RELEVANT TO ACCA QUALIFICATION PAPER P7 AND PERFORMANCE OBJECTIVES 17 AND 18

Completing the audit

The completion stage of the audit is of crucial importance. It is during the completion stage that the auditor reviews the evidence obtained during the audit together with the final version of the financial statements with the objective of forming the auditor's opinion. This article explores some of the key requirements of International Standards on Auditing (ISA) that are relevant at the completion stage, and discusses the practical implications of those requirements.

Review of audit files and evaluation of misstatements
All audit work should be subject to review. This is a basic quality control requirement of ISA 220, *Quality Control for an Audit of Financial Statements*, and serves to ensure that sufficient appropriate audit evidence has been obtained in respect of transactions and balances included in the financial statements.

From an exam point of view, candidates who have reviewed past Paper P7 exams will be familiar with exam requirements that ask candidates 'the matters to consider and the evidence they expect to find' when conducting an audit file review in relation to various matters, and such a requirement is clearly set in the completion stage of an audit.

In performing a file review, the reviewer should consider the sufficiency of evidence obtained and may need to propose further audit procedures if evidence is found to be insufficient or contradictory. ISA 230, *Audit Documentation* requires that documentation of the review process includes who reviewed the audit work completed and the date and extent of such review.

ISA 450, *Evaluation of Misstatements Identified during the Audit* is relevant during an audit file review. The objective of the auditor when following the requirements of this ISA are to evaluate both the effect of identified misstatements on the audit, and the effect of uncorrected misstatements, if any, on the financial statements.

ISA 450 requires that all misstatements identified (other than those that are clearly trivial) shall be accumulated during the audit. The auditor may need to perform further audit procedures in response to an identified misstatement – for example, to determine whether further misstatements exist – and it is required that all misstatements are communicated to management on a timely basis, along with a request to amend the misstatement identified.

Typically, the auditor will present the client with a list of misstatements (often referred to as the 'audit error schedule'), quantifying the amount of each misstatement, and proposing the necessary adjustment to the financial statements. The proposed adjustment may be in the form of a journal entry, an amendment to the presentation of the financial statements, or a correction to a disclosure note. When management makes the necessary adjustments to the financial statements, the auditor should confirm that the adjustments have been made correctly.

When misstatements remain uncorrected by management, the auditor is required to reassess the level of materiality to confirm that it remains appropriate, and should then determine if the uncorrected misstatements are material individually or in aggregate. The uncorrected misstatements must be communicated to those charged with governance, and the potential implications for the auditor's report must also be communicated. The auditor must also obtain an understanding of management's reasons for not making the necessary corrections to the financial statements.

ISA 450 also requires that the auditor must request that management provides a written representation as to whether management believes the effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements taken as a whole. A summary of uncorrected misstatements should also be included within, or attached to, the written representation.

Final analytical procedures
During the completion stage of the audit, the client should prepare the final version of the financial statements, which, as discussed above, should incorporate any adjustments of misstatements proposed by the auditor. The financial statements should be reviewed according to the requirements of ISA 520, *Analytical Procedures*. One of the objectives of the auditor in complying with ISA 520 is to design and perform analytical procedures near the end of the audit that assist in forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

The analytical procedures performed at this stage of the audit are not different to those performed at the planning stage – the auditor will perform ratio analysis, comparisons with prior period financial statements and other techniques to confirm that trends are as expected, and to highlight unusual transactions and balances that may indicate a risk of misstatement. The key issue is that, near the end of the audit, the auditor should have sufficient audit evidence to explain the issues highlighted by analytical procedures, and should therefore be able to conclude as to the overall reasonableness of the financial statements.

When the analytical procedures performed near the end of the audit reveal further previously unrecognised risk of material misstatement, the auditor is required to revise the previously assessed risk of material misstatement and modify the planned audit procedures accordingly. This means potentially performing further audit procedures in relation to matters that are identified as high risk.

As well as reviewing the main elements of the financial statements, the auditor must at this stage carefully review the notes to the financial statements for completeness and compliance with the applicable financial reporting framework. In many situations, this will be the first opportunity for the auditor to review this information, as clients often prepare the notes to the financial statements towards the end of the audit process.

At this stage, the auditor should also read the other information to be issued with the financial statements for consistency with the financial statements. This is important as inconsistencies may have implications for the auditor's report. Specific items of other information are subject to specific regulation in some jurisdictions – for example, in the UK and Ireland the auditor's report must state whether the Directors' Report is consistent with the financial statements.

Subsequent events and going concern procedures

There are two ISAs that are particularly relevant near the end of the audit. The first is ISA 560, *Subsequent Events*, which requires the auditor to perform audit procedures to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

Typically, the auditor will follow a specific work programme dealing with subsequent events, including procedures such as reviewing internal accounting records and minutes of management meetings since the year-end and discussing subsequent events with management – particularly the extent to which management has established procedures adequate to identify relevant subsequent events. It is important that procedures dealing with subsequent events are performed up to the date of the auditor's report. If they are performed too early and not updated close to the date of the auditor's report, then a significant event may not be identified by the auditor.

Secondly, ISA 570, *Going Concern* states that the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast doubt on the entity's ability to continue as a going concern. Therefore, the auditor will conclude on going concern matters near the end of the audit having reviewed all evidence obtained and after reviewing the final version of the financial statements.

Going concern is the subject of an examiner's article published in February 2010.

Written representations and communication with those charged with governance

Towards the end of the audit, the auditor must consider the matters to be included in management's written representation, according to ISA 580, *Written Representations*. This is a matter to be dealt with towards the conclusion of the audit because it is a requirement of ISA 580 that the date of the written representation shall be as near as possible to, but not after, the date of the auditor's report. Written representations are necessary audit evidence, and therefore the auditor's opinion cannot be expressed and the auditor's report cannot be dated before the date of the written representations. Significant subsequent events may come to light very late in the audit, and therefore the written representations should cover all of the subsequent events period, right up to the date at which the audit report is dated.

Important outputs of the audit are the matters to be communicated in accordance with ISA 260, *Communication with Those Charged with Governance*. The matters to be communicated include significant findings from the audit and matters relating to auditor's independence. In addition, the auditor must also consider whether the two-way communication between the auditor and those charged with governance has been adequate for an effective audit, and have taken appropriate action if not.

Communication with those charged with governance is the subject of an examiner's article published in April 2008.

Audit clearance meeting

At the conclusion of the audit, a meeting will usually be held between the auditor and management and/or those charged with governance of the client. At this clearance meeting the auditor will explain the various matters that have been discussed in this article, and any other matters to be discussed in respect of the financial statements and the audit. Typically, at the clearance meeting the following matters may be discussed:

- The adequacy of the entity's internal controls and process of preparing the financial statements,
- any proposed adjustments to the financial statements
- any difficulties encountered during the audit process
- the details of ethical matters that may need to be clarified with the client

- confirmation of the matters to be included in management's written representations
- an update on changes in financial reporting or other regulations that may impact the client's financial statements, and
- confirmation that the client's accounting policies are appropriate.

The audit clearance meeting is not a requirement of ISAs, but is often used as a means to ensure that there are no misunderstandings regarding the financial statements, the auditor's report and any of the other matters discussed.

Conclusion
The completion stage of the audit must be carefully planned to ensure that the requirements of the many relevant ISAs are adhered to. If the completion stage is not adequately performed, there is a risk that an inappropriate opinion is given on the financial statements.

Lisa Weaver is examiner for Paper P7