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Institute of Law and Economic Sciences  
Department of Economic Sciences

Educational Publication in the Course:

# International Auditing Standards 01

Directed to First-Year Master's Students in Accounting and Auditing

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Lecturer Class A

UNIVERSITY CENTER BARIKA

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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## General Information about the Educational Material

- **Name of the Educational Material:**

International Auditing Standards 01

- **Description of the Educational Material:**

This course is taught to first-year Master's students specializing in Accounting and Auditing during the first semester and includes lectures and applications.

- **Objective of the Educational Material:**

The aim of this course is to clarify to students the various international auditing standards by understanding the key bodies responsible for issuing these standards, as well as how to organize the auditing process based on international auditing standards.

- **Prerequisite Knowledge:**

Students should have a background in general auditing concepts as well as accounting.

- **Content of the Educational Material:**

The material consists of six (06) sections:

- ✓ **Conceptual Introduction to International Auditing Standards**
- ✓ **General Principles and Responsibilities**
- ✓ **International Auditing Standards and Ethical Conduct in Quality Control**
- ✓ **Planning in the Audit Process**
- ✓ **Internal Control and Risk Assessment**
- ✓ **Audit Evidence**

## **Introduction:**

The auditing and review profession plays an important role in the maintenance of economic entities and their continued activity. The need for auditing services arose due to conflicts of interest between those responsible for preparing accounting data and information and the users of financial statements. This is where the role of the auditor emerges, who issues reports on the accuracy of the financial data prepared, in order to instill confidence and credibility in the audited institution.

In order to develop the auditing profession, international bodies have sought to establish international standards to clarify the responsibilities and duties of auditors, as well as their rights and the auditing procedures applicable to the audited entity.

Therefore, with this publication, aimed at the first year students of the Master's Degree in Accounting and Auditing, we have tried to cover the curriculum of the course on International Auditing Standards 01, which is in line with the ministerial curriculum in terms of content and objectives. This publication is divided into six sections, each of which contains elements related to the International Auditing Standards that have been issued, allowing students to acquire knowledge about the importance of these standards and the various procedures that auditors use in the audit process.

# **Chapter One: Conceptual Introduction to International Auditing Standards**

## **Introduction:**

In this chapter, we will address various concepts related to international auditing standards, the bodies responsible for issuing them, and the process of issuing international auditing standards.

### **1- Definition of International Auditing Standards:**

An auditing standard is a model or criterion used to evaluate the quality of the work performed by the auditor. Definitions and concepts of international auditing standards vary; the International Federation of Accountants (IFAC) defines them as “A general term that refers to the standards that apply to the audit of financial statements and the standards that apply to related services and reports on the credibility of data” (Sanhaji Heba, December 2017, p. 425) (Sanhaji Heba, December 2017, p. 425) (The Impact of Applying International Auditing Standards on Improving the Quality of External Auditing, Sanhaji Heba, Awadi Abdelkader, Amamara Mohamed Eid, Journal of Administrative and Financial Sciences, University of Shaheed Hama Lakhdar, Algeria, Volume 01, Issue 01, December 2017, p. 425).

It is also defined as a set of standards that represent a comprehensive framework for the auditing process that auditors must adhere to and apply in order to facilitate their tasks and improve the quality of their professional performance (Ziyadi Sami, p. 166) (The Importance of Relying on International Auditing Standards for Reforming and Developing the Auditing Profession, Ziyadi Sami, Saidi Yahya, Journal of Rights and Human Sciences, Economic Issue, 33-02, University of Djelfa, p. 166).

These standards are considered as a model of professional performance established on the basis of custom, general agreement, specialized scientific

organizations in the profession, or through legislation and administrative regulations. These standards are the result of long observation, experience, research, testing and planning. They are basic rules that guide the work and provide a framework to which individuals in the group concerned must adhere (Rafat Salama Mahmoud et al., previous reference, p. 118).

## **2- Importance of International Auditing Standards:**

The emergence of multinational companies and the development of international financial markets have created an urgent need for unified standards to regulate the practice of accounting auditing globally. In response, many countries and professional bodies have sought to meet this need. However, achieving unified standards that fit the circumstances of all countries has been a significant challenge due to geographical distances, cultural differences, and varying business practices. Some believe that the importance of auditing standards lies in their role as a means of communication, clarifying the auditing requirements for various parties. On the other hand, these standards are considered a tool for assessing the professional performance of auditors after the auditing process is completed. (Khatib, 2009, p. 40) (Khaled Ragheb Khatib, 2009, p. 40) (Khaled Ragheb Khatib, Auditing Investment in Multinational Companies in Light of International Auditing Standards, Dar Al-Bidaya, Amman, 1st edition, 2009, p. 40)

- Meeting the needs of society and enhancing confidence in the audit profession.
- Provide financial statement oversight with maximum competitiveness and mutual understanding.
- To provide a clear basis for the auditor's opinion, the lack of which may lead to misinterpretation of the audit report.
- Reduce the variation in performance between practitioners in different countries by approaching objectivity as closely as possible.

- To complement national standards, as many national accountancy bodies have used International Auditing Standards (ISAs) as the basis for their own standards.

### **3- Reasons for the emergence of International Auditing Standards:**

In response to the growing need for a comprehensive framework of international auditing standards, extensive efforts have been made to achieve a global consensus that meets the needs of the profession in various fields, such as business and education, to ensure quality professional performance in different societies. These standards cover many aspects, including the ethics of accountants and the principles of professional conduct, to support the public interest and enhance the credibility relied upon by investors and various stakeholders. International standards emphasize the need to provide reliable financial information, thereby reinforcing compliance as a means of ensuring the credibility of the audit. Consistent standards are an effective means of conducting reliable audits, which has led to the adoption of these standards in more than 100 countries, including the European Union, which adopted its Eighth Directive under Law No. 2006/43, issued in May 2006, to regulate auditing in member states.

### **4- Bodies responsible for issuing international auditing standards:**

The bodies responsible for issuing the standards include:

International Federation of Accountants (IFAC): Founded in 1977, IFAC is a global organization that serves the public interest and promotes the accountancy profession worldwide by setting international professional standards. It issues standards related to auditing and is considered the official representative of the profession at the global level, addressing a wide range of issues including regulatory and financial reporting. This is achieved in part through cooperation with various organizations that rely on or have an interest in international accounting activities.

In 2004, IFAC declared itself the global organization for the accountancy profession, with 157 member and affiliated organizations in 123 countries, representing more than 2.5 million accountants in various sectors, including industry, commerce, the public sector, and education. IFAC is one of the few organizations with broad international support and a mission to:

- Serve the public interest.

- Promote the accountancy profession globally.

- Contribute to the development of strong global economies by enhancing adherence to high-quality professional standards, increasing international consistency of these standards, and addressing public interest issues where professional transparency is particularly important. (Jumaa, 2015, p. 118) (Jumaa, 2015, p. 118) (Ahmed Helmy Jumaa, International Accounting and Auditing Standards, Amman: Jordan, Safaa Publishing and Distribution, 2015, p. 181).

#### **- international Auditing and Assurance Standards Board (IAASB):**

This committee has been granted the authority to issue auditing standards and related services publications on behalf of the IFAC Board, striving for general acceptance and promotion of those standards or statements. Members of the IAASB are appointed by member organizations representing countries selected by the IFAC Council. Since 1994, the IAASB has included members from 13 countries. The international standards issued by IFAC through the IAASB provide a coherent and applicable framework for international professional levels without conflicting with widely accepted auditing standards, nor do they impose the requirement for any country to issue its own auditing standards.

**International Accounting Standards Board (IASB):** In 2001, the International Accounting Standards Committee underwent a major reform and changed its name to the International Accounting Standards Board. The Board became responsible for the development of international accounting standards and

adopted International Financial Reporting Standards (IFRS) with a serial numbering system (e.g. IFRS 1, IFRS 2, IFRS 3...). Previous standards that were not amended or modified retained their original names. Notable features of the new standards or amendments to previous standards include:

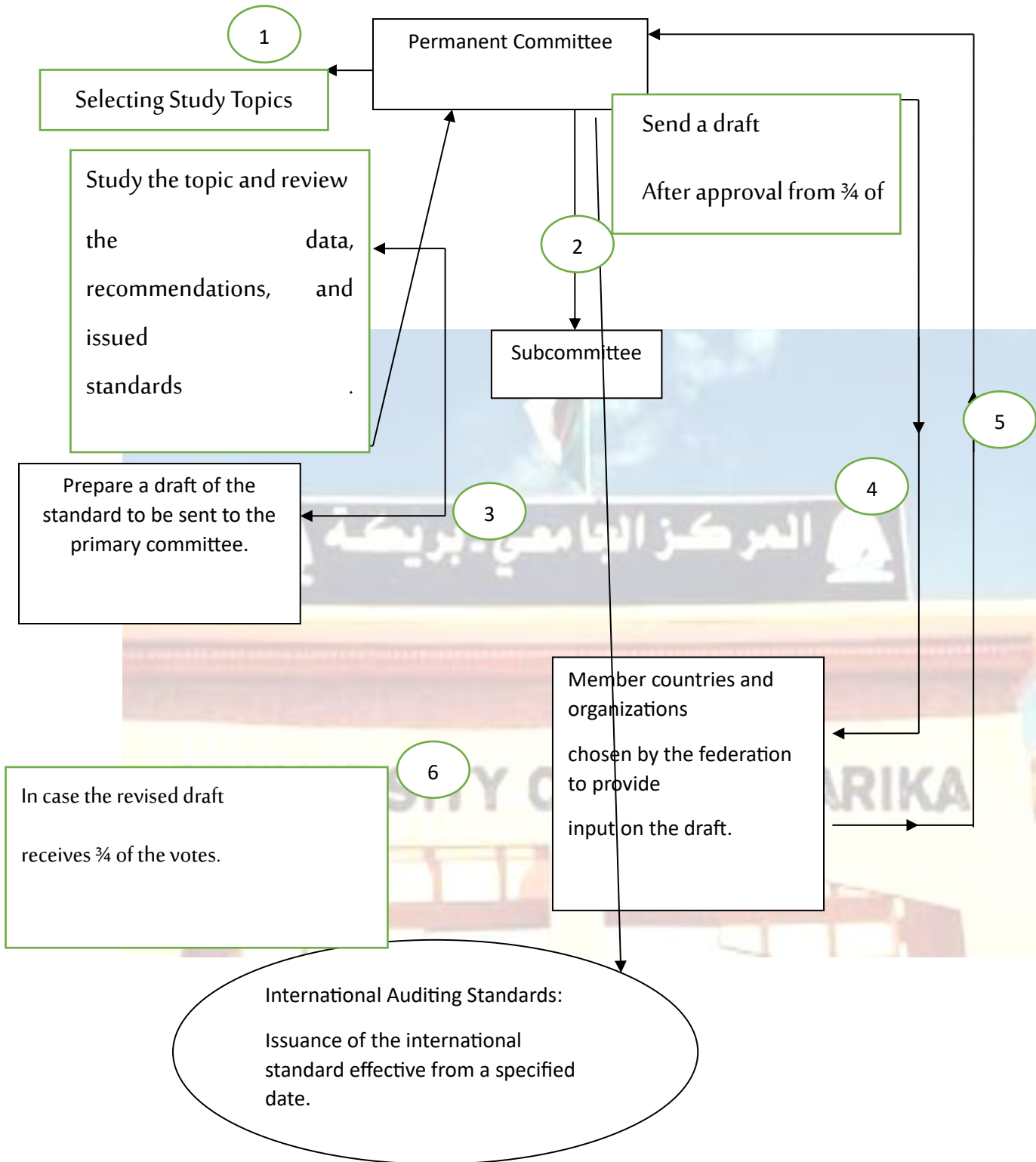
- The elimination of many previously permitted alternative treatments.
- Standardization of definitions, requirements, and treatments across standards.
- The addition of companion appendices to some standards, which are not part of the official standard, but contain:
  - Terms used in the standard.
  - An explanatory guide to the standard.
- Illustrative examples. (Al-Houda, 2016/2017, p. 28)

#### **5- Steps for Issuing Standards**

- A quality committee is formed to select topics that require separate and in-depth study.
- The committee conducts an in-depth study of the selected topic.
- A draft of the proposed standard is prepared, documenting the study that accompanies the proposed standard.
- If approved by the International Auditing Practice Committee, the draft standard is circulated to the International Federation of Accountants and relevant international organizations for feedback and comments.
- The International Auditing Practice Committee receives comments and opinions from these parties, revises the wording of the standard, and issues the standard in its final form.

As shown in the following figure:

**Figure 01: Steps in Issuing International Auditing Standards**



## 6- International Auditing Standards and Generally Accepted Standards:

The International Federation of Accountants issues standards, which are updated and revised to advance the profession. The most significant auditing standards issuances are as follows:

**Table 01: Issuances of International Auditing Standards**

Standard number		Standard title
<b>General Principles and Responsibilities</b> <b>(200-299)</b>	<b>ISA 200</b>	<b>General Objectives of the Independent Auditor</b>
	<b>ISA 210</b>	<b>Approval of the Engagement Terms for the Audit</b>
	<b>ISA 220</b>	<b>Quality Control for Financial Statement Audits</b>
	<b>ISA 230</b>	<b>Audit Documentation</b>
	<b>ISA 240</b>	<b>Auditor Responsibilities Related to Fraud in the Financial Statement Audit</b>
	<b>ISA 250</b>	<b>Consideration of Laws and Regulations When Auditing Financial Statements</b>
	<b>ISA 260</b>	<b>Communication with Those Charged with Governance</b>
	<b>ISA 265</b>	<b>Reporting on Deficiencies in Internal Control to Those Charged with Governance and Management</b>

<b>Risk Assessment and Response in Estimating Errors</b> <b>(300-499)</b>	<b>ISA 300</b>	<b>Planning the Audit of Financial Statements</b>
	<b>ISA 315</b>	<b>Identifying and Assessing the Risks of Material Misstatement</b>
	<b>ISA 320</b>	<b>Materiality in Planning and Performing the Audit</b>
	<b>ISA 330</b>	<b>Auditor's Response to Assessed Risks</b>
	<b>ISA 400</b>	<b>Risk Assessment and Internal Control</b>
	<b>ISA 402</b>	<b>Audit Considerations Related to the Entity Using the Service Organization</b>
	<b>ISA 450</b>	<b>Evaluation of Misstatements Identified During the Audit Process</b>
<b>Y</b> <b>Audit Evidence</b> <b>(500-599)</b>	<b>ISA 500</b>	<b>Audit Evidence</b>
	<b>ISA 501</b>	<b>Audit Evidence – Specific Considerations for Selected Items</b>
	<b>ISA 505</b>	<b>External Confirmations</b>
	<b>ISA 510</b>	<b>Initial Audit Procedures – Opening Balances</b>
	<b>ISA 520</b>	<b>Analytical Procedures</b>
	<b>ISA 530</b>	<b>Audit Sampling</b>

	<b>ISA 540</b>	<b>Auditing Accounting Estimates and Related Disclosures</b>
	<b>ISA 550</b>	<b>Related Parties</b>
	<b>ISA 560</b>	<b>Subsequent Events</b>
	<b>ISA 570</b>	<b>(Going Concern)</b>
	<b>ISA 580</b>	<b>Written Representations</b>
<b>Using the Work of Others (600-699)</b>	<b>ISA 600</b>	<b>Special Considerations</b>
	<b>ISA 610</b>	<b>Utilizing the Work of Internal Auditors</b>
	<b>ISA 620</b>	<b>Utilizing the Work of an Expert Auditor</b>
<b>Audit Results and Reports (700-799)</b>	<b>ISA 700</b>	<b>Forming an Opinion and Preparing Reports on Financial Statements</b>
	<b>ISA 701</b>	<b>Reporting on Key Audit Matters in the Independent Auditor's Report</b>
	<b>ISA 705</b>	<b>Modifications to the Opinion in the Independent Auditor's Report</b>
	<b>ISA 706</b>	<b>Emphasis of Matter and Other Paragraphs in the Independent Auditor's Report</b>
	<b>ISA 710</b>	<b>Comparative Information: Corresponding Figures and Comparative Financial Statements</b>
	<b>ISA 720</b>	<b>Auditor Responsibilities Related to Other Information</b>

<b>Specialized Areas (800-899)</b>	<b>ISA800</b>	<b>Special Considerations for Auditing Financial Statements Prepared in Accordance with a Special Purpose Framework</b>
	<b>ISA805</b>	<b>Special Considerations for Auditing Specific Elements, Accounts, or Items in the Financial Statements</b>
	<b>ISA810</b>	<b>Reporting on Summary Financial Statements</b>
<b>Related Services (ISA 900-999)</b>		
<b>International Auditing Practice Committee (IAPC 1000-1100)</b>		
<b>International Standards on Review Engagements (ISRE 2000-2699)</b>		
<b>International Standards on Assurance Engagements (IASA 3000-3699)</b>		
<b>International Standards on Related Services (ISRS 4000-4999)</b>		

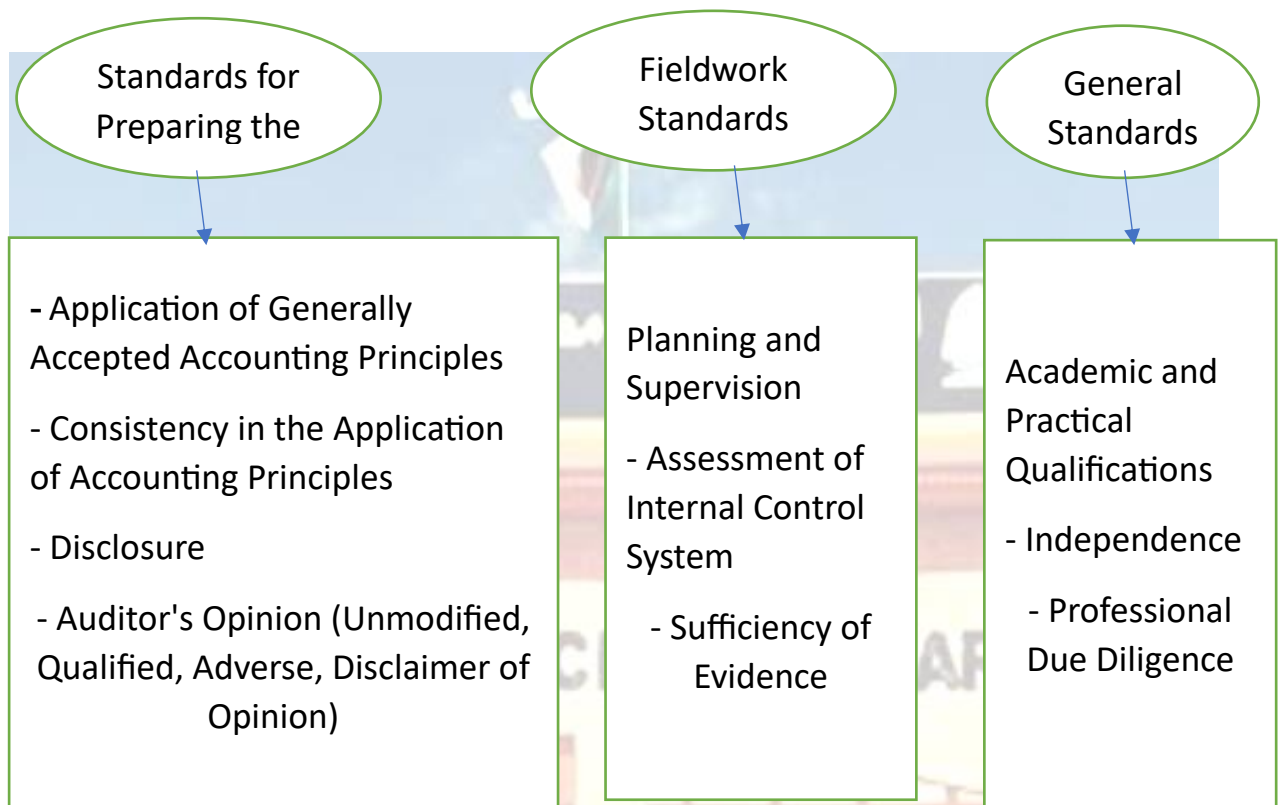
**Source: Prepared by the researcher based on the publications of the International Federation of Accountants.**

Generally Accepted Standards These standards have been adopted by the American Institute of Certified Public Accountants (AICPA) and are divided into three main categories:

- 1- General standards: These standards relate to the auditor's qualifications and the quality of the auditor's work.
- 2- Fieldwork Standards: These standards relate to the procedures for conducting and performing audits, clarifying the qualifications of the auditor and the work the auditor performs.
- 3- Reporting Standards: The auditor's report is the culmination of the audit process and is the result of gathering and evaluating sufficient or appropriate evidence to express an opinion. This opinion is the auditor's

primary objective. An opinion can only be expressed after the auditor has assessed audit risks or completed all audit tests. In addition, an unqualified audit report cannot be issued to shareholders and others until the client has agreed to make necessary audit adjustments or disclosures in the financial statements.

**Figure 02: Generally Accepted Auditing Standards**



**Source:** Prepared by the professor based on previous information

## **Section Two: General Principles and Responsibilities of the International Standards (200-299)**

### **Introduction:**

This section will address the first group of standards related to general principles and responsibilities, which outline the general objectives of conducting an audit as well as the responsibilities of the auditor when performing the audit.

### **Presentation Model of Standards for the First Group: General Principles and Responsibilities**

- ❖ Auditing Standard No. 200: General Objectives of the Independent Auditor and Conduct of the Audit
- ❖ Auditing Standard No. 210: Agreement on the Terms of the Audit Engagement
- ❖ Auditing Standard No. 230: Documentation of Audit Work
- ❖ Auditing Standard No. 240: Auditor's Responsibilities Related to Fraud in an Audit of Financial Statements
- ❖ Auditing Standard No. 250: Compliance with Laws and Regulations in the Audit of Financial Statements
- ❖ Auditing Standard No. 260: Communication with those Charged with Governance

❖ **Auditing Standard No. 200: General Objectives of the Independent Auditor and the Conduct of the Audit** This standard clarifies the responsibilities of the independent auditor in conducting an audit of financial statements in accordance with international auditing standards and outlines the objectives of the auditor. It also explains the purpose of conducting the audit through the auditor's opinion on the accuracy of the financial statements, which is intended to enhance the confidence of the users of the financial statements in the auditor's work.

The standard emphasizes the need for the auditor to obtain reasonable assurance regarding the accuracy of the financial statements and their freedom from material misstatement by gathering sufficient evidence to form a convincing opinion on these statements.

#### 1- Objectives of the Audit Process:

According to this standard, the auditor seeks to achieve several objectives, including:

- ✓ Obtain reasonable assurance about whether the financial statements are free from error and fraud, so that the auditor can express an opinion.
- ✓ Reporting on the financial statements based on the auditor's findings.
- ✓ If the auditor cannot obtain reasonable assurance, the auditor may express a qualified opinion or withdraw from the audit in accordance with international auditing standards.

#### 2- Requirements of the Standard

- ✓ **Ethical Requirements:** The auditor must adhere to the ethical conduct requirements outlined in the International Auditing Standards, including those related to independence, objectivity, professional competence, confidentiality, and the auditing of financial statements.
- ✓ **Professional Skepticism:** When conducting the audit, the auditor should exercise professional skepticism regarding the financial statements, as there

may be material misstatements or evidence that contradicts other audit evidence. Adherence to professional skepticism assists the auditor in evaluating audit evidence.

- ✓ **Professional Judgment:** The auditor must apply professional judgment when auditing financial statements, which is important for decisions related to materiality and audit risk.
- ✓ **Sufficient Audit Evidence and Audit Risks:** The auditor must obtain sufficient and appropriate evidence to achieve reasonable assurance and to reduce audit risk, thereby arriving at an unbiased opinion on the accuracy of the financial statements.

### **3- Conducting the Audit According to International Auditing Standards:**

When conducting the audit, the auditor must:

- ✓ **Comply with International Auditing Standards:** The auditor must adhere to all standards with a full understanding of what each standard entails.
- ✓ **Use the Objectives Stated:** The auditor should utilize the objectives listed in the standards to determine audit procedures and evaluate audit evidence.
- ✓ **Comply with Relevant Requirements:** The auditor must comply with all requirements stated in the standard, except in exceptional cases where the standard is incomplete or the requirement is unavailable.
- ✓ **Failure to Achieve Objectives:** If the auditor is unable to achieve the audit objectives, they must assess whether this prevents them from achieving the overall objectives. In such cases, they should modify their opinion or withdraw from the audit.

## ❖ **Auditing Standard No. 210: Agreement on the Terms of the Audit Engagement**

This standard includes the auditor's responsibilities related to agreeing on the terms of the audit engagement with management, which encompasses certain conditions necessary for conducting the audit. These conditions are the responsibility of management.

### **1- Objectives of the Audit Process:**

**Purpose of the Standard** The purpose of this Standard is to assist the auditor in determining whether the conditions for an audit are met when agreeing to accept the audit engagement. It also emphasizes the importance of mutual understanding between the auditor and management, as well as those charged with governance, regarding the terms of the audit engagement.

According to this standard, the auditor seeks to achieve several objectives, including:

- Obtain reasonable assurance about whether the financial statements are free from error and fraud, so that the auditor can express an opinion.
- Reporting on the financial statements based on the auditor's findings.
- If the auditor cannot obtain reasonable assurance, the auditor may express a qualified opinion or withdraw from the audit in accordance with international auditing standards.

### **2- This standard contains several requirements:**

- ✓ **Prerequisites for the audit:** The auditor shall obtain management's acknowledgement of its responsibility for preparing the financial statements in accordance with applicable standards and for providing all relevant information related to the financial statements. The auditor should not accept the audit if there are limitations on the scope of the work that

could affect the auditor's opinion on the financial statements. The auditor should discuss with management if the conditions are not met.

- ✓ **Agreement on audit terms:** The auditor should agree with management, and document in a written letter or statement, the terms of the audit engagement. This should outline the purpose of the audit, the auditor's responsibilities, management's responsibilities, the financial reporting framework, and any circumstances that may cause the report to differ in form or content.

- ✓ **Recurring Audits:** In this requirement, the auditor should consider whether circumstances require a revision of the terms of the audit engagement. The auditor may choose not to send an engagement letter for each new audit or written agreement each period.

- ✓ **Acceptance of Changes in Audit Parameters:** The auditor should not agree to changes in the terms of the engagement without justification. If changes are made, the auditor should document the new terms in the engagement letter. If the auditor cannot make the changes, the auditor has the option of withdrawing from the audit and determining whether there are any reporting obligations to relevant parties.

## ❖ **Auditing Standard No. 230: Documentation of Audit Work**

Documentation refers to the working papers obtained by the auditor during the audit process. This international Standard clarifies the auditor's responsibility for preparing and obtaining audit documentation for the financial statement audit and provides specific requirements and guidelines for documentation.

### **1- Objectives and Nature of Audit Documentation:**

- Audit documentation serves as evidence to support the final opinion on the financial statements and is also used in planning and performing the audit.
- It is designed to assist the auditor in retaining significant matters and performing external reviews in accordance with applicable legal requirements.

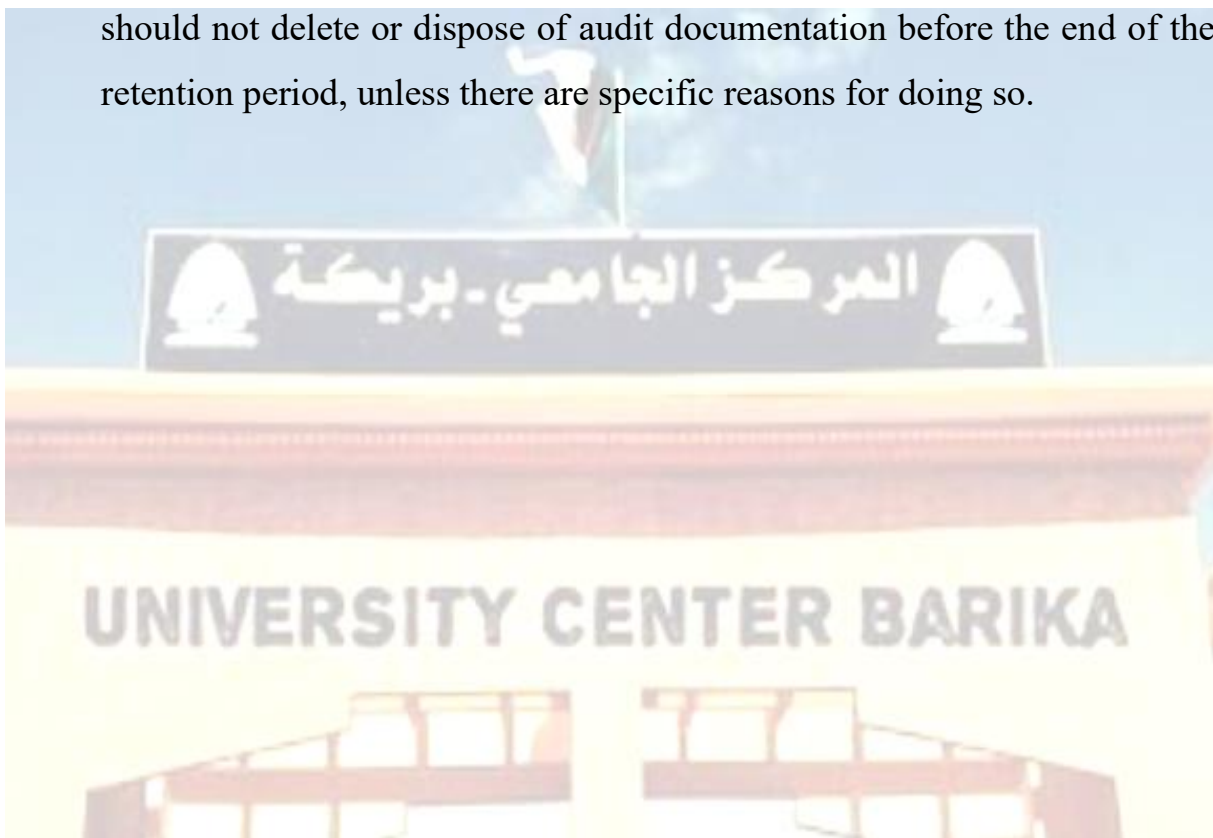
### **2- Purpose of the Documentation:**

The purpose of the documentation is to assist the auditor in obtaining sufficient evidence to plan and perform the audit in accordance with applicable laws and standards, and to make appropriate judgments in expressing his or her opinion.

### **3- Requirements:**

- ✓ **Timely Preparation of Audit Documentation:** The auditor shall prepare documentation in a timely manner to enhance the quality of the audit process and to facilitate the evaluation of audit evidence and conclusions prior to the preparation of the final report.
- ✓ **Document procedures and evidence:** The auditor should prepare audit documentation that helps all other auditors understand: - The nature, timing, and extent of the audit procedures performed and evidence obtained, including records of items tested and the auditor responsible for the work and review.
- ✓ **The conclusions reached.**

- ✓ Any discussions and significant issues raised with management and those charged with governance.
- ✓ **Compilation of Final Audit File:** The auditor must compile audit files in a timely manner, not to exceed 60 days after the issuance of the audit report. The retention period for audit documentation is generally not less than 5 years. Completing the compilation of the final audit file after the issuance of the audit report is an administrative process that does not involve performing new audit procedures or reaching new conclusions. The auditor should not delete or dispose of audit documentation before the end of the retention period, unless there are specific reasons for doing so.



## ❖ **Auditing Standard No. 240: Auditor Responsibilities Related to Fraud in Auditing Financial Statements**

Fraud refers to intentional misstatements in financial statements, differing from errors, which occur unintentionally. This standard clarifies the auditor's responsibility to detect fraud-related issues in financial statements through the audit process.

### **1- Responsibility for Preventing and Detecting Fraud:**

The auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements. However, the auditor may not be able to detect some material misstatements in the financial statements, even when planning and executing the audit in accordance with applicable standards. The primary responsibility for preventing and detecting fraud lies with those charged with governance and management, as their adherence to integrity and ethical conduct, as well as enforcing sanctions, reduces the likelihood of fraud in financial statements.

### **2- Objectives :**

The objective of this standard is for the auditor to assess the risks of material misstatement of the financial statements due to fraud, obtain sufficient and appropriate audit evidence about those assessed risks, and respond appropriately during the audit process.

### **3- Requirements:**

- ✓ **Professional Skepticism:** The auditor must exercise professional skepticism during the audit, recognizing the possibility of material misstatements due to fraud, as highlighted in Standard No. 200. The auditor should conduct further investigations if there are undisclosed modified documents or incorrect documents, or inconsistencies in responses to inquiries from management or those charged with governance.

- ✓ **Discussions Among Team Members:** The audit team should engage in discussions regarding the likelihood of material misstatements in financial statements due to fraud and identify where such misstatements might exist.
- ✓ **Risk Assessment Procedures and Related Activities:** When assessing risks, the auditor should inquire with management about their assessment of the risks of material misstatement in financial statements due to fraud. The auditor should also communicate with those charged with governance to determine if they have knowledge of any actual or suspected fraud affecting the entity.
- ✓ **Identifying and Evaluating Fraud Risks:** The auditor must assess the risks of material misstatement due to fraud at the financial statement level and at the account balances and disclosures level, in accordance with Standard 315. The auditor should consider these risks as significant and understand the control systems related to those risks.
- ✓ **Response to Assessed Fraud Risks:** The response to assessed fraud risks must be comprehensive, with the auditor studying procedures that reflect the overall audit behavior. The auditor should also engage personnel and teams with specialized skills for performing the work.
- ✓ **Evaluating Audit Evidence:** Evaluating audit evidence is a matter of the auditor's judgment based on the audit procedures performed and the audit evidence obtained. This evaluation provides further understanding of material misstatements due to fraud and whether there is a need for additional audit procedures.
- ✓ **Inability to Complete the Audit:** Exceptional circumstances (e.g., doubts about the integrity and competence of management and those charged with governance, or the presence of fraud risks) may arise that affect the auditor. The auditor should obtain the necessary legal advice regarding whether to withdraw from the audit.

✓ **Management Representations:** The difficulty in detecting fraud may necessitate the auditor requesting a written representation from management and those charged with governance, acknowledging their responsibility for preparing the financial statements and internal controls designed to prevent fraud. They should also disclose to the auditor the results of their assessment of the risks of material misstatement or their knowledge of any actual or suspected fraud affecting the entity.

✓ **Communication with Management and Those Charged with Governance:** If the auditor obtains evidence of fraud within the entity, it is important to inform management promptly. The auditor may also communicate with those charged with governance verbally or in writing. According to Standard 260, factors to consider when determining how to communicate should be identified. If there are doubts about the integrity of those charged with governance, the auditor should seek legal consultation to determine the appropriate course of action.

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A photograph of a modern building with a glass facade and a red roofline. The text 'UNIVERSITY CENTER BARIKA' is overlaid on the image in a bold, sans-serif font.

## ❖ **Auditing Standard No. 250: Consideration of Laws and Regulations in Auditing Financial Statements**

Laws and regulations form the legal framework governing the entity, and certain provisions of these laws affect the financial statements, while others do not. This standard is designed to assist auditors in identifying material misstatements in the financial statements resulting from non-compliance with laws and regulations. The auditor is not responsible for preventing non-compliance with all laws and regulations.

### **1- Objectives:**

Through this standard, the auditor seeks to achieve several objectives, the most important of which are to:

- ✓ Obtain sufficient evidence about the entity's compliance with applicable laws and regulations that affect the financial statement disclosures.
- ✓ Identify and respond to instances of noncompliance with laws and regulations that affect the financial statements.

### **2- Requirements:**

✓ The auditor's consideration of compliance with laws and regulations: The auditor must understand the entity's legal and regulatory framework and the entity's compliance with those laws. The auditor should obtain sufficient evidence about the entity's compliance with applicable laws and regulations.

In accordance with this requirement, the auditor should also:

- Perform audit procedures to assist in identifying instances of non-compliance with other laws and regulations by making inquiries of management
- Review correspondence with regulatory authorities, if any.

- Obtain written representations from those charged with governance or management that they have disclosed all known instances of actual or suspected noncompliance with laws and regulations.
  - ✓ Audit procedures for instances of non-compliance or suspected non-compliance:
- When the auditor becomes aware of an instance of noncompliance or suspected noncompliance, the auditor should understand the circumstances surrounding the noncompliance and obtain evidence and information about the potential effect on the financial statements. If the auditor is in any doubt as to the existence of a non-compliance, the auditor should discuss the matter with management and those charged with governance regarding the findings and may seek legal advice.
  - ✓ Reporting on Specific or Suspected Noncompliance:
- The auditor should inform those charged with governance, unless all are involved in the governance of the entity. If there are concerns about the involvement of management or those charged with governance, the auditor should report to higher authorities within the entity and may seek legal advice.

### **3- Documentation:**

The auditor should document any evidence of specific or suspected instances of non-compliance with laws and regulations, such as discussions with management and those charged with governance.

## ❖ **Auditing Standard No. 260: Communication with Those Charged with Governance**

Communication between the auditor and those charged with governance is a reciprocal and effective process that helps governance bodies understand audit-related matters while assisting the auditor in obtaining sufficient information about the entity and maintaining independence.

### **1- Objective:**

Through this standard, the auditor aims to achieve the following objectives:

- ✓ Inform those charged with governance about the auditor's responsibilities.
- ✓ Obtain relevant information related to the audit.
- ✓ Enhance mutual communication between the auditor and those charged with governance.

### **2- Requirements:**

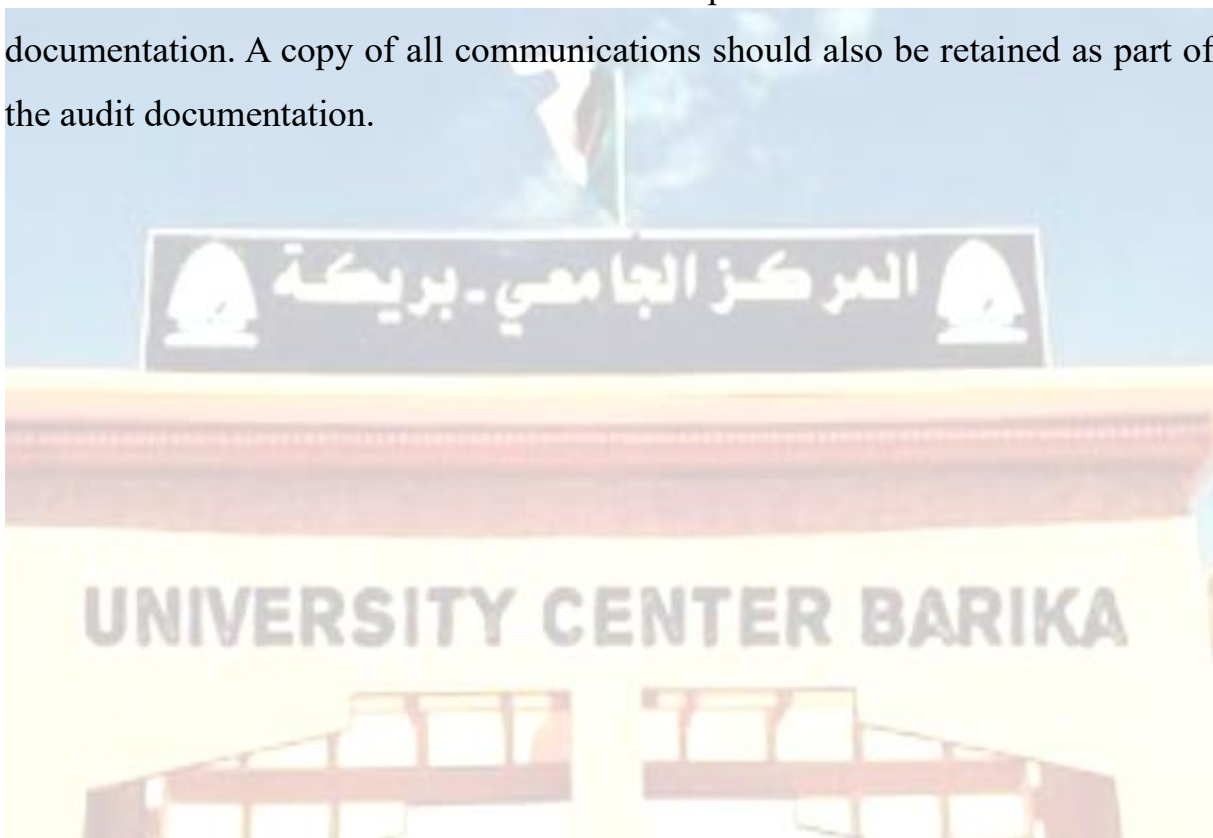
- ✓ **Those Charged with Governance:** The auditor must identify the persons with whom it will communicate and ensure that these persons are appropriately informed about management's responsibilities.
- ✓ **Matters to be reported:** The auditor should inform those charged with governance of their responsibilities with respect to the audit of the financial statements and their responsibilities in expressing an opinion on the accuracy of those statements, making clear that the audit does not involve management or those charged with governance.
- ✓ **Communication Process:** The auditor should communicate the results of the audit process to those charged with governance in writing, unless oral communication is appropriate. The auditor should also clearly state its independence in these communications.
- ✓ **Evaluation of Communication:** The auditor should evaluate communications with those charged with governance, assess the risks of

material misstatement, and obtain sufficient and appropriate audit evidence.

- ✓ **Documentation:** The auditor should document all communications and include them in the audit documentation. A copy of the communications should be retained as part of the audit documentation.

### 3- **Lecture Three:** International Auditing Standards, Ethical Behavior, and Quality Control

The auditor must document all information reported and include it in the audit documentation. A copy of all communications should also be retained as part of the audit documentation.



## **Section Three: International Auditing Standards, Ethical Conduct, and Quality Control.**

### **Introduction:**

When conducting an audit, the auditor must consider ethical behavior and the quality of work to instill confidence in the accuracy of the reports being issued. This section addresses the standards related to quality control, ethical behavior, and the quality of financial data.

- ❖ **ISQ1: International Standard on Quality Control ISA**
- ❖ **ISA 220: Quality Control for Audits of Financial Statements**



## ❖ **ISQ1: International Standard on Quality Control**

Quality control is a continuous evaluation and periodic review of a set of completed processes that are selected. This standard addresses the responsibilities of the firm related to its quality control system, the review of financial statements, and other assurance engagements and related services. This standard applies to all accounting firms and professionals regarding audits and financial statement reviews.

### **1- Objective of the Standard:**

The objective of the firm is to establish and adhere to a quality control system to provide assurance regarding:

- The compliance of the firm and its employees with applicable professional standards and legal and regulatory requirements.
- The appropriateness of the reports issued by the firm or its partners under the circumstances.

### **2- Requirements:** This standard contains a set of requirements, including:

#### ○ **Application and Compliance with Relevant Requirements:**

- ✓ These requirements are designed to enable the firm to achieve the aforementioned objectives. Therefore, the firm's responsible employees should have knowledge of the quality control system in place and adhere to these standards.

#### ○ **Elements of the Quality Control System:**

- ✓ According to this standard, the firm must adhere to a quality control system that includes policies and procedures addressing various elements, and it must document these policies and communicate them to employees. Among these elements are:
  - ✓ Leadership responsibilities related to quality within the firm.
  - ✓ Related ethical behavior requirements.

- ✓ Acceptance and continuance of client relationships and specific engagements.
- ✓ Human resources.
- ✓ Performance of the engagement and monitoring.

- **Leadership Responsibilities Related to Quality:**

- ✓ According to this requirement, the firm must promote a culture of quality as a fundamental element in performing engagements. The policies and procedures should be established by the executive management or the board of directors, who bear full responsibility for the quality control system.

- **Related Ethical Behavior Requirements:**

- ✓ The firm should establish policies and procedures designed to ensure employee compliance with related ethical behavior requirements, which include:

- ✓ Elements of Ethical Behavior:

- ✓ Independence: The firm must establish policies and procedures to ensure complete independence of its employees and to mitigate any threats to independence.
- ✓ Integrity and Objectivity
- ✓ Professional Competence and Due Care.
- ✓ Confidentiality and Professional Behavior.

- **Acceptance and Continuance of Client Relationships:**

- ✓ Under this requirement, the firm should obtain information before accepting a specific engagement with a new client. The firm should also establish procedures and policies regarding the continuance of a specific engagement and the relationship with the client, which include professional and legal responsibilities applicable under the client's circumstances, as well as the possibility of withdrawing from the engagement and the client relationship.

○ **Human Resources:**

- ✓ The firm must ensure that it has an adequate number of personnel by establishing procedures and policies designed to provide sufficient information about their ability and commitment to ethical principles to perform engagements in accordance with applicable professional and regulatory standards and to enable the firm to issue appropriate reports.

○ **Engagement Team Assignment and Performance:**

- ✓ The firm must establish policies and procedures for assigning appropriate personnel with the necessary competencies and capabilities to perform engagements in accordance with applicable professional and legal standards and to enable the firm to issue reports that include matters related to enhancing consistency in the quality of performance, as well as supervision and review responsibilities.

○ **Consultation:**

- ✓ The firm should establish procedures designed to provide assurance that appropriate consultations are conducted on difficult or contentious issues and that adequate resources are available to facilitate such consultations. Documentation of these consultations and the conclusions reached should also be maintained.

○ **Review of Engagement Quality Control:**

- ✓ The firm should perform a review of the quality control of the engagement by objectively evaluating the judgments and reports made by the engagement team and the conclusions reached.

## ❖ Auditing Standard No. 220: International Standard on Quality Control

This standard outlines the specific responsibilities of the auditor with respect to quality control procedures for the audit of financial statements, as well as the responsibilities of the quality control reviewer. This Standard is based on the premise that the firm is subject to International Standard on Quality Control 1.

### 1- Objective:

The objective of this standard is to establish quality control procedures to ensure that:

- The audit process complies with applicable professional standards and legal and regulatory requirements.
- The auditor's report issued is appropriate in the circumstances.

### 2- Requirements:

- ✓ **Leadership Responsibility for Audit Quality:** The engagement partner is responsible for the overall quality of each audit engagement assigned to him or her.
- ✓ **Related ethical requirements:** The Engagement Partner should, as appropriate, raise questions through observation and obtain evidence of non-compliance with related ethical requirements by the Engagement Team. Appropriate action should be taken in consultation with others in the firm.
- ✓ The responsible partner should reach a conclusion as to the extent of compliance with the independence requirements applicable to the audit engagement. To accomplish this, he or she must identify and evaluate the circumstances and relationships that pose threats to independence, evaluate information about specific violations to determine whether they pose a threat to the independence required for the audit engagement, and take appropriate action to eliminate such threats or reduce them to an acceptable level through the

implementation of preventive measures or, if appropriate, withdraw from the audit engagement. (Sardouk, 2021/2022, p. 22) (Sardouk, 2021/2022, p. 22) (International Auditing Standards Lectures, First Year Master's, Fathi Sardouk, University of Ouargla, 2022/2021, p. 22)

✓ **Approval and Continuation of Client Relationships and Audit Engagements:** The Engagement Partner must follow the necessary procedures for approving and continuing client relationships. He or she should also determine the appropriateness of the conclusions reached. If there is information that could lead to the termination of the audit by the firm, he or she must communicate that information promptly to enable the firm to take appropriate action.

✓ **Responsibilities of Engagement Teams:** The engagement partner must have a team of competent experts with the appropriate skills to perform the audit in accordance with applicable professional and legal standards and to issue a report suitable for the circumstances.

✓ **Performance of the Engagement:** The engagement partner shall:

✓ - Supervise, direct, and perform the audit in accordance with professional standards and prepare an appropriate report under the circumstances.

- Assume responsibility for the audit work performed in accordance with the firm's audit policies and procedures by reviewing all documentation and discussing it with the audit team to obtain sufficient evidence to support the auditor's report.

- Provide for appropriate consultation on difficult or ongoing issues during the audit process, whether among the Engagement Team or between the Engagement Team and others inside or outside the Firm.

- ✓ **Quality Control Review of the Engagement:** If a review of the quality control of the engagement is necessary, the partner must appoint a quality control reviewer and identify significant issues to prepare the report, which should include all documentation and conclusions reached during the review process and how they reflect on the work performed.

If there is a difference of opinion among the members of the engagement team or between the partner and the quality control reviewer, the necessary policies and procedures must be followed to address and resolve this difference.

- ✓ **Monitoring:** The quality control process should be designed and effective to ensure that this system is appropriate, sufficient, and functioning effectively. The engagement partner must ensure that the information and observations found do not affect the audit process.

- ✓ **Documentation:** This includes a collection of documentation that should be included in the audit process, pertaining to:

- Issues related to compliance with ethical requirements and how they were addressed.
- Conclusions regarding independence, consultations, and approval of client relationships.
- Review and quality control of the engagement that was performed.

## **Section Four: Planning in the Audit Process Introduction:**

### **Introduction:**

After understanding the key standards that outline the auditor's responsibilities, the audit objectives, and the auditor's professional and quality control responsibilities, this section clarifies the standards that define the beginning of the audit process by understanding the entity to be audited and the planning process.

### **Presentation Model for Planning in the Audit Process:**

- ❖ Auditing Standard No. 300: Planning for the Audit of Financial Statements
- ❖ Auditing Standard No. 315: Understanding the Entity and Its Environment
- ❖ Auditing Standard No. 320: Materiality in Planning and Performing an Audit
- ❖ Auditing Standard No. 450: Evaluating Misstatements Identified During the Audit Process

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## ❖ Auditing Standard No. 300: Planning for the Audit of Financial Statements

Planning involves developing a comprehensive strategy for the audit plan.

Effective planning benefits the audit process in several ways:

- It helps the auditor focus on all important aspects of the audit process and identify and resolve potential issues in a timely manner.
- It organizes and manages the audit process, assisting in the selection of the audit team to respond to anticipated risks and determining their appropriate responsibilities.
- It enables the audit team's work to be reviewed and assists in coordinating the work performed.

### 1- Purpose of the Standard:

The objective of this standard is to plan the audit process in order to perform it effectively.

### 2- Requirements:

- ✓ **Involvement of Key Team Members:** The engagement partner and key members of the engagement team should participate in the discussions and planning process for the audit.
- ✓ **Preliminary Engagement Activities:** At the beginning of the audit, the auditor should perform procedures related to the client relationship and the audit process, and assess compliance with ethical requirements (Standard 220). He should also confirm his understanding of the terms of the engagement in accordance with Standard 210.
- ✓ **Planning activities:** The auditor should develop a comprehensive strategy that outlines the scope, timing and direction of the audit. The auditor should consider
  - The nature and extent of the audit.

- Understanding the reporting objectives to plan the timing of the audit and consider the nature and extent of the resources required to perform the audit.
- Identifying the results of the engagement's preliminary activities.

In addition, the audit plan should include:

- The nature, timing and extent of the risk assessment procedures described in Standard 315.
- The nature and timing of planned additional procedures at the assertion level in accordance with Standard 330.
- Other planned audit procedures to be performed.
- Updates and changes to the audit strategy during the audit process, and guidance and supervision of the audit team.
- ✓ **Documentation:** The auditor must document the audit plan and overall audit strategy. Any significant changes to the audit strategy during the audit process should also be documented, along with the reasons for the changes

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## ❖ **Auditing Standard No. 315: Understanding the Entity and Its Environment**

According to this standard, it is the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through an understanding of the entity and its environment, as well as its internal controls.

### **1- Objective of the Standard:**

The aim of this standard is to assist the auditor in identifying and assessing the risks of material misstatement, whether due to fraud or error in the financial statements, by understanding the entity's environment and internal controls, leading to the provision and application of responses to the assessed risks and material misstatements.

### **2- Requirements:**

✓ **Risk Assessment Procedures and Related Activities:** The auditor shall perform risk assessment procedures through inquiry, analytical procedures, and observation to provide a basis for evaluating the risks of material misstatement.

✓ **Understanding the entity and its environment, including internal control:**

- Understanding the entity and its environment: Understanding the entity involves the auditor gaining knowledge of all of the entity's operations, ownership, organizational structure, investments made by the entity, applicable accounting policies that are consistent with the reporting framework, objectives and strategies, and risks that could lead to material misstatement. The auditor must also understand all regulatory factors and external influences that affect the reporting process.

- Internal control: The auditor cannot fully understand the internal environment of the entity without understanding its internal control components, which help

identify potential errors and factors that affect the risks of material misstatement. The auditor must ensure that management promotes a culture of integrity and ethical behavior, and that management assesses the significance of risks and makes decisions to address them. In addition, the auditor should understand the information system for financial reporting, recognize control activities related to the audit, and understand the main types of activities the company uses to monitor internal controls related to financial reporting and internal audit activities, if any. (Mouchid, 2018/2019, p. 45) (Mohamed Mouchid, Printed Material for International Auditing Standards Course, Third Year, University of Algiers 3, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, 2018/2019, p. 45)

- ✓ **Identifying and Assessing Risks of Material Misstatement:** The auditor is required to identify and assess the risks of material misstatement (understanding the entity and its environment, as well as internal controls) at the financial statement level and the impact on the assertions and the likelihood of errors. This assessment should also be done at the assertion level, account balances, and disclosures to design and perform additional audit procedures.
- ✓ If the auditor obtains additional audit evidence or new information that contradicts the evidence on which the auditor based his or her assessment, the auditor should reconsider the assessment and adjust the planned additional audit procedures accordingly.
- ✓ **Documentation:** Under this standard, audit documentation should include:
  - Discussions held by the audit team and significant decisions made.
  - All information related to the entity's environment, including internal control, as well as the sources of information and risk assessment procedures performed.

- The risks of material misstatement identified at all levels, as well as the specific internal control risks identified by the auditor.

### ❖ **Auditing Standard No. 320: Materiality in Planning and Performing an Audit**

This standard outlines the auditor's responsibility to apply the concept of materiality in planning and performing the audit, and details how to perform this process and assess the impact of any errors identified.

#### **1- Objective of the Standard:**

The objective of this standard is to appropriately apply the concept of materiality in planning and performing the audit.

#### **2- Requirements:**

- ✓ **Determination of materiality:** The auditor shall determine materiality for the financial statements as a whole in determining the overall audit strategy, as well as the levels of materiality to be applied to account balances and assertions that are expected to influence economic decisions. The auditor also determines materiality for performance objectives, assesses the risks of material misstatement, and determines the nature and timing of audit procedures.
- ✓ **Changes During the Audit:** The auditor may make adjustments to materiality during the audit and determine what adjustments are necessary.
- ✓ **Documentation:** The auditor must document all factors that contributed to the determination of materiality for the financial statements as a whole, for specific accounts, materiality for performance objectives, and any adjustments made during the audit

## ❖ **Auditing Standard No. 450: Evaluating Misstatements Identified During the Audit**

1- **Objective of the Standard:** This standard aims to assist the auditor in evaluating the effect of identified misstatements on the audit and any uncorrected misstatements, if present.

2- **Requirements:**

✓ **Collecting Identified Misstatements:** During the audit, the auditor collects identified misstatements.

✓ **Reviewing Identified Misstatements:** Upon determining the nature of the misstatements collected during the audit and anticipating the existence of other misstatements that could become material, the auditor must determine whether the audit strategy requires revision or additional audit procedures.

✓ **Reporting and Correcting Misstatements:** The auditor must report the misstatements collected during the audit to the responsible parties and request management to correct those misstatements. If management refuses to make corrections, the auditor should obtain the necessary justifications and reasons for the refusal and evaluate whether the financial statements are free from material misstatement.

✓ **Assessing the Impact of Uncorrected Misstatements:** The auditor must determine whether the uncorrected misstatements are material by understanding the size and nature of the misstatements (account balances or disclosures) and the impact of these misstatements related to prior periods.

✓ **Communicating with Those Charged with Governance:** The auditor should inform those charged with governance about uncorrected misstatements and those related to prior periods, as well as their impact on the auditor's opinion in the report, and request the correction of these misstatements.

- ✓ **Written acknowledgement:** The auditor will obtain from management or those charged with governance a written acknowledgement of the effect of uncorrected misstatements deemed to be material, which should include a summary of those items along with the written acknowledgement.
- ✓ **Documentation:** The auditor should document all misstatements identified during the audit, whether they were corrected, the conclusions reached as to whether the misstatements were material, and the amount at which the misstatements are considered immaterial, if below that threshold.



## Section Five: Internal Control and Risk Assessment

### Introduction:

After the auditor has understood the entity being audited and established a work program to assist in performing their duties, they proceed to study and evaluate the internal control system to identify strengths and weaknesses that will help them detect errors and determine the significant risks they may encounter during their work.

Presentation Model for Internal Control and Risk Assessment Standards:

- ❖ Auditing Standard No. 265: Reporting on Deficiencies in Internal Control to Those Charged with Governance and Management
- ❖ Auditing Standard No. 330: The Auditor's Response to Assessed Risks
- ❖ Auditing Standard No. 402: Audit Considerations Relating to Entities Using Service Organizations

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## ❖ **Auditing Standard No. 265: Reporting on Deficiencies in Internal Control to Those Charged with Governance and Management**

This standard assists the auditor in reporting to those charged with governance and management about deficiencies in internal control identified through audit procedures aimed at determining the risks of material misstatement.

### **1- Objective of the Standard:**

The objective of this standard is to inform those charged with governance and management about deficiencies in internal control identified by the auditor during the audit process.

### **2- Requirements:**

- ✓ The auditor identifies internal control deficiencies based on the audit work performed.
- ✓ The auditor's report should be in writing and should identify, in a timely manner, significant deficiencies in internal control identified during the audit, together with the auditor's professional opinion for management's remediation.
- ✓ The auditor should describe the significant deficiencies identified, explain their potential effect, and provide sufficient information to enable those charged with governance to understand the context of the report by clarifying the purpose of the audit and the significance of the information related to the deficiencies.

## ❖ **Auditing Standard No. 330: The Auditor's Response to Assessed Risks**

### **Objective of the Standard:**

#### **1- objective of this standard:**

The objective of this standard is to assist the auditor in obtaining sufficient evidence about assessed risks of material misstatement by designing and implementing appropriate responses to those risks.

#### **2- Requirements:**

✓ **Overall Responses:** The auditor shall design and implement overall responses to the assessed risks of material misstatement at the financial statement level.

#### ✓ **Audit Procedures in Response to Risks:**

- **Adequacy of Presentation and Disclosure:** The auditor must perform specific audit procedures to assess whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. They should also consider whether the financial statements are presented in a manner that is consistent with the description of the underlying financial information, events and circumstances, and the content of the financial statements.

#### - **Evaluating the sufficiency and appropriateness of audit evidence:**

✓ The auditor must assess the risks of material misstatement based on the audit procedures performed and the evidence obtained. The auditor should consider all evidence obtained and, when evidence is not sufficient, the auditor must seek additional evidence to determine the appropriate opinion on the financial statements.

✓ **Documentation:** Documentation should include all records relating to:

- Responses to the assessed risks of material misstatement and the nature, procedures, and extent of the audit performed.

- The relationship of those procedures to the assessed risks and the results of the audit procedures performed.

### ❖ **Auditing Standard No. 402: Audit Considerations Relating to Entities Using Service Organizations**

This standard specifically discusses how the auditor of the recipient entity applies Auditing Standard No. 153 and Auditing Standard No. 330 to obtain an understanding of the recipient entity, including the internal control system relevant to the preparation of the financial statements.

#### **1- Objective of the Standard:**

The objectives of the auditor of the recipient entity, when the recipient entity obtains services from a service organization, are to

- To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the internal control system of the receiving entity, sufficient to provide a reasonable basis for identifying and assessing risks of material misstatement.

- Design and perform audit procedures in response to those assessed risks.

#### **2- Requirements:**

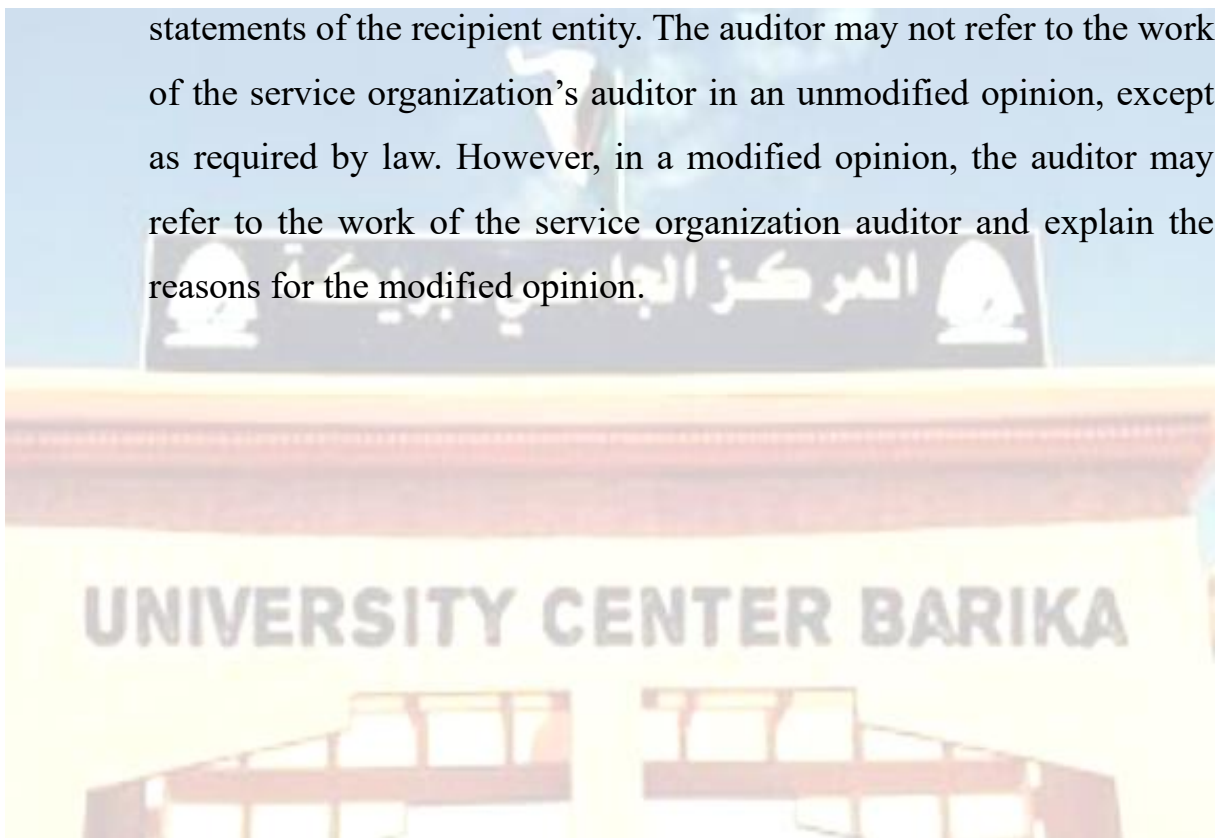
- ✓ **Understanding the Services Provided by the Service Organization, Including Internal Control:** According to Auditing Standard No. 315, the auditor must obtain sufficient understanding of how the benefiting entity uses the services of the service organization in its operations, including the nature of the services provided and their importance to the benefiting entity. The auditor should also gain adequate understanding of the internal control system and tools used in the benefiting entity's controls and their impact on the internal control system through the services provided, to identify and assess risks of material misstatement.

If sufficient understanding is not obtained, the auditor should take steps, including obtaining reports, if available, contacting the service organization for information, or engaging another auditor to perform the necessary procedures to obtain the necessary information.

- ✓ **Responding to Assessed Risks of Material Misstatement:** In responding to assessed risks in accordance with Auditing Standard No. 330, the auditor of the not-for-profit entity should determine whether the records maintained by the not-for-profit entity provide sufficient appropriate audit evidence to support the related financial statement assertions. If they do not, the auditor should perform additional audit procedures to obtain sufficient appropriate audit evidence or engage another auditor to perform those procedures at the service organization on his or her behalf.
- ✓ **Testing Control Instruments:** If the auditor's assessment of the risk of the covered entity includes an expectation that the service organization's control instruments are operating effectively, the auditor should obtain audit evidence about the operational effectiveness of those instruments through one or more procedures, which may include obtaining a Type 1 or Type 2 report, if available, performing appropriate tests of the service organization's control instruments, or engaging another auditor to test the service organization's control instruments on the auditor's behalf.
- ✓ A Type 1 report is a description and design of a service organization's control systems by the service auditor. A Type 2 report is a description and design of the internal systems and their operational effectiveness by the service auditor.
- ✓ **Fraud, non-compliance and misstatements:** The auditor of the covered entity should inquire of management whether the service organization has reported to the covered entity any instances of fraud, noncompliance, or uncorrected misstatements affecting the covered

entity's financial statements, or whether the covered entity is otherwise aware of such instances. The auditor should evaluate the effect of these matters on the nature, timing and extent of additional audit procedures, including their effect on the auditor's conclusions and report.

- ✓ **Report of the Auditor of the Beneficiary Entity:** The auditor of the recipient entity should modify the opinion in the report if the auditor is unable to obtain sufficient evidence about the services provided by the service organization that is relevant to the audit of the financial statements of the recipient entity. The auditor may not refer to the work of the service organization's auditor in an unmodified opinion, except as required by law. However, in a modified opinion, the auditor may refer to the work of the service organization auditor and explain the reasons for the modified opinion.



## Section Six: Audit Evidence

### Introduction:

When the auditor performs the audit, they document all working papers from the beginning of the engagement until its completion. This process is considered evidence that assists the auditor in forming an opinion on the accuracy of the financial statements of the entity being audited.

Presentation Model for Audit Evidence Standards:

- ❖ Auditing Standard No. 500: Audit Evidence
- ❖ Auditing Standard No. 501: Specific Considerations for Audit Evidence
- ❖ **Auditing Standard No. 500: Audit Evidence**

This standard addresses the auditor's responsibility to obtain sufficient and appropriate evidence through the audit procedures performed.

### 1- Objective:

The objective is for the auditor to obtain evidence by designing and performing the audit to reach reasonable conclusions about the accuracy of the financial statements.

### 2- Requirements:

#### ✓ Sufficient and Appropriate Audit Evidence:

The auditor must design and implement audit procedures that are appropriate to the current circumstances, aimed at obtaining sufficient and appropriate audit evidence.

#### ✓ Information Used as Audit Evidence:

In designing and performing audit procedures, the auditor must consider the appropriateness of the information used as audit evidence and evaluate its reliability, including information obtained from external sources.

If the information used as audit evidence has been prepared with the assistance of a specialist in management, the auditor should, to the extent deemed necessary, and taking into account the significance of the specialist's work to the audit, consider the following:

- Evaluate the expert's competence, ability and objectivity.
- Understand the nature of the specialist's work.
- Evaluate the appropriateness of the specialist's work as audit evidence for the relevant decision.

When using information prepared by the entity, the auditor should evaluate the reliability of that information for achieving the audit objectives. This includes, as appropriate and based on the circumstances, obtaining:

- Obtaining audit evidence to support the accuracy and completeness of the information.
- Assessing whether the information is accurate and detailed enough for the auditor's purposes.

✓ **Selecting items to test to obtain audit evidence:**

In designing tests of controls and substantive tests, the auditor must determine methods for selecting items for testing that will ensure the effectiveness and efficiency of the audit.

✓ **Inconsistencies in Audit Evidence or Doubts about its Reliability:**

If audit evidence obtained from one source is inconsistent with that obtained from another source, or if the auditor has doubts about the reliability of information used as audit evidence, the auditor should determine the necessary modifications or additions to audit procedures to address the issue. The auditor should also consider the effect, if any, of the matter on other aspects of the audit.

## ❖ Auditing Standard No. 501: Audit Evidence – Specific Considerations for Selected Items

This International Standard on Auditing addresses specific considerations that the auditor must take into account when obtaining sufficient and appropriate audit evidence, in accordance with the requirements of Auditing Standard No. 330, Auditing Standard No. 500, and other relevant standards. The standard focuses on aspects related to inventory, legal claims and litigations in which the entity is involved, as well as segment information during the audit of financial statements.

1- **Objective:** The auditor's objective is to obtain sufficient and appropriate audit evidence regarding:

- The existence and condition of inventories to ensure their accuracy and valuation.
- The completeness of legal claims and litigation in which the company is involved, to ensure that they are properly reflected in the financial statements.
- The presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

2- **Requirements:**

- Inventory: When inventory is material to the financial statements, the auditor must obtain sufficient and appropriate evidence about the existence and condition of inventory by:
  - Attending the physical inventory count, unless impracticable:
  - Evaluating management's instructions and procedures for recording and monitoring the results of the physical inventory count.
  - Observing management's performance of the inventory count procedures.
  - Perform a physical examination of the inventory.
  - Performing test counts.

- Reviewing the final inventory records to ensure that they accurately reflect the results of the physical inventory count.

If the physical inventory count is performed on a date other than the date of the financial statements, the auditor must perform additional procedures to ensure that changes in inventory between the date of the count and the date of the financial statements are properly recorded.

If, due to unforeseen circumstances, it is not possible to attend the physical inventory count, the auditor should perform or observe a physical inventory count at another date, in addition to reviewing transactions that have occurred during the intervening period.

If it is not practicable to attend the physical inventory count, the auditor must perform alternative procedures to obtain sufficient and appropriate audit evidence about the existence and condition of the inventory. If this is not possible, the auditor should modify his or her opinion in the auditor's report in accordance with Auditing Standard No. 705.

If the inventory is held and controlled by a third party and is material to the financial statements, the auditor should obtain sufficient and appropriate audit evidence about the existence and condition of the inventory by:

- Obtaining confirmation from the third party as to the quantities and condition of the inventory.
- Performing a physical examination or other verification procedures appropriate in the circumstances.

### **Legal Claims and Litigation:**

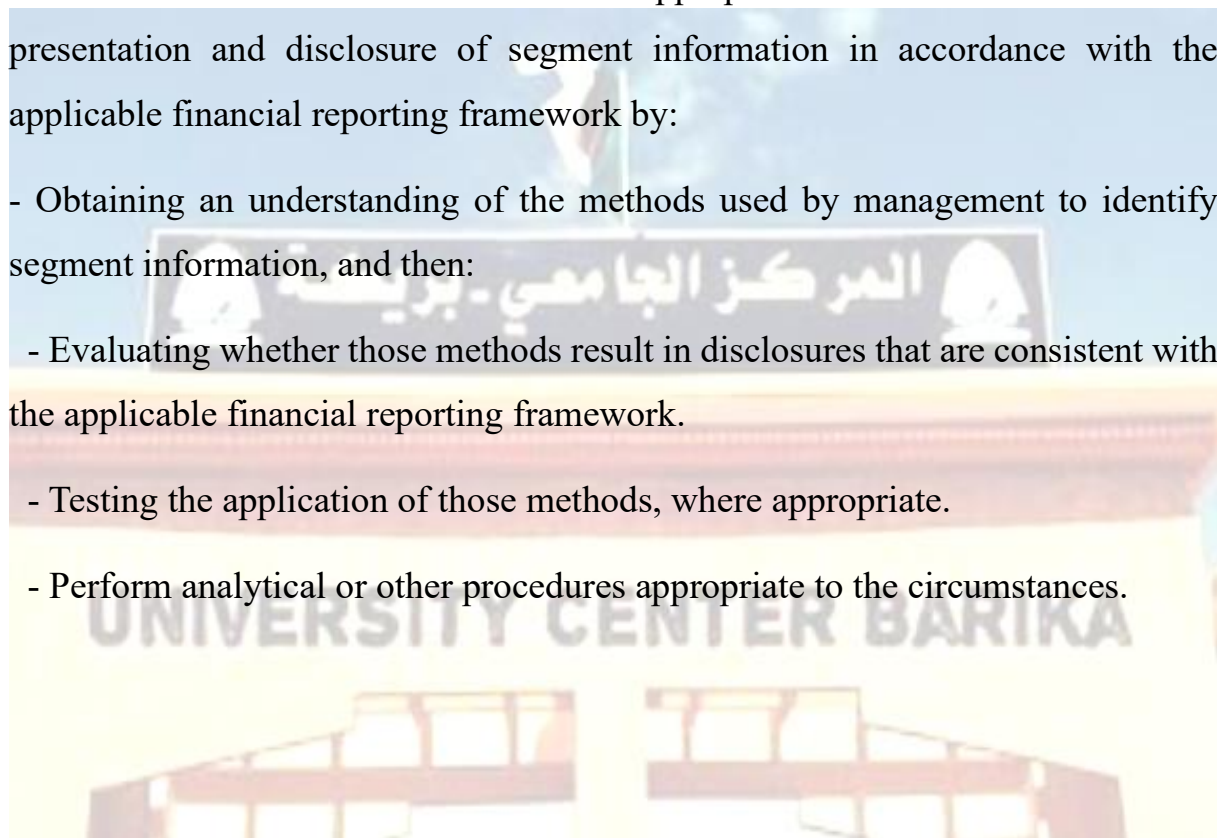
The auditor must design and perform audit procedures to identify legal claims and litigation involving the entity that may result in a risk of material misstatement of the financial statements, including:

- Inquiries of management and others within the entity, including internal legal counsel, as appropriate.
- Reviewing minutes of meetings of those charged with governance and correspondence between the Company and its external legal counsel.
- Reviewing accounts related to legal expenses.

**Segment information:**

The auditor shall obtain sufficient and appropriate audit evidence about the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by:

- Obtaining an understanding of the methods used by management to identify segment information, and then:
  - Evaluating whether those methods result in disclosures that are consistent with the applicable financial reporting framework.
  - Testing the application of those methods, where appropriate.
- Perform analytical or other procedures appropriate to the circumstances.



## Section Seven: Comparison Between International Standards and Algerian Standards

### Introduction:

This chapter discusses the Algerian releases of auditing standards and compares them with their international counterparts. It covers the standards discussed in previous chapters and clarifies specific terminology related to these standards.

### Releases of Algerian Auditing Standards:

Algeria has undergone several reforms in the auditing profession by issuing a set of standards to align with international developments and enhance trust in professional performance. The first release occurred in:

- February 2016, when four standards were issued.
- The second release followed in October 2016, according to Decree No. 150 published in the Official Gazette, which introduced four local standards.
- In March 2017, another four standards were issued, in accordance with Decree No. 23 of the Official Gazette.
- In September 2018, under Decree No. 77, the Ministry of Finance issued local standards.
- On June 1, 2024, according to Decree No. 121, the Ministry of Finance issued standards related to Quality Management 01, Quality Management 02, and the local auditing standard No. 220 concerning audit quality of financial statements.
- On November 18, 2024, under Decree No. 212, three local standards were issued and put into effect, covering Standard No. 700, Standard No. 705, and Standard No. 706, which deal with auditor reporting issues.

- On December 28, 2024, according to Decree No. 249 issued by the Ministry of Finance, standards were released for Standard No. 240, Standard No. 320, and Standard No. 450.

❖ **Comparison Between International and Algerian Auditing Standards:**

The comparison will focus on the following standards:

- Standard No. 210
- Standard No. 230
- Standard No. 300
- Standard No. 500
- Standard No. 220
- Quality Control Standard

The following table presents a comparison between international and local standards:

**Table 02: Comparison Between International and Local Standards**

Standard Name	Comparison
Standard No. 210	There are differences in terminology between international and Algerian standards. While the content of both standards is highly similar, some differences exist in the terms used. The Algerian standard mandates that the auditor request the audited entity's confirmation of its acceptance of the terms in the engagement letter, highlighting possible differences in the working file. Meanwhile, the international standard requires the auditor to confirm acceptance of the terms in the engagement letter, a point not explicitly mentioned in the Algerian standard. Furthermore, the term

	"engagement letter" in Algerian standards is referred to as "participation letter" in international standards.
Standard No. 230	Both standards are similar in terms of their scope of application, but the international standard provides more details than the Algerian one.
Standard No. 300	A key difference lies in the naming: the international standard is titled "Planning," whereas the Algerian standard is named "Audit Planning of Financial Statements." The international standard details the steps auditors follow in preparing an audit plan, while the Algerian standard summarizes these in key points, including understanding the nature, size, and activities of the entity, identifying its regulatory and legal framework, defining audit objectives and scope, and drafting and documenting a program outlining audit procedures and major changes.
Standard No. 500	Some terminology differences exist. Both the Algerian and international standards emphasize a strong correlation between sufficiency and appropriateness of audit evidence. Sufficiency is assessed based on the quantity of evidence collected, which is linked to the level of risk of material misstatement. The international standard states that certain documents provide direct audit evidence of an asset's existence, such as a financial instrument certificate (e.g., stock or bond). However, inspecting these documents does not necessarily provide evidence of ownership or value. Additionally, inspecting an executed contract may serve as audit evidence for an entity's application of accounting policies, such as revenue recognition—an aspect not covered by the Algerian standard.

**Source:** Based on the above discussion.

❖ **Terminology Related to International Standards:**

The following table presents key concepts and terms from international standards:

**Table 03: Concepts and Terms from International Standards**

Term	Definition According to International Standards
Engagement Documentation	Work papers obtained and conclusions reached by the auditor.
Engagement Partner	Another person in the firm responsible for engagement execution.
Partner	Any individual with authority to bind the firm to professional service engagements.
Quality Control Review	Evaluation of judgments made by the engagement team before or at the date of the final report issuance for listed entities.
Inspection	Procedures designed to provide evidence of the engagement team's compliance with quality control policies and procedures.
Ethical Requirements	Requirements applicable to the engagement team, consisting of ethical conduct rules and national requirements.
Sufficiency of Audit Evidence	Reflects the quantity of audit evidence and is influenced by the auditor's assessment of material misstatement risks.
Appropriateness of Audit Evidence	Measures the quality of audit evidence and its relevance to conclusions reached.
Audit Risk	The risk of issuing an inappropriate opinion when financial statements contain misstatements. It consists of detection risk, control risk, and inherent risk.

Professional Judgment	Applying expertise and knowledge in accordance with international standards and ethical conduct to perform audit procedures.
Professional Skepticism	Questioning the possibility of fraud or error in audit evidence.
Expert Auditor	A person with expertise in auditing, whether internal or external to the entity.
Non-compliance	Violations of applicable laws and regulations by the entity or those charged with governance.
Those Charged with Governance	Individuals responsible for overseeing the entity's direction; in some entities, this includes the board of directors or management.
Internal Control	A process conducted by individuals to ensure operational effectiveness, efficiency, and compliance with laws and regulations.
Control Testing	Audit procedures designed to assess the effectiveness of controls in preventing fraud and errors.

**Source:** Prepared by the researcher based on publications of the International Federation of Accountants (IFAC).

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