
- » Determine if the financial statements need amendment and, if so:
 - » Inquire how management intends to address the matter in the financial statements,
 - » Perform any further audit procedures required, and
 - » Issue a new auditor's report on the amended financial statements. This could also include dual dating of the report, restricted to the amendment or inclusion of an emphasis of matter paragraph.

ISA 560, after date of Auditor's Report but before Financial Statements are issued, cont'd

- » Where management does not amend the financial statements, the auditor would issue a modified auditor's opinion.
- » If the auditor's report has already been released, notify management not to issue the financial statements to third parties before the necessary amendments have been made.
- » If the financial statements are released despite the notification, take appropriate action (consulting with lawyers) to prevent reliance on the auditor's report.

ISA 560, after the Financial Statements are issued

- » Discuss with management (and those charged with governance);
- » Determine whether the financial statements need amendment and, if so, inquire how management intends to address the matter in the financial statements;
- » If management amends the financial statements:
- » Extend the subsequent event audit procedures to the date of the new auditor's report:
 - » Perform any further audit procedures required,
 - » Review management's actions to ensure anyone in receipt of the previously issued financial statements and auditor's report thereon is informed of the situation,

ISA 560, after the Financial Statements are issued, cont'd

- » Issue a new or amended auditor's report on the amended financial statements that includes an “*Emphasis of Matter*” paragraph.
- » If management does not take steps to ensure anyone in receipt of the previously issued financial statements is informed of the situation:
 - » Notify management that the auditor will take appropriate action to seek to prevent reliance on the auditor's report;
 - » If, despite such notification, management (or those charged with governance) does not take the necessary steps, take appropriate action (consulting with lawyers) to prevent reliance on the auditor's report.

ISA 580, Written Representations

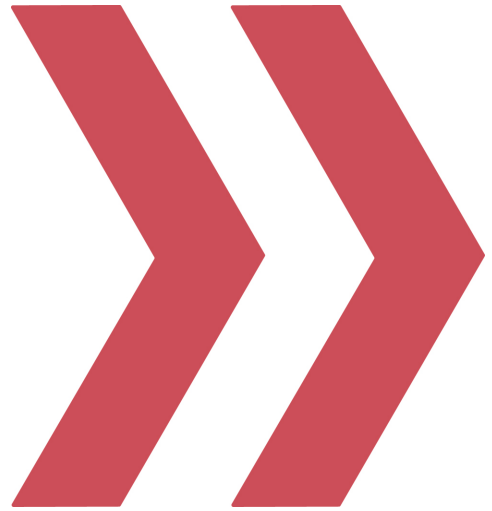
- » The objectives of the auditor are:
- » To obtain written representations from management and, those charged with governance that they believe that they have **fulfilled their responsibility for the preparation of the financial statements** and for the **completeness of the information** provided to the auditor;
- » To support other **audit evidence** relevant to the financial statements or specific assertions in the financial statements;
- » To respond appropriately to written representations provided by management and those charged with governance, or if they do not provide the written representations requested by the auditor.

ISA 580, Written Representations

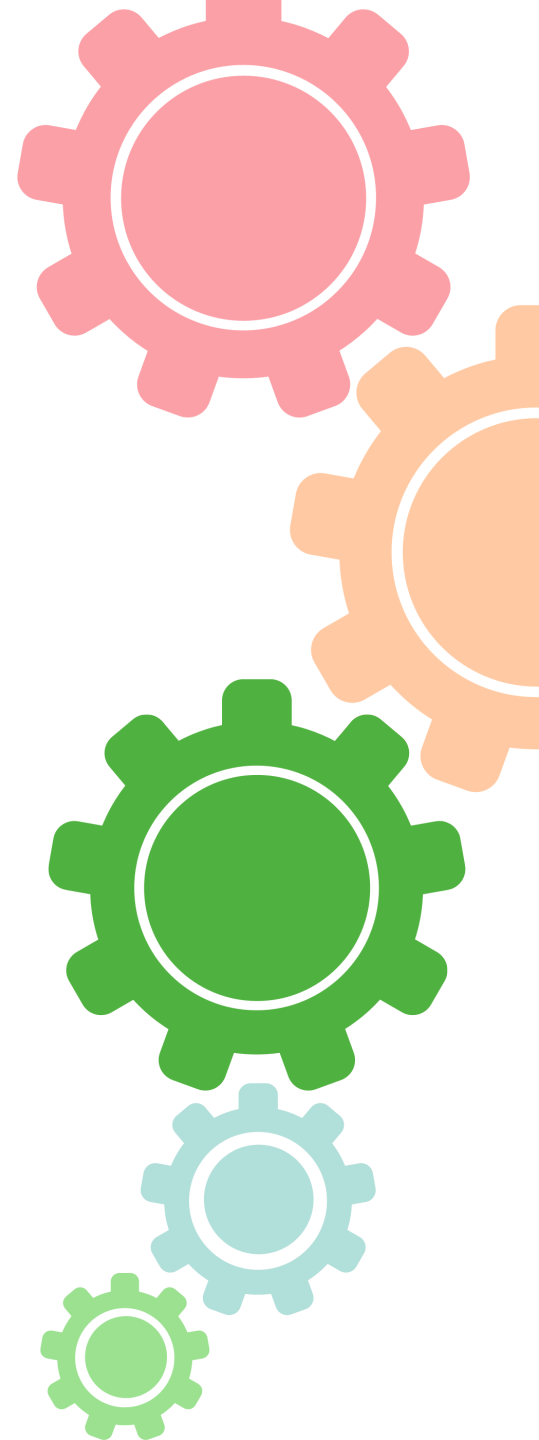
- » Written representations address:
 - » **Management's Responsibilities**, e.g. for the preparation of the FS in accordance with the applicable financial reporting framework; provided all relevant information
 - » **Specific Representations**, e.g. appropriate selection and application of accounting policies, which are in accordance with the applicable financial reporting framework

ISA 580, Written Representations

- » The written representation letter would be obtained as near as practicable to, **but not after, the date of the auditor's report** on the financial statements.
- » Written representations would cover all financial statements and period(s) referred to in the auditor's report.
- » Written management representations are not to be used as:
 - » A substitute for performing other audit procedures; or
 - » As the sole source of evidence on significant audit matters.



Group Work



PejaSko Case Study

- » Use template 13 “Audit Conclusion Memorandum” to prepare a summary of audit conclusions, based on the PejaSko Case study. This would include:
 - » evaluating the audit differences and appropriates of audit materiality;
 - » documenting the significant audit areas;
 - » performing a final analytical review based on the final financial statements.
- » Work in Groups for 15-20 minutes
- » Each Group will present the results