To enable the participants to conduct review of audit working papers files in order to ensure that the *sufficient appropriate audit evidence* has been obtained to support the conclusion reached, and that the work delegated by the audit partner has been properly completed with *economy, efficiency and effectiveness*. 
WHY DO WE AUDIT FINANCIAL STATEMENTS........?
WHY DO WE AUDIT FINANCIAL STATEMENT - NEED FOR AUDIT

Principle (Shareholders)

Information asymmetry and conflict of interest lead to information risk for the principle.

Directors

Director is accountable to Principle; provides financial reports.

Auditor

Auditor gathers evidence to evaluate fairness of manager financial statements.

Directors hires audit to report on the fairness of manager financial statements. Risk information asymmetry of principle reduce.
OBJECTIVE OF AUDIT

To express an opinion on the financial statements, whether or not the financial statements present fairly.
PURPOSE OF 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.
THINGS TO DO AT REVIEW

• 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 evidence obtained is sufficient and appropriate to support the auditor’s report.
THINGS TO DO AT REVIEW

• All standard procedures have been performed and documented before the issuance of the auditor’s report.

• The work performed supports the conclusions reached.

• There is no need to revise the nature, timing and extent of work performed – and if there is; necessary changes are made accordingly.
WHEN REVIEW IS CONDUCTED…..?

• 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
HOW MUCH TO REVIEW...?

EXTENT OF REVIEW / DEPTH REQUIRED!

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

Manager / Qualified Assistant  
Senior / Experienced Assistant  
Semi Senior / Experienced Trainee  
Junior / Trainee
HOW TO CONDUCT REVIEW...?

REVIEW PROCESS

REVIEW OF WORKING PAPERS
- REVIEW OF WORKING PAPERS FOR QUALITY OF WORK
- REVIEW OF WORKING PAPERS FOR THE QUALITY OF DOCUMENTATION

REVIEW OF DELIVERABLES
- AUDIT DELIVERABLES - REPORT, COVERING LETTER AND MANAGEMENT LETTER
- CLIENT’S DELIVERABLES - FINANCIAL STATEMENTS, ANNUAL REPORT
REVIEW OF FINANCIAL STATEMENTS
RESPONSIBILITY FOR 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.
RESPONSIBILITY FOR REVIEW OF FINANCIAL STATEMENTS

• Auditor should ensure that:
  • the financial statements comply with the applicable financial reporting framework;
  • these are comparable within industry;
  • 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.
REVIEW FINANCIAL STATEMENTS’ COMPLIANCE

• Ensure that the Companies Ordinance 1984 and International Financial Reporting Standards’ requirements and disclosures have been complied with. (Preferably use *Financial Statements Disclosures Checklist*)

• 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 Societies, NGOs etc.
USE OF DISCLOSURE CHECKLISTS

• Preferably there should be disclosure checklists for the same like:
  • Financial Statements Disclosure Checklist,
  • Companies Ordinance 5th Schedule Disclosure Checklists
  • IFRS / AFRS Disclosure Checklists etc.

• Don’t leave it on your staff – ask them to fill, but always review by yourself or some senior person (manager, supervisor)

• Ask your staff to refer it with the financial statements set. It will be helpful in review
PURPOSE OF FINANCIAL STATEMENTS

• Financial statements are:

  “Structured representation of the financial position and financial performance of an entity.”

• Objective:

  To provide information about:
  • the financial position,
  • financial performance, and
  • cash flows

of an entity that is useful to a wide range of users in making economic decisions.
COMPONENTS OF FINANCIAL STATEMENTS

- General purpose financial statements comprise of:
  - Balance Sheet
  - Profit and loss account
  - Statement of changes in equity
  - Cash flow statement
  - Notes to the financial statements
PRESENTATION OF FINANCIAL STATEMENTS

- Variation in presentation may arise from difference in:
  - Nature of business of the entity
  - Type of Company (private limited, AOP, MSE, SSE etc.)
  - Consolidated or unconsolidated accounts
  - Management judgement on matters not specified by statute / standards
PRESENTATION OF FINANCIAL STATEMENTS

• Identification of each f/s component
• Name of reporting entity
• Specified if accounts related to group entity
• Balance sheet date/period of account
• Presentation currency
• Level of rounding used in presenting amounts
• Comparatives
• F/s amounts supported by adequate notes
• Each F/s component signed by director and chief executive.
BASIC ACCOUNTING PRINCIPLES

• Fair presentation and compliance with IFRS / IAS / AFRS
• Going Concern
• Accrual basis of accounting
• Cash basis of accounting in case of Receipt and Payment Account
• Consistency of presentation
• Materiality and aggregation
• Off setting
• Comparative information
REVIEW OF CASH FLOW PRESENTATION

• Please review sample cash flow statements
• Cash flows may be prepared under the indirect or direct method.
• These methods affect the method of arriving at operating cash flows only
• Discussion will follow the line items of the sample cash flow:
  • from operating activities
  • from investing activities
  • from financing activities
  • cash& equivalents

• Cash flows are prepared in accordance with the requirements of IAS 7
REVIEW OF STATEMENT OF CHANGES IN EQUITY

• Please review sample statements of changes in equity

• Statement may either show:
  • All changes in equity
  • Changes other than transactions with equity holders
VARIATIONS FOR INDUSTRIES

• Variations can be seen in presentation & disclosures of f/s for different industries, e.g:
  • Manufacturing companies
  • Service industry
  • Trading entities
  • Media companies
  • Section 42 Companies
  • INGOs / NGOs
  • Societies
FINANCIAL STATEMENTS’ REFERENCE WITH WORKING PAPERS

• 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’ reference with working papers

• Ensure that financial statements comprise of a complete set of statements as prescribed by IFRS, or by relevant statute.

• Ensure that proper notes to the financial statements have been provided.

• 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
FINANCIAL STATEMENTS’ REFERENCE WITH WORKING PAPERS

• 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.
INTERNAL CROSS REFERENCING OF FINANCIAL STATEMENTS

• 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.
COMPARATIVE FIGURES REVIEW

• 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 NOTES TO FINANCIAL STATEMENTS

• Ensure that accounting policies for all major areas are defined.
• 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 NOTES TO 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.
WORKING PAPERS REVIEW

Completing The Audit

Good Review Requires More Than Looking At Working Papers
DOCUMENTATION OF WORK

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!
IMPORTANCE OF WORKING PAPERS

• Document the planning, performance and review of audit work

• Provide the principal support for audit communications like….
  • Observations,
  • Conclusions, and
  • Final report

• Facilitate third party reviews and re-performance requirements

• Provide a basis for evaluating the audit activity’s quality control
CHARACTERISTICS OF WORKING PAPERS

- Complete
- Timely
- Accurate
- Organized
- Relevant
- Concise
ELEMENTS OF WORKING PAPER

- Name of the Client
- Period Covered by the Audit
- Subject Matter
- Indexing / File Reference
- Initials (signatures of staff who prepared)
- Date when prepared
- Initials (Signature of staff who reviewed)
- Date when reviewed
- In case of working paper prepared by client staff
  - Date the working papers were received
  - Initials of the audit team member who carried out the audit work
CATEGORIES OF WORKING PAPER REVIEW

• Working papers review can be categorized into following:
  • Detailed Review;
  • Review by Partner;
  • Tax Review;
  • Specialist Review; and
  • Independent Quality Review;

• There should be two objectives of review:
  • Quality of work, and
  • Quality of papers.
DETAILED REVIEW

• The engagement manager / supervisor of the audit team should perform a detailed review of the working papers.

• 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;
  - substantive Procedures have been appropriately planned and performed
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;

• Review the letters from lawyers and other consultants with whom management consulted with respect to claims and/or potential claims;
DETAILED REVIEW

• Review the reports from other specialists (actuaries, valuers etc.) on which we are relying;

• Ensure that letter of representation is correctly dated and contains confirmation of all key representations made to auditors;

• 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 sufficient additional working papers exists to be satisfied that appropriate audit recognition has been given to all important amounts in the financial statements.
DETAILED REVIEW

• 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;

• Ensure that the audit team and reviewers’ concurrence with the conclusions reached is adequately documented;
DETAILED REVIEW

• 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;

• 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.
A FEW THINGS TO REMEMBER IN 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 (e.g. legal expenses, related party transaction, other income etc.)
• Learn from experience...
  • Where this client makes errors,
  • Where my staff makes errors,
  • Where do I commit mistakes,
• Everything can contain error, unless otherwise provided
REVIEW BY PARTNER

• Position yourself properly... Assess your staff level... Assess the level of reviewer and then decide to step into the foot of the Partner or the Detailed Reviewer....

• If YES ... Continue ... If NO .... Go back and perform detailed review first ... Then do it additionally....
REVIEW BY PARTNER

• 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.
REVIEW BY PARTNER

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

**Challenges**
- Yourself
- Your team
- Your client
- The financial results
- Client’s verbal representations
- Work Programs
REVIEW BY PARTNER

Ask yourself.....

• In respect of each working paper under your 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 the originals of the requested...?
  • Does the work support the findings...?
  • Is there any indication of fraud...?
  • 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 information provided...?
  • Is the population complete and accurate...?
Minimum the engagement partner should do….

- Participate in the planning event to review the audit approach of the 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;
- Ensure that TOCs has been properly designed their conclusion has been adequately taken in to account for determination of audit strategy;
Minimum the engagement partner should do:

• 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 done for all important financial statements amounts and disclosures;

• Ensure that adequate audit work has been performed in accordance with ISAs, and that it has been properly evidenced;

• Ensure that detailed review was adequate
Minimum the engagement partner should do....

• 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 within;

• Audit Issues Memoranda covers all important accounting and auditing issues which arose during the audit and concur with the conclusions reached;

• 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;
Minimum the engagement partner should do....

- 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

- Ensure that subsequent events, if any, have been properly disclosed/ accounted for.
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:**
- Property Valuations
- Tax – tax, deferred tax and tax position;
- Actuary – Insurance and defined benefit plans.
- Legal opinions – Property titles, positions,
- Treasury – financial institutions’ treasury function
- IT – IS audit functions;
- Islamic finance – Islamic finance transactions;
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 of the audit.

• May also be performed by a senior expert with the practice.
QUALITY REVIEW

**Things to look for:**

- Team assigned to engagement has:
  - sufficient skills,
  - experience, and
  - training to execute the engagement

- Audit strategy document:
  - has been prepared;
  - Addresses all the audit risks

- General audit procedures have been performed

- Appropriate areas are covered
QUALITY REVIEW

Things to look for:

• Audit Issue Memoranda:
  • addresses all the issues raised
  • conclusions are appropriate and documented

• Letter of representation is:
  • correctly dated
  • contains confirmation of all key representations made
RELIANCE ON OTHERS....?

• Never rely on your subordinates for what you, yourself feel incompetent or incapable

• Try to develop expertise yourself

• Learn from them, but not put blind reliance on them

• Evaluate the arguments given
REVIEW AS A TRAINING TOOL

• On the job training
• Operation theater approach
• Objective of internship / job
• Direct communication channels
• Share the experience
• Technical workings – direct involvement
ZERO BASED REVIEW

• **Belief** – Audit is always performed in good faith.

• **Review** – Should not be carried out in good faith

• Need to have audit evidence to support the audit evidence

• Never to believe on what people say including:
  • your client
  • your team and colleagues
  • your own thinking

*Always perform a Zero Based Review i.e.*

- Nothing can be believed, unless evidenced
- Nothing is correct, unless proved
FOR QAB PUBLICATIONS / PRESENTATIONS

Please Visit:

Thank you!