Auditing
A Practical Approach

Third Canadian Edition

Moroney, Campbell, Hamilton, Warren

Chapter 13

COMPLETING AND REPORTING ON THE AUDIT

1

LEARNING OBJECTIVES (1 of 4)

1. Explain the procedures performed as part of the engagement wrap-up, including gathering and evaluating audit evidence
2. Understand the considerations when assessing the going concern assumption used in the preparation of the financial statements

 2

2

LEARNING OBJECTIVES (2 of 4)

3. Understand the purpose of and the procedures performed in the review for contingent liabilities and commitments
4. Compare the two types of (material) subsequent events to determine what effect they have on the financial statements (if any)

 3

3

LEARNING OBJECTIVES (3 of 4)

5. Analyze misstatements and explain the difference between quantitative and qualitative considerations when evaluating misstatements
6. Evaluate conclusions obtained during the performance of the audit and explain how these conclusions link to the overall opinion formed on the financial statements
7. Describe the components of an audit report

 4

4

LEARNING OBJECTIVES (4 of 4)

8. Identify the types of modifications to an audit report
9. Explain what reporting is required to management and those charged with governance
10. Understand the various types of other engagements that auditors may be asked to perform (Appendix 13)

 5

5

Engagement Wrap-up (1 of 13)

- Auditor finalizes any open items before issuing audit report
- Any remaining audit procedures are assigned, due date set for completion
- Audit partner determines if procedures executed as planned and all relevant matters have been considered appropriately

 6

6

Engagement Wrap-up (2 of 13)

- Areas covered during wrap-up
  1. Review planned procedures for proper and complete execution
  2. Determine all necessary matters appropriately considered
  3. Clear all outstanding review notes, 'to-do' items, incomplete procedures – attention needed? Resolve items
  4. Remove all unnecessary documents, drafts, and cleared review notes from the file

 7

7

Engagement Wrap-up (3 of 13)

- Areas covered during wrap-up (continued)
  5. For multi-location audits, obtain documents from other auditors as required and reviewed
  6. Consider materiality level used in audit –is it still appropriate given factors or conditions found during audit?
     - e.g., significant change in anticipated operating results, numerous unexpected misstatements

 8

8

Engagement Wrap-up (4 of 13)

- Areas covered during wrap-up (continued)
  7. Reconsider assessments of internal control at entity level, risk of fraud given results of control tests, misstatements discovered during audit
     - Problems may be too pervasive to continue with audit

 9

9

Engagement Wrap-up (5 of 13)

- Areas covered during wrap-up (continued)
  8. Revisit planning documentation to determine if all matters in plan have been addressed
  9. Perform analytical procedures on the adjusted financial statements to ensure consistent with knowledge obtained during the audit

 10

10

Engagement Wrap-up (6 of 13)

- Areas covered during wrap-up (continued)
  10. Perform a review for contingent liabilities and commitments to ensure properly accounted for and/or disclosed
  11. Perform subsequent events procedures
      - Identify events occurring between year end and date of audit report that might require adjustment or disclosure

 11

11

Engagement Wrap-up (7 of 13)

- Areas covered during wrap-up (continued)
  12. Read other material included in the entity's annual report to ensure consistent with audited financial statements and other information
  13. Complete the file on a timely basis after the audit report has been finalized
      - File "archiving" - a finalized file where nothing is to be removed, deleted or discarded from the file. If modifications needed then must document why and who made the changes

 12

12

Engagement Wrap-up (8 of 13)

- Auditor must decide if there is sufficient, appropriate audit evidence to support audit opinion - consider:
  - Materiality of misstatements
  - Management responses
  - Previous experience
  - Results of audit procedures performed

 13

13

Engagement Wrap-up (9 of 13)

- Auditor must decide if there is sufficient, appropriate audit evidence to support audit opinion – consider (continued):
  - Quality of information obtained
  - Persuasiveness of the audit evidence
  - Whether evidence obtained supports or contradicts the results of the risk assessment procedures

 14

14

Engagement Wrap-up (10 of 13)

- Auditor evaluates audit evidence to decide whether:
  - The assessments of the risk of material misstatement at the assertion level are appropriate, and
  - Sufficient evidence has been obtained to reduce the risk of material misstatement in the financial statements to an acceptably low level

 15

15

Engagement Wrap-up (11 of 13)

- Auditor evaluates audit evidence to decide whether (continued):
  - Audit team discusses progress throughout engagement, modifies planned procedures to reflect changes to original risk assessments

 16

16

Engagement Wrap-up (12 of 13)

- When misstatements or control deviations found in planned procedures, consider:
  - Reason for the misstatement or deviation
  - Impact on risk assessments and other planned procedures
  - Need to modify or perform further audit procedures

 17

17

Engagement Wrap-up (13 of 13)

- When misstatements or control deviations found in planned procedures, consider (continued):
  - Need to revise materiality level due to:
    - New information, e.g., client obtained new loan with more restrictive covenants
    - Change in auditor's understanding of the entity and its operations
    - New circumstances, e.g., significantly lower profit

 18

18

Going Concern (1 of 4)

- Going concern assumption underpins accounting on the basis that the entity will remain in business for the foreseeable future
- It will be able to realize its assets and discharge its liabilities in the normal course of business

 19

19

Going Concern (2 of 4)

Management must assess the entities ability to continue as a going concern

- Typically 12 months from directors' report is the period management is required to assess all available information in order to make their going concern assessment
- Judgment about the future is based on the information available at the time the judgment was made

 20

20

Going Concern (3 of 4)

Management must assess the entities ability to continue as a going concern (continued)

- The size and complexity of entity, nature and condition of its business, degree to which business affected by external factors all affect judgment regarding outcomes of events or conditions

 21

21

Going Concern (4 of 4)

Auditor considers reasonableness of management's assessment of going concern and whether disclosures are required in financial statements (CAS 570)

- Consider reasonableness of management's procedures to identify going concern issues and mitigating circumstances
- If going concern is not appropriate, management should prepare financial statements on liquidation basis

 22

22

Contingent Liabilities (1 of 3)

- Entity required to record or disclose contingent liabilities depending on whether they are "likely" or "probable", and "measurable"
- Auditor required to search for any litigation and claims that the auditor may not be aware of that may give rise to a material misstatement (CAS 501)

 23

23

Contingent Liabilities (2 of 3)

- Auditor required to
  - Inquire of management and others (including in-house counsel) if there are any unreported contingent liabilities
  - Review minutes of meetings for those charged with governance and correspondence between client and external legal counsel

 24

24

Contingent Liabilities (3 of 3)

- Auditor required to (continued)
  - Review correspondence with tax authorities
  - Review legal expense accounts
  - Include in management representation letter the fact that all contingent liabilities have been disclosed

 25

25

Subsequent Events (1 of 12)

- Financial statements are prepared on the basis of conditions existing at year end
  - Three other key dates:
    - Date financial statements approved by management
    - Date of auditor's report
    - Date financial statements are issued
  - Subsequent events: events that occur between year end and the date of auditor's report, and facts discovered after date of auditor's report

 26

26

Subsequent Events (2 of 12)

- Type 1 subsequent events
  - Events that provide additional evidence with respect to conditions that **existed** at year end
- Type 2 subsequent events
  - Events that provide evidence with respect to conditions that developed **subsequent** to year end

 27

27

Subsequent Events (3 of 12)

Type 1 subsequent events

- Can affect estimates in financial statements, or indicate that going concern assumption is not appropriate

 28

28

Subsequent Events (4 of 12)

Type 1 subsequent events (continued)

- Accounting treatment: **adjust financial statements** for the effect of these events, where material
  - Examples:
    - Bankruptcy of customer after year end which would be considered when evaluating provision for doubtful debts
    - Amount received for insurance claim in negotiation at year end

Subsequent Events (5 of 12)

Type 1 subsequent events (continued)

- Accounting treatment: **adjust financial statements** for the effect of these events, where material (continued)
  - Examples (continued):
    - Deterioration in operating results after year end that means going concern not appropriate
    - Settlement of a lawsuit after the reporting period for an amount different than the original estimate

Subsequent Events (6 of 12)

Type 2 subsequent events

- Do not result in changes to amounts in the financial statements
- Might be so significant to require **disclosure**
  - Do not require accounts to be adjusted
- Examples:
  - Uninsured loss of assets due to fire, flood, subsequent to year end
  - Purchase of a business, issuance of shares or debt subsequent to year end

Subsequent Events (7 of 12)

- Auditor's responsibilities for both types
  - Prior to signing audit report, auditor completes procedures to identify any events post year end that might require adjustment or disclosure in accounts

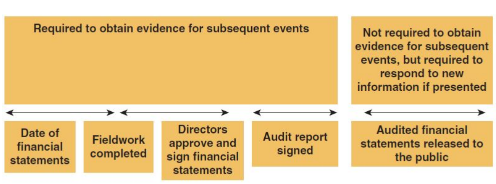
Subsequent Events (8 of 12)

- Auditor’s responsibilities for both types (continued)
  - After signing audit report, if auditor becomes aware of a fact that may materially affect financial statements:
    - Consider if financial statements need revision and discuss matter with client

Subsequent Events (9 of 12)

- Auditor’s responsibilities for both types (continued)
  - After signing audit report (continued)
    - Take action appropriate in circumstances
      - May need to do additional audit procedures, reviewing, and approving revisions to the financial statements
      - Inform those who have received previous version of financial statements that an new auditor’s report has been issued on the revised statements
      - New audit report may include an emphasis of matter paragraph or may be double dated

Subsequent Events (10 of 12)



Subsequent event timeline

Subsequent Events (11 of 12)

- Auditor is concerned only with significant events occurring subsequent to balance sheet date that might require adjustment, disclosure in accounts
- Audit procedures:
  - Gain understanding of, and make evaluation of, management processes to deal with subsequent events
  - Read board meeting minutes

Subsequent Events (12 of 12)

- Audit procedures (continued):
  - Analyze latest interim results and other items deemed necessary such as budgets, cash flow forecasts, and other reports for events such as accounting decisions, loan repayments, and compliance
  - Enquiring of management, legal counsel, and board members whether any subsequent events have incurred that might affect the financial statements
  - Obtain written representations CAS 580

 37

37

Misstatements (1 of 9)

- Misstatements are differences between a reported financial statement item and the correct reporting as required by standards
  - Differences could relate to item's amount, classification, presentation, or disclosure
  - Misstatements can be unintentional (error) or due to fraud
  - Auditor evaluates whether misstatements need to be corrected

 38

38

Misstatements (2 of 9)

- Factors to consider when evaluating:
  - Risk of additional misstatements remaining undetected
  - Effects of identified misstatements on client's compliance with debt covenants
  - Whether it is an error or judgmental misstatement

 39

39

Misstatements (3 of 9)

- Factors to consider when evaluating (continued):
  - Reversing effect on current year's financial report of misstatements identified in previous year
  - Likelihood that recurring differences will be more material in future
  - Sensitivity of circumstances, e.g., fraud, illegal acts

 40

40

Misstatements (4 of 9)

- Factors to consider when evaluating (continued):
  - Significance of financial statement element affected by misstatement
  - Significance of misstatements relative to known user needs

 41

41

Misstatements (5 of 9)

- Factors to consider when evaluating (continued):
  - Effect of misstatements on segment information, or other important portion of client's business
  - Effects of offsetting misstatements in different financial statement captions, e.g., cash, prepayments

 42

42

Misstatements (6 of 9)

- Factors to consider when evaluating (continued):
  - Current year misstatements
    - Auditor prepares schedule of uncorrected differences in order to assess overall effect on the financial statements and on individual items or balances
    - Consider effect on future years' reports

 43

43

Misstatements (7 of 9)

- Factors to consider when evaluating (continued):
  - Prior year misstatements
    - May be immaterial in previous year, could be material this year (CAS 450)
    - Consider potential to reverse in next year
      - e.g., understating payables last year due to cut-off error, reverses this year to an overstatement

 44

44

Misstatements (8 of 9)

- Factors to consider when evaluating (continued):
- Consider both quantitative and qualitative aspects of misstatements
  - Qualitative examples:
    - Affects compliance with regulatory requirements or debt covenants
    - Affects client's compliance with contractual requirements of operating and other agreements
    - Affects management's satisfaction of requirements for award of bonuses and incentive compensation

 45

45

Misstatements (9 of 9)

- Factors to consider when evaluating (continued):
- Consider both quantitative and qualitative aspects of misstatements (continued)
  - Qualitative examples (continued):
    - Changes reported profit into loss
    - Changes individual line items by material amount
    - Changes key ratios monitored by analysts

 46

46

Evaluating Conclusions, Forming Opinion

- To form an opinion:
  1. Evaluate audit evidence obtained
  2. Evaluate effects of unrecorded misstatements and qualitative aspects of entity's accounting
  3. Evaluate whether the financial statements are properly prepared and presented according to standards
  4. Evaluate fair presentation of financial statements in accordance with the applicable reporting framework

 47

47

Components of Audit Report (1 of 12)

- Format for audit report on general financial statements governed by CAS 700
- During 2017 AASB issued new auditing standard CAS701 while it can be applied to the audit or review of general purpose financial statements it is specially required for listed entities

 48

48

Components of Audit Report (2 of 12)

- CAS701 makes reference to key audit matters (KAMs)
- KAMs are those matters that in the auditor's professional judgement were most significant in the audit of the financial statements of the current period

 49

49

Components of Audit Report (3 of 12)

- KAMs are specific to the entity and the audit
- CAS701 includes a judgement based decision-making framework to help auditors determine and identify KAMs
- It also includes the required elements that must be included in each KAM

 50

50

Components of Audit Report (4 of 12)

- Format for audit report on general financial statements governed by CAS 700

  1. Title
  2. Addressee

 51

51

Components of Audit Report (5 of 12)

- Format for audit report (continued)
  3. Introductory paragraph, identifying entity, states financial statements have been audited, identifies the title of each statement included in the complete financial statements, refers to summary of accounting policies and other notes, specifies the date and period covered by the financial statements

 52

52

Components of Audit Report (6 of 12)

- Format of audit report (continued)
  4. Management's responsibility for the financial statements
     - Establishing and maintaining internal controls
     - Fair presentation of financial statements free from material misstatement
     - Accounting policies and estimates

 53

53

Components of Audit Report (7 of 12)

- Format of audit report (continued)
  5. Auditor's responsibility for the financial statements
     - Express opinion based on audit
     - Compliance with auditing standards
     - Describe audit
     - Audit evidence is sufficient and appropriate

 54

54

Components of Audit Report (8 of 12)

- Format of audit report (continued)
  6. Auditor's opinion on whether the financial statements gives a true and fair view, or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework
  7. Other reporting responsibilities

 55

55

Components of Audit Report (9 of 12)

- Format of audit report (continued)
  8. Auditor's signature, either firm name, or personal name depending on legislative requirements
  9. Date of report
  10. Auditor's address

 56

56

Components of Audit Report (10 of 12)
Other Key Enhancements CAS700

- Other key enhancements due to revision of CAS700 include:
  - "Opinion" section required to be presented first followed by "Basis for opinion" section
  - Enhanced auditor reporting on going concern
    - Description of responsibilities of management and auditor for going concern
    - Separate section when a material uncertainty exists – under the heading "Material uncertainty related to doing concern"

 57

57

Components of Audit Report (11 of 12)
Other Key Enhancements CAS700

- Enhanced auditor reporting on going concern (continued)
  - Requirement to challenge the adequacy of financial statement disclosure for so-called close calls with respect to the applicable financial reporting framework when there are events or conditions that cast doubt on the ability to continue as a going concern

 58

58

Components of Audit Report (12 of 12)
Other Key Enhancements CAS700

- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities and identification of relevant ethical requirements within Canada
- Enhance description of responsibilities of the auditor and key features of an audit, together with the provision that certain components of this description may be in an appendix

 59

59

Modifications to Audit Report (1 of 8)

- Auditor may need to modify audit opinion to emphasize a certain matter or to express a qualified, adverse, or disclaimer of opinion
  - CAS 705, CAS 706

 60

60

Modifications to Audit Report (2 of 8)

- Conditions leading to modified audit report:
  1. Significant uncertainty exists that should be brought to the reader's attention
  2. In ability to obtain appropriate audit evidence or
  3. The financial statements are materially misstated

 61

61

Modifications to Audit Report (3 of 8)

- **Emphasis of matter**
  - Does not affect auditor's opinion
  - Applies when resolution of a matter is dependent on future actions or events not under direct control of the entity, but that may affect the financial statements, and the matter is **disclosed in the financial statements**

 62

62

Modifications to Audit Report (4 of 8)

- **Emphasis of matter** (continued)
  - Could also apply if information in annual report is materially inconsistent with financial statements

 63

63

Modifications to Audit Report (5 of 8)

- **Inability to Obtain Appropriate Audit Evidence**
  - Could result from auditor's inability to perform procedures or an imposition by the entity
  - Auditor may have timing problems
  - Entity's records could be damaged or not complete

 64

64

Modifications to Audit Report (6 of 8)

- **Inability to Obtain Appropriate Audit Evidence** (continued)
  - Access could be restricted to locations, key personnel
    - If problem is material and pervasive to the financial statements, a disclaimer of opinion is expressed

 65

65

Modifications to Audit Report (7 of 8)

- Disagreement with those charged with governance, regarding:
  - Accounting policies selected
  - Method of accounting policy application
  - Adequacy of disclosures in financial report
    - If material to the financial statements a qualified or adverse opinion is expressed

 66

66

Modifications to Audit Report (8 of 8)

Nature of Matter Giving Rise to a Qualification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Report	
	Material but Not Pervasive	Material and Pervasive[a]
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

[a] Where the circumstances are so material and pervasive that the auditor has been unable to obtain sufficient appropriate audit evidence, or where a qualified opinion is inadequate to disclose the misleading or incomplete nature of the financial statements.

 67

67

Communication with Those Charged with Governance (1 of 4)

- Auditor required to communicate audit matters of governance interest arising from the financial statement audit with those charged with governance (CAS 260)

 68

68

Communication with Those Charged with Governance (2 of 4)

- Matters of governance interest may include:
  - General approach and overall scope of audit, limitations
  - Selection of, changes in, accounting polices that have or could have a material effect on financial report
  - Potential effect on financial report of any material risks and exposures

 69

69

Communication with Those Charged with Governance (3 of 4)

- Matters of governance interest (continued)
  - Misstatements that have or could have a material effect
  - Material uncertainties relating to going concern
  - Disagreements with management
  - Expected modifications to the audit report
  - Practical difficulties in performing audit

 70

70

Communication with Those Charged with Governance (4 of 4)

- Matters of governance interest (continued)
  - Irregularities, suspected noncompliance with laws
  - Comments on design and operation of internal controls, suggestions for improvements (also in management letter)
  - Any other matters as agreed

 71

71

Other Engagements (Appendix 13) (1 of 2)

- An auditor may be asked to perform other reports outside of those involving traditional financial statements
- A few examples include:
  - Reports in accordance with a special purpose framework
  - Reports on a specific component of the financial statements
  - Reports on compliance with contractual agreements

 72

72

Other Engagements (Appendix 13) (2 of 2)

- A few examples include (continued):
  - Reports on applying specific procedures to financial information other than the financial statements
  - Reports on agreed-upon procedures regarding internal control
  - Compilation of a forecast or projection
  - Reports on the application of accounting principles

73

Copyright

74