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Completion, review and reporting

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Agenda

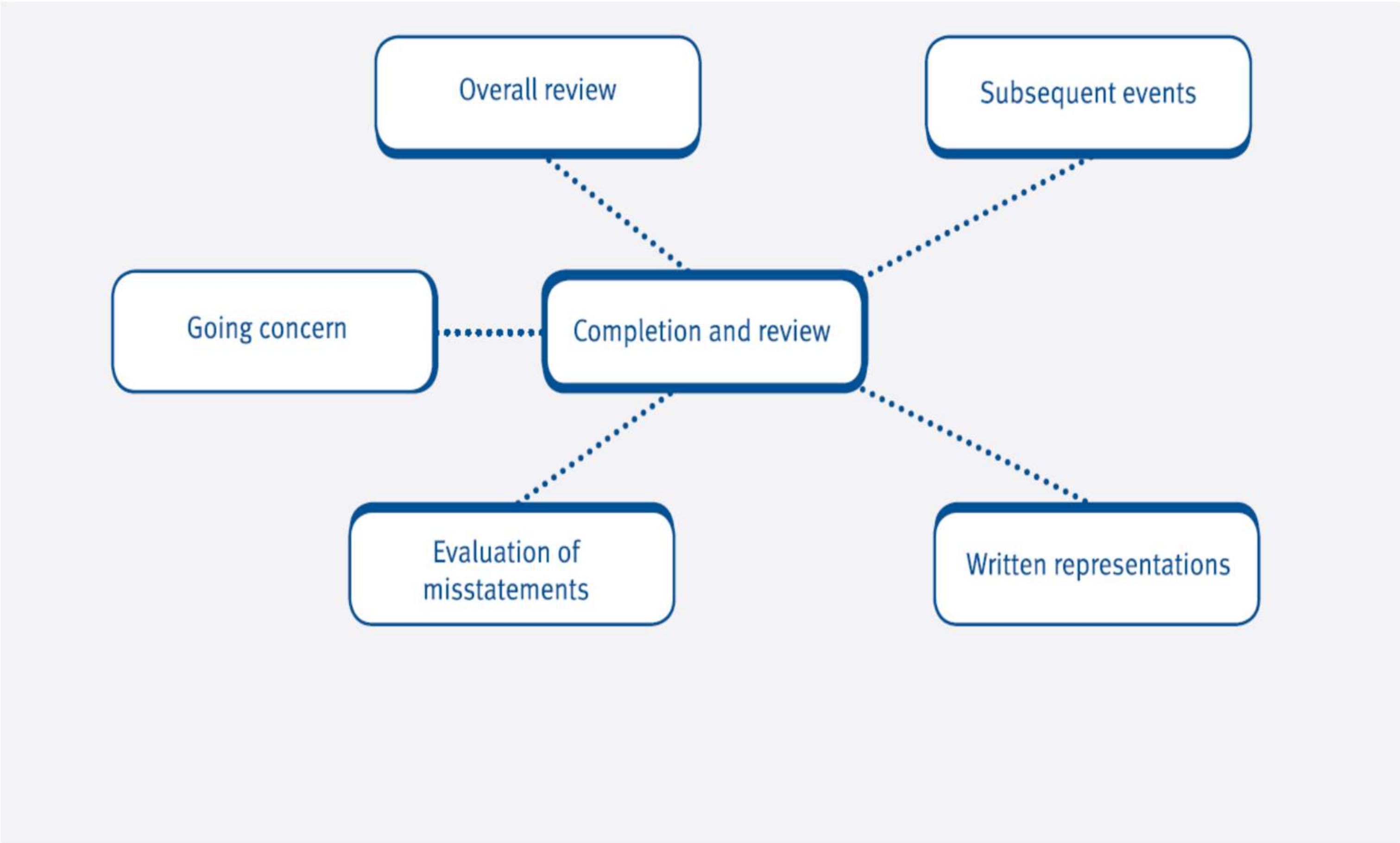
Completion

Review

Reporting

Questions

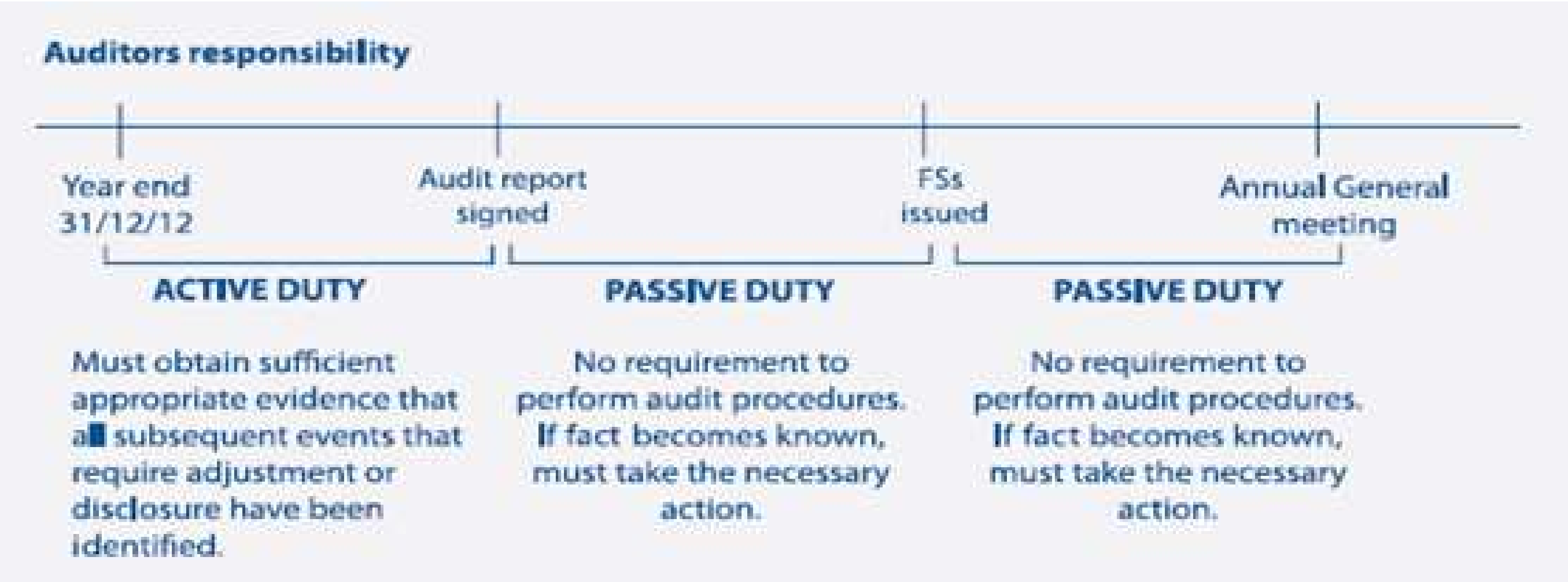
Completion and review



Subsequent events

Subsequent events (SE)

SE are those events, favourable and unfavourable, that occur between the Statement of Financial Position date and the date when the financial statements are authorised for issue.



Types of SE

Adjusting

Events providing **additional evidence relating to conditions existing at the end of the reporting period** require adjustments in the financial statements.

Non-adjusting

Concerning conditions which **arose after** the reporting period, but which may be of such materiality that their **disclosure is required** to ensure that the financial statements are not misleading.

Going concern

Going concern

Financial statements should be prepared on the basis that the company is a going concern unless it is inappropriate to do so.

The going concern concept is defined as the **assumption that the enterprise will continue in operational existence for the foreseeable future.**

- Management (and auditors) should generally (not exclusively) look ahead **at least 12 months from the year end, with 12 months from the date the financial statements are published being preferred.**

Responsibilities (GC)

Directors

Assess the company's ability to continue as a going concern.

Auditors

Satisfy themselves that the going concern assumption is reasonable and disclosures made by directors are adequate.

Going concern

Typical Indicators

- borrowing facilities not agreed or close to expiry of current agreement;
- behind with tax payments or with with paying staff;
- legal claims against the company;
- loss of key management or staff;
- over-reliance on a small number of products or staff.

Procedures

- assess state of industry in which the client operates;
- compare results with loan covenants;
- review correspondence with major customers, suppliers, banks;
- review post year-end management accounts to analyse trend in performance;
- obtain written representations.

Written management representations

Written management representations

Management representations are a **particular type of enquiry**, whereby the auditor asks management to confirm, in writing, a number of issues covered by or surrounding the financial statements.

Purpose

- **to obtain representations that management**, and those charged with governance, have fulfilled their responsibility for the preparation of the financial statements
- **to support other audit evidence relevant** to the financial statements

Why do auditors need management representations?

Because it is **management's responsibility** to produce financial statements that show a true and fair view, the most obvious first source of audit evidence is to ask them whether or not they have done so.

There may be circumstances where **no other sufficient, appropriate audit evidence may reasonably be expected to exist.**

Overall review of evidence and quality

Overall review of evidence and quality

- Review is significant for a **firm's appraisal system** and **development of staff**

- Review is an important **element of any monitoring system**, implemented to identify and rectify deficiencies in a firm's practices that could lead to poor quality work.

Appropriate review procedures are an integral part of an audit and are a **requirement of ISA 220** *Quality Control for an Audit of Financial Statements.*

Included considerations

- Has work been performed in accordance with professional standards?
- Have the significant risks identified during planning been addressed?
- Are there any critical areas of judgement relating to difficult or contentious matters?
- Does the work documented support the conclusions made?
- Is there a need to revise the nature, timing and extent of procedures?
- Is the evidence sufficient to support an opinion?

Evaluation of misstatements

Evaluation of misstatements (1/2)

- **All misstatements** should be communicated to management **on a timely basis**, unless they are clearly trivial.
- Management should be asked to correct **all** misstatements identified during the audit.
- Prior to evaluating the significance of uncorrected misstatements the auditor should **reassess materiality** to confirm whether it remains appropriate to the financial statements.

Evaluation of misstatements (2/2)

- The auditor must assess whether uncorrected misstatements are material:
  - individually or
  - in aggregate.

- The auditor should obtain a written representation from management and those charged with governance that they believe **the effect of the uncorrected misstatements is immaterial**, individually and in aggregate

- Auditor should then consider the impact of uncorrected misstatements on Audit report.

Reporting

Reporting – audit report

The objectives of an auditor are:

- to form an opinion on the financial statements based upon an evaluation of their conclusions drawn from **audit evidence**
- to express clearly that opinion through a **written report**

A company's auditor must report their opinions to shareholders on two primary matters:

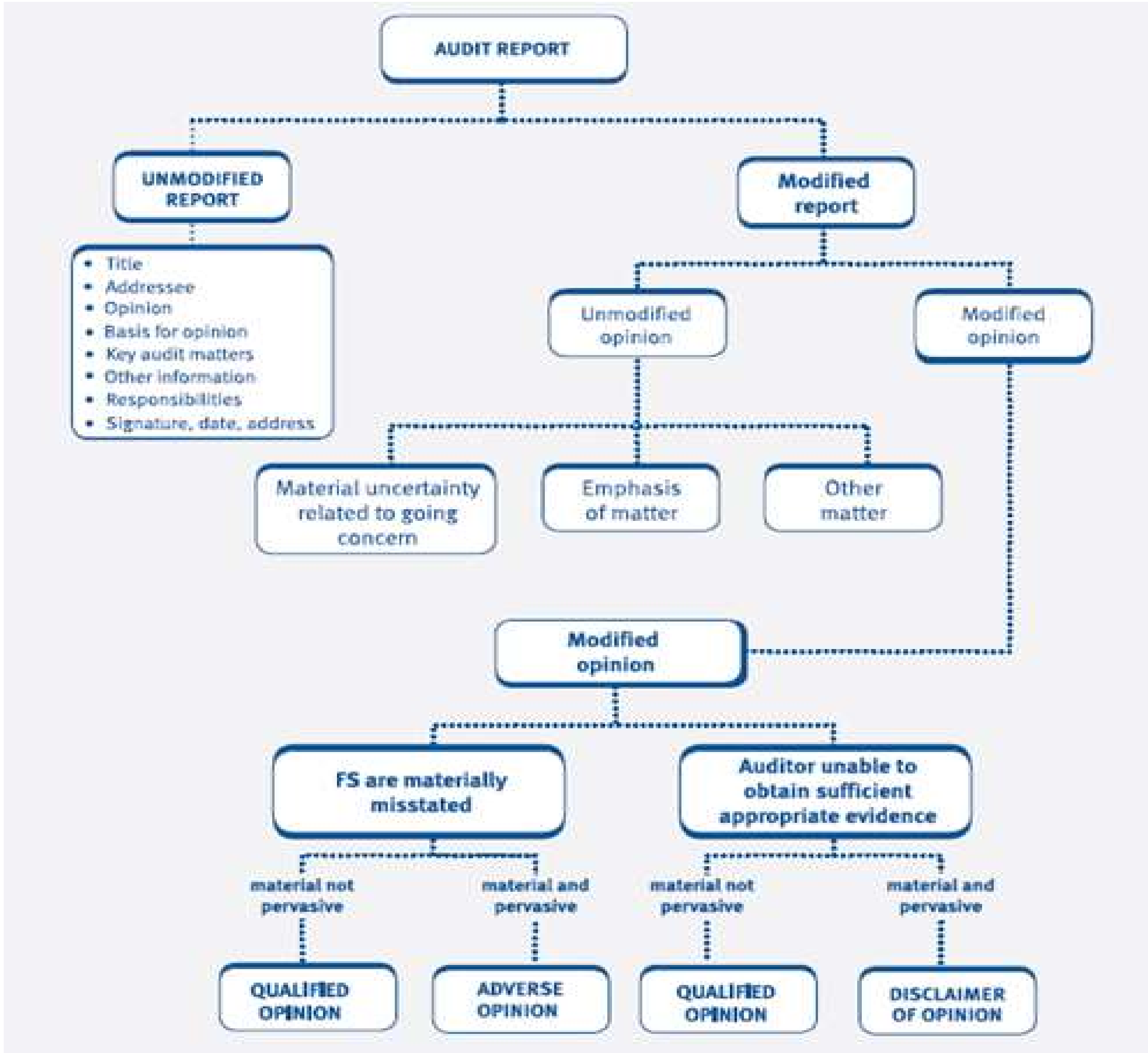
- Whether the financial statements give a **true** (not factually incorrect) **and fair** (impartial, unbiased) **view** (or present fairly in **all material** respects).
- Whether the financial statements have been properly **prepared in accordance with relevant financial reporting Framework**.

Contents of an audit report (1/2)

- **Title -** e.g. Independent Auditor's Report.
- **Addressee -** The report should be addressed to the **intended user of the report** which is usually the shareholders or board of directors.
- **Auditor's opinion -** Provides the auditor's conclusion as to whether the financial statements give true and fair view.
- **Basis for opinion -** Provides a description of the professional standards applied during the audit
- **Key audit matters -** for listed companies only! To draw attention to any other significant matters of which the users should be aware.
- **Other information – e.g.** To clarify that **management is responsible** for the other information

Contents of an audit report (2/2)

- **Management's responsibilities -** Preparation of the financial statements which show a true and fair view or present fairly in all material respects and in accordance with the applicable financial Framework.
- **Auditor's responsibilities -** Obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Express an opinion and issue an audit report.
- **Name of the engagement partner**
- **Signature**
- **Date of report -** The audit report should be dated **no earlier that the date** on which the auditor has **obtained sufficient appropriate evidence** upon which to base their opinion.


AUDIT REPORT
UNMODIFIED REPORT
Modified report
Title
Addressee
Opinion
Basis for opinion
Key audit matters
Other information
Responsibilities
Signature, date, address
Unmodified opinion
Modified opinion
Material uncertainty related to going concern
Emphasis of matter
Other matter
Modified opinion
FS are materially misstated
Auditor unable to obtain sufficient appropriate evidence
material not pervasive
material and pervasive
material not pervasive
material and pervasive
QUALIFIED OPINION
ADVERSE OPINION
QUALIFIED OPINION
DISCLAIMER OF OPINION

Unmodified vs. Modified opinion

Unmodified opinion

When the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework they issue an **unmodified opinion** in the audit report.
If there is **no other matter** necessary to draw to the attention of the users, the auditor will issue an **unmodified report.**

Modified opinion

When the auditor concludes that either:

- the financial statements as a whole **are not free** from material misstatement; or
- he has been unable to obtain sufficient appropriate evidence.

Then he has to issue a **modified opinion.**

Modified report with unmodified opinion

Auditors are required to make **additional communications** in the audit report **event though the financial statements show a true and fair view**.

- **Emphasis of Matter paragraph** - matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statement
- **Other Matter paragraph** - a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report
- **Material uncertainties related to going concern**

Modified report with modified opinion

The auditor may decide they need to modify the opinion if they conclude that:

- **Financial statements as a whole are not free from material misstatements** – the client is not compliant with applicable financial reporting Framework.
- **Auditor has not been able to gather sufficient & appropriate audit evidence -** missing evidence that would support the figures in the financial statements.

Nature of modification

The nature of modification depends upon whether the matter is considered to be **material** and, if so, whether is **pervasive** to the financial statements.

The matter is considered **pervasive** if it affects the view given by **FS as a whole** - pervasive matter must be fundamental to the financial statements, therefore rendering them unreliable as a whole.

Qualified opinions

- A misstatement or lack of sufficient and appropriate audit evidence is **material** but **not pervasive.**
- The matter is material to the area of the financial statements, but **doesn’t affect the rest of the financial statements**
- **“Except for…”** this matter, the financial statements give true and fair view

Basis for modified opinion

„Basis for Opinion“ heading has to amended to:

- Basis for Qualified Opinion or
- Basis for Adverse Opinion or
- Basis for Disclaimer of Opinion,

as appropriate.

- The section explains the reason for opinion modification.
- If possible, a quantification of the financial effect of the modification will be included.
- If the material misstatement relates to disclosures, an explanation of <u>how the disclosures are misstated</u> should be included, or in the case of <u>omitted disclosures</u>, the disclosure should be included if the information is readily available

Adverse opinion

A misstatement is considered material and **pervasive -**> financial statements **don't give true and fair view.**

E.g.:

- misstatement is so material that represents a substantial part of the assets or profit
- non-consolidation of a subsidiary

Disclaimer opinion

Auditor doesn’t obtain sufficient and appropriate audit evidence and the effects of any possible misstatements could be **pervasive** > **auditor doesn’t express audit opinion**

E.g.:

- Client **doesn’t keep adequate accounting records**
- Management doesn’t provide a **written representation letter**
- Client doesn’t provide an **evidence** over multiple balances in the financial statements

Review of components of Statutory Financial statements

Components of Financial Statements

- Annual report
- Report on relations
- Financial statements
- Notes to financial statements
- Auditor’s report

Questions

Thank you for your attention.