

AUDIT WORKING PAPERS REVIEW TECHNIQUES

SMP WORKSHOP
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
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By: Omar Mustafa Ansari & Khurram Jameel
(Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants)

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WHY REVIEW?

- ISA 200 “Objectives and General Principles Governing an Audit of Financial Statements” states the objectives of an audit of financial statements as “To enable the auditor to express an opinion on the financial statements...”
- ISA 500 “Audit Evidence” requires that the auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which to base the audit opinion.

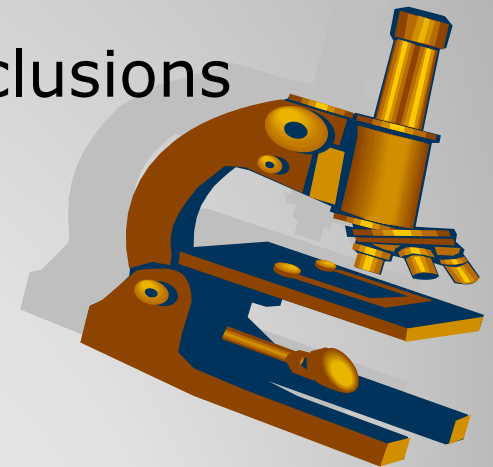
WHY REVIEW?

- Hence, it is important that before the issuance of auditor's report, the engagement partner / principle (as he is responsible for the overall conduct and quality of each audit engagement), through review of the audit documentation and discussion with the engagement team, is satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached.

WHY REVIEW?

REVIEW PROCESS

- The work has been performed in accordance with professional standards and regulatory and legal requirements and the agreed / standard scope.
- Appropriate consultations have taken place and the resulting conclusion has been documented and implemented.
- The work performed supports the conclusions reached.

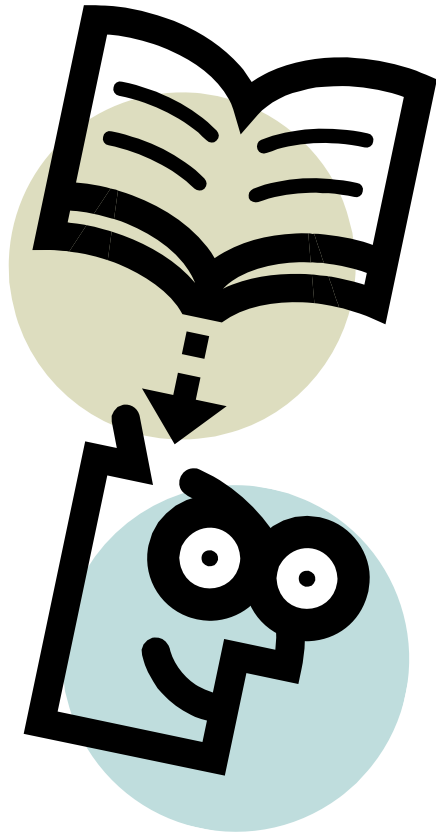


WHAT A REVIEWER HAS TO CHECK?

- There is no need to revise the nature, timing and extent of work performed – and if there is; necessary changes are made accordingly.
- The evidence obtained is sufficient and appropriate to support the auditor's report.
- All standard procedures have been performed and documented before the issuance of the auditor's report.



WHAT A REVIEWER HAS TO CHECK?



In audit – you can never prove anything to have been done unless you document it...

How to document – attach supports, use work programs and then sign them off, write work done and tick marks etc.

IF IT IS NOT DOCUMENTED;
IT IS NOT DONE!

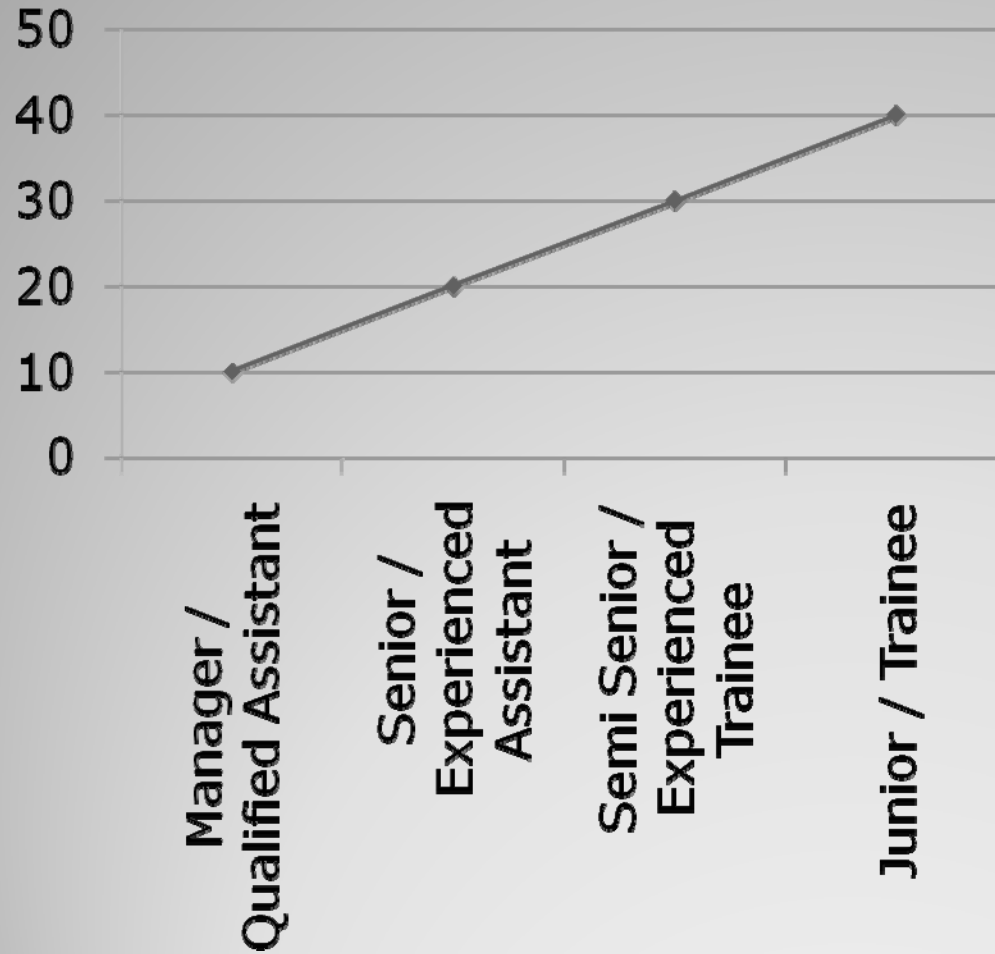
- There is a misconception that review can only be performed at the end of audit or at the culmination of audit.
- Review is an on going process and should be done throughout the audit during the following phases:
 - Planning
 - Testing of controls / Compliance testing
 - Substantive testing
 - Conclusion and reporting



TIMING OF REVIEW

EXTENT OF REVIEW / DEPTH REQUIRED!

Depth of Review
(Time Required) vs.
Level of Staff



REVIEW PROCESS

REVIEW OF WORKING PAPERS

REVIEW OF DELIVERABLES

REVIEW OF WORKING
PAPERS FOR QUALITY
OF WORK

REVIEW OF WORKING
PAPERS FOR THE
QUALITY OF
DOCUMENTATION

AUDIT
DELIVERABLES –
REPORT, COVERING
LETTER AND
MANAGEMENT LETTER

CLIENT'S
DELIVERABLES –
FINANCIAL
STATEMENTS, ANNUAL
REPORT

REVIEW PROCESS

REVIEW OF FINANCIAL STATEMENTS

- The management of the Company is responsible for the preparation of financial statements. However, since the auditor has to report on the same, he still has to perform a detailed review of the same, e.g. he should ensure that:
 - the financial statements comply with the applicable financial reporting framework;
 - these are comparable within industry;

IS REVIEW OF FINANCIAL STATEMENTS, AUDITORS RESPONSIBILITY?

- all the relevant disclosures have been adequately made and drafted;
- financial statements are in accordance with the books of account – company law report format;
- financial statements are free from errors, including clerical and arithmetical errors.

IS REVIEW OF FINANCIAL STATEMENTS, AUDITORS RESPONSIBILITY?

- Ensure that the Companies Ordinance 1984 and International Financial Reporting Standards' requirements and disclosures have been complied with (preferably use Financial Statements Disclosures Checklist issued by the ICAP)

- Ensure that if the company is subject to any other ordinance or regulations, disclosures required by these have also been included in the financial statements e.g. companies including banking companies, NBFCs, Insurance companies, etc..

WHAT TO REVIEW IN THE FINANCIAL STATEMENTS?

- Preferably there should be checklists for the same e.g. FSDCL.
- Don't leave it on your staff – ask them to fill, but always review it yourself.
- Ask your staff to refer it with the financial statements set. It will help you in review.



USE OF DISCLOSURE CHECKLISTS

- Always check that there is a complete referenced set of financial statements available in file, which is referenced and linked with both the working papers and final adjusted trial balance along with additional internal referencing.
- Check that such set is appropriately casted and referenced. Recheck referencing and recheck casting on a test basis – if you are not doing that it means that your reputation is in the hand of some inexperienced guys.

FINANCIAL STATEMENTS & THEIR LINKAGE WITH WORKING PAPERS

- Ensure that financial statements comprise of a complete set of statements as prescribed by IFRS, or by relevant statute.
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- Ensure that proper notes to the financial statements have been provided.

FINANCIAL STATEMENTS & THEIR LINKAGE WITH WORKING PAPERS

- Ensure that correct period covered by the accounts appear on the balance sheet, profit and loss account, statement of changes in equity, cash flow statement and notes to the financial statements.
- Check cross referencing of the major figures to working paper file – Don't forget the small ones altogether – otherwise, your staff will always forget them – Check them on a test basis also.

FINANCIAL STATEMENTS & THEIR LINKAGE WITH WORKING PAPERS

- Check internal cross reference between various figures in financial statements i.e. between various statements and notes.
- Examples include:
 - Number of shares in notes, face of BS and as appearing in EPS disclosure;
 - Cash and cash equivalents in notes, BS and CF;
 - Reserves and Unappropriated / accumulated balance of profit / loss between BS and SCE;
 - Profit before tax in PL and CF;
 - Depreciation in CF and notes.

REVIEW OF FINANCIAL STATEMENTS

- Ensure that last years' figures appearing in the financial statements are traced by the staff from last years' signed financial statements. Check on a test basis, particularly to identify instances where they have been rearranged to ensure proper treatment and disclosure.
- Ensure that wherever last years' figures have been rearranged, the following have been disclosed in the notes to the financial statements :
 - Nature
 - Amount
 - Reason

REVIEW OF FINANCIAL STATEMENTS

- Ensure that accounting policies for all major areas are defined.
- Ensure that “earnings per share” figure of prior year is adjusted in case of change in number of ordinary shares outstanding without a corresponding change in resources. Examples are:
 - Stock dividend (bonus issue)
 - Right issue

REVIEW OF FINANCIAL STATEMENTS

- Specifically check the notes and disclosures requiring technical expertise and judgment capability for appropriate disclosures.
- Examples include the notes relating to financial instruments – as to whether an item is financial instrument or not e.g. deferred tax, prepayments and intangible assets.
- Similarly, check the notes requiring complex computations e.g. EPS and income tax reconciliation.

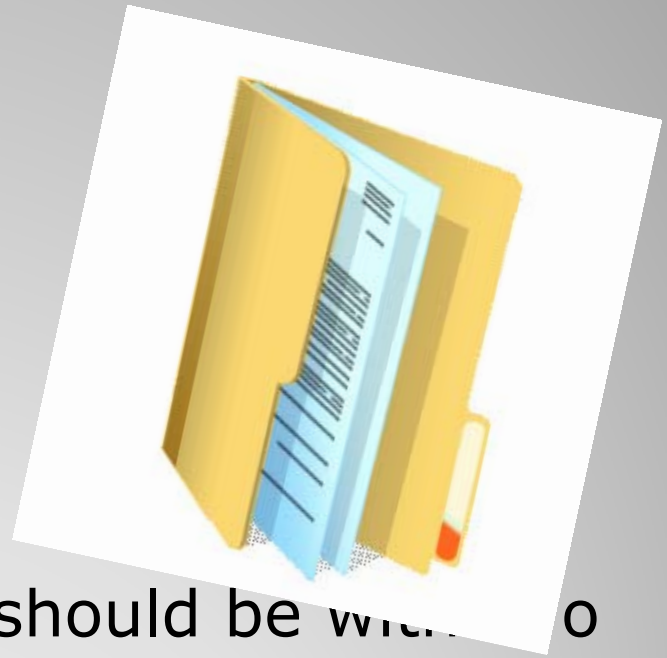
REVIEW OF FINANCIAL STATEMENTS

- Match financial instruments disclosures with each other, and with relevant notes, and get them referred with working papers.
- Check non-monetary disclosures and ensure that these are referred with the working papers.
- Check related party and other related disclosures e.g. remuneration of key executives and refer with working papers.
- Check for post balance sheet date events and similar other disclosures. There should be proper documentation in the file.

REVIEW OF FINANCIAL STATEMENTS

REVIEW OF WORKING PAPERS

- Working papers review can be categorized into following:
 - Detailed review;
 - Partner / Principal review;
 - Tax review;
 - Specialist review; and
 - Independent quality review.
- As discussed above, the review should be with two objectives i.e. quality of work, and quality of papers.



WORKING PAPERS REVIEW

DETAILED REVIEW

- The engagement manager / supervisor of the audit team should perform a detailed review of the working papers.
- This may include:
 - Review the audit strategy document and ensure that:
 - planning Materiality has been set using an appropriate basis;
 - all significant accounts being identified;
 - tests of controls have been properly designed;

DETAILED REVIEW

- Review tax planning and review memorandum and discuss the issues with the tax personnel (where applicable);
- Review the minutes of AGM, EGM, BOD meetings or extracts;
- Ensure that related party transaction checklist has been completed;
- Ensure that the final trial balance has been referenced with the working papers / financial statements after duly ensuring that balances as per the books of account accord with the same;

DETAILED REVIEW

- Review the letters from lawyers and other consultants with whom management consulted with respect to claims and/or potential claims;
- Review the reports from other specialists actuaries, valuers etc.) on which we are relying;
- Ensure that sufficient additional working papers exists to be satisfied that appropriate audit recognition has been given to all important amounts in the financial statements
- Ensure that letter of representation is correctly dated and contains confirmation of all key representations made to auditors;

DETAILED REVIEW

- Ensure that appropriate audit work has been performed in accordance with International Auditing Standards – and the additional scope requirements of the company law and other laws are covered;
- Ensure that the work performed has been properly evidenced;
- Ensure that numbers in the financial statements accord with our understanding of the client's business and industry;
- Ensure that audit issue memoranda covers all important accounting and auditing issues which arose during the audit;

DETAILED REVIEW

- Ensure that the audit team and reviewers' concurrence with the conclusions reached is adequately documented;
- Ensure that audit file contains adequate notes of discussions with the client, including the reasons for all decisions reached as a result of such discussions;

DETAILED REVIEW

- Ensure that financial statements have been properly prepared in accordance with the relevant accounting standards and laws and that the audit report is appropriate; and
- Ensure that all matters of attention have been communicated to other members of the engagement team, as appropriate.

DETAILED REVIEW

- Never rely blindly...
- Use judgmental sampling for review...
- Never ignore all the small things... Take sample...
- If something is small, but may be exposed... Check it judgmentally...
- Learn from experience...
 - Where this client makes error,
 - where my staff makes error, and
 - where do I commit mistakes...
- Everything can contain an error, unless otherwise proved...



DETAILED REVIEW – A FEW THINGS TO REMEMBER

PARTNER / PRINCIPAL REVIEW

- Position yourself properly... Assess your staff level... Assess the level of reviewer and then decide to step into the foot of the Partner / Principal or the Detailed Reviewer....
- If YES ... Continue ... If NO Go back and perform detailed review first ... Then do it additionally....

PARTNER / PRINCIPAL REVIEW

- See the “big picture.”
- Have an expectation before you review.
- Make sure all pieces fit together.
- Look for consistency with other areas you reviewed.
- Watch the level of detail — too much or too little.

PARTNER / PRINCIPAL REVIEW

Reassess

- Scope
- Testing procedure
- Sample size
- Sample selection method
- Materiality

Challenge

- Yourself
- Your team
- Your client
- The financial results
- Client's verbal representations
- Work programs

PARTNER / PRINCIPAL REVIEW

- ASK YOURSELF ---
- In respect of each working paper that you review:
 - Does it make sense?
 - Do I really understand the process?
 - Can I reiterate it?
 - Is the working paper authentic?
 - Who provided what we requested and were we provided with originals of the requested?
 - Does the work support the findings?
 - Is there any indication of fraud?

PARTNER / PRINCIPAL REVIEW

- Does the working paper use language that conveys assurance on work performed?
- Can a third party re-perform the test and produce the same result?
- What is the source of the information provided?
- Is the population complete and accurate?

PARTNER / PRINCIPAL REVIEW

- The engagement partner should at least perform the following:
 - Participate in the planning event to review the audit approach of the engagement team;
 - Ensure that Planning Materiality has been set using an appropriate basis;
 - Ensure that all significant accounts and functions have been adequately identified;
 - Ensure that audit strategy / planning documentation has been prepared that addresses all the audit risks;

PARTNER / PRINCIPAL REVIEW

- Ensure that tests of controls have been properly designed and their conclusions have been adequately taken into account for determination of audit strategy;
- Review the detailed audit programs including the budgeted time allocated to each audit procedure;
- Review sufficient audit working papers to ensure appropriate audit coverage has been given to all important financial statement amounts and disclosures;

PARTNER / PRINCIPAL REVIEW

- Ensure that appropriate audit work has been performed in accordance with International Auditing Standards and Auditing and that it has been properly evidenced;
- Ensure that detailed review was adequate;
- Review the numbers in the financial statements and ensure that they accord with the understanding of the client's business and industry and economy as a whole;
- Audit Issues Memoranda covers all important accounting and auditing issues which arose during the audit and concur with the conclusions reached;

PARTNER / PRINCIPAL REVIEW

- Ensure that the audit file contains adequate notes of discussions with the client, including the reasons for all decisions reached as a result of such discussions;
- Ensure that letter of representation is correctly dated and contains confirmation of all key representations made to the auditors;
- Evaluate, based on your experience and judgment capability as to whether the accounting policies, significant judgments and estimates are appropriate, acceptable and as per industry norms;
- Ensure that going concern basis is appropriate.

PARTNER / PRINCIPAL REVIEW

SPECIALIST REVIEW

- There are always a few items in an audit which might need specialist review. But at times, we have to rely on the external specialists.
- Examples include:
 - Treasury – financial institutions' treasury function;
 - IT – IS audit functions;
 - Tax – tax, deferred tax and tax position;
 - Islamic finance – Islamic finance transactions;
 - Actuary – Insurance and defined benefit plans.



SPECIALIST REVIEW

INDEPENDENT QUALITY REVIEW

- Quality review normally refers to a review of audit documentation in order to get a concurrent conclusion by an independent person that appropriate audit opinion has been expressed on the financial statements.
- Normally this is conducted by a partner other than the engagement partner / principle of the audit. However it may also be performed by a senior expert with the practice.

INDEPENDENT QUALITY REVIEW

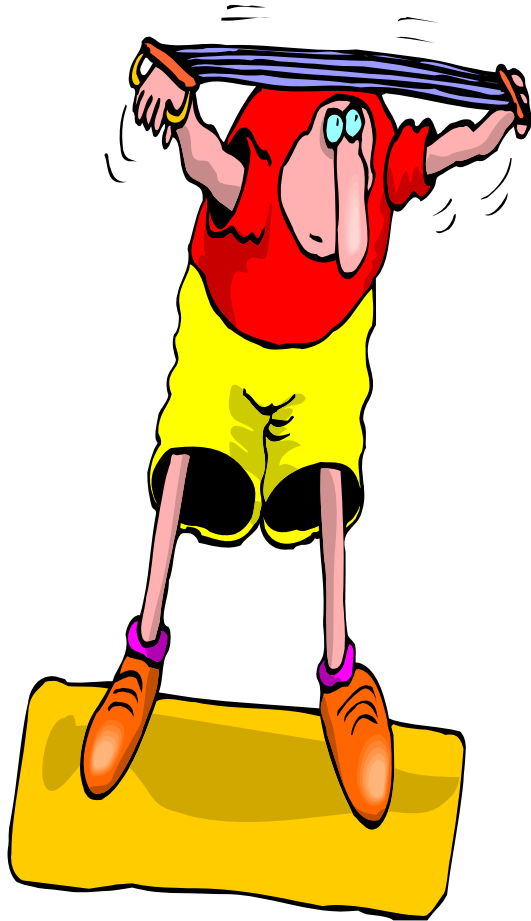
- General things to look for in an independent quality review may include:
 - Ensure that the team assigned to the engagement has sufficient skills, experience and training to execute the audit satisfactorily;
 - Ensure that audit strategy document has been prepared that addresses all the audit risks;
 - Ensure that the financial statements present a fair view and contain all necessary disclosures;

INDEPENDENT QUALITY REVIEW

- Ensure that the general audit procedures have been properly performed and the appropriate areas covered;
- Ensure that the audit issues memoranda address all the significant accounting and auditing issues that arose and our conclusions are appropriate and properly documented; and
- Ensure that the letter of representation is correctly dated and contains confirmation of all key representations made.

INDEPENDENT QUALITY REVIEW

A FEW THINGS TO REMEMBER



NEVER RELY ON YOUR
SUBORDINATES FOR
WHAT YOU, YOURSELF
FEEL INCAPABLE OR
INCOMPETENT.

TRY TO DEVELOP
EXPERTISE
YOURSELF....

LEARN FROM THEM,
BUT NOT PUT BLIND
RELIANCE ON THEM....

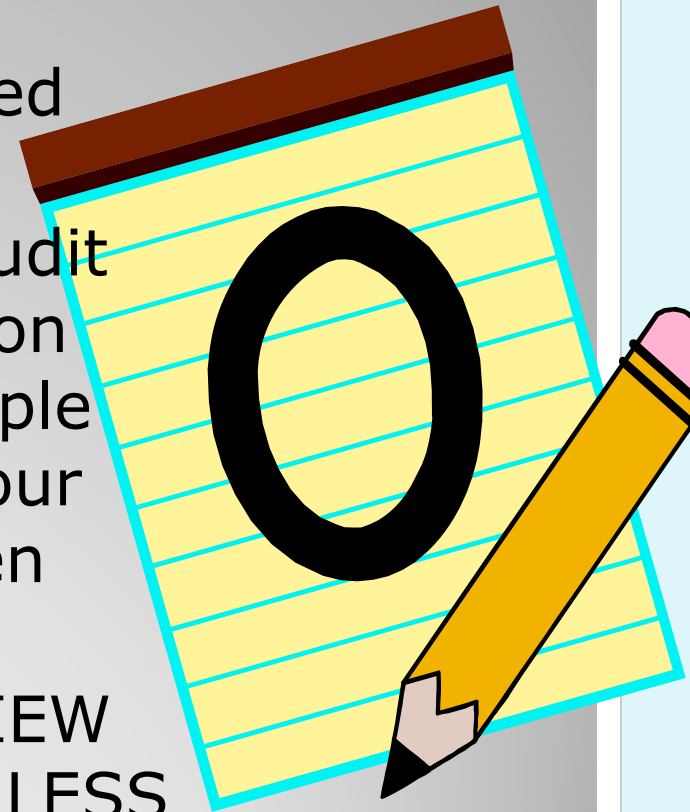
WHERE TO RELY, WHERE NOT?

- Operation theater approach.
- On the job training.
- Objective of article-ship.
- Direct communication channels.
- Share the experience.
- Technical workings – direct involvement.



REVIEW AS A TRAINING TOOL

- It is believed that audit is always performed in good faith.
- However, review should not be carried out in a good faith.
- This means that you need to have audit evidence to support your audit opinion rather than you believe on what people say... people including your client, your team and your colleagues ... and even what you yourself think.
- Always perform a ZERO BASED REVIEW i.e. NOTHING CAN BE BELIEVED, UNLESS EVIDENCED.. NOTHING IS CORRECT, UNLESS PROVED... **ZERO BASED REVIEW**



THANK YOU!