

Auditing Standards

From pass-or-fail to transparent and informative

The bridge over trouble water

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ณ ศูนย์การประชุมแห่งชาติสิริกิติ์



Auditing Standard

- ❑ From 15 instructions
- ❑ To almost 300 instructions
- ❑ Now almost 600 instructions

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Audit Report

- ❑ 2 paragraphs
- ❑ 3 paragraphs
- ❑ 6 paragraph
- ❑ Average 3 pages report

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Never before in the Audit Report

- ❑ I am independent in accordance with the Code of Ethics for Professional Accountants
- ❑ My responsibility is to read the other information included in the annual report and consider whether it is materially inconsistent or misstated
- ❑ TCWG are responsible for overseeing the financial reporting process

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Never before in the Audit Report

- ❑ I exercise professional judgment and maintain professional skepticism throughout the audit
- ❑ I obtain an understanding of internal control relevant to the audit
- ❑ I identify and assess the risk of material misstatement

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Never before in the Audit Report

- ❑ I evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates
- ❑ I conclude on the appropriate of going concern basis

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Never before In the Audit Report

- ❑ I evaluate the overall presentation, structure and content of financial statements
- ❑ I communicate with TCWG the audit plan and significant finding

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Never before in the Audit Report

- ❑ The audit report also has to include Key Audit Matters
- ❑ It moves from the standard format to judgment-based decision-making framework and the auditor has to decide which issues from the audit would count as KAMs.

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Never before in the Audit Report

- ❑ The auditor has to include in the report the areas that are of greatest focus in the audit, which are typically the areas of greatest risk for the audit as well.
- ❑ KAMs or Key Audit Matter are not always a big number nor the area that the auditor spent a large proportion of their efforts.

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What do the Auditor has to do to satisfy those Reporting Requirements



Key auditing procedures

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- ▶ Audit procedures have been moved far away from what we get uses to in the good old day
- ▶ As almost half of the numbers we have to audit are accounting estimates, the auditors now have to use a lot of professional judgments to satisfy themselves as required by auditing standards



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การจัดหมวดหมู่ของมาตรฐานการตรวจสอบ

- 200-299 General Principles and Responsibilities
- 300-499 Risk Assessment and Response to Assessed Risks
- 500-599 Audit Evidence
- 600-699 Using the Work of Others
- 700-799 Audit Conclusions and Reporting
- 800-899 Specialty Areas



Seven important areas

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- ▶ Documentation
- ▶ Auditing of accounting estimates
- ▶ Evaluation of misstatements
- ▶ Using the work of experts
- ▶ Audit of related parties
- ▶ Communicating with TCWG
- ▶ Group audits



Documentation

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- ▶ Enable an experienced auditor with no connection to the audit to understand.
- ▶ Nature, timing and extent of procedures performed
- ▶ Results and evidence obtained
- ▶ Significant matters, conclusion reached and professional judgment to reach those conclusion



Auditing of Significant and high uncertainty Accounting Estimates

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- ▶ Auditor has to evaluate alternative assumptions or outcome considered by management
- ▶ Auditor has to evaluate reasonableness of significant assumption
- ▶ Auditor has to assess judgment and decision for indicators of management bias



Evaluation of Misstatement

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- ▶ The auditor has to determine whether overall audit strategy and plan need to be revised in view of identified misstatements
- ▶ Request management to correct all identified misstatements
- ▶ Evaluate whether the FS as a whole are materially misstated



Using the Work of Experts

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- ▶ Auditor required to understand expert's field of expertise, to determine scope of expert's work and evaluate result of work
- ▶ Auditor required to evaluate competence, capabilities and objectivity of expert

Audit of Related Parties

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- ▶ Auditor required to be more alert to risk of material misstatement due to fraud
- ▶ Auditor required to understand business rationale for significant transactions and whether they are authorized and approved
- ▶ Evaluate whether related transactions have been accounted for and approved

Communicate with TCWG

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- ▶ Auditor is required to assess the "effectiveness" and "appropriateness" of two way communication and impact on risk assessment of auditor
- ▶ Required two way communication between auditor and TCWG

Group Audit

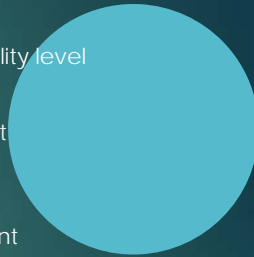
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- ▶ Lead engagement partner is responsible for direction, supervision and performance of group audit
- ▶ Unable to rely on component auditor
- ▶ Can not refer to component auditor

Group Audit

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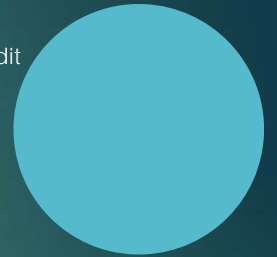
- ▶ Lead auditor to be involve in setting component materiality level
- ▶ Lower materiality level to be applied to audit component information
- ▶ Lead auditor to be involved in risk assessment of significant components



Group Audit

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- ▶ Lead auditor has to assess appropriateness of further audit procedures for component with significant risk



The Risk Based Audit Overview

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There are three major phases in doing the audit:

Phase 1- Risk assessment

Phase2- Risk response

Phase3- Reporting



Preliminary Activity

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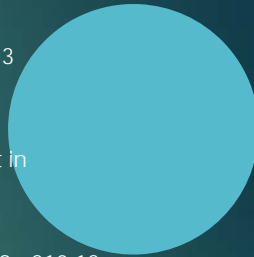
- ▶ Before accept or continue the client, there are certain mandatory steps as required by ISA to be performed by EP together with the engagement team
- ▶ They are not the option to do or not to do



Preliminary Activities

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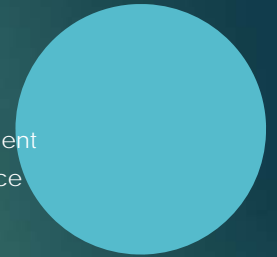
- ▶ **Performing** procedures required by ISA 220 .12 and 220.13 regarding the continuance of the client
- ▶ **Evaluating** compliance with relevant ethical requirement in accordance with ISA 220.9 – 220.11
- ▶ **Establishing** term of engagement as required by ISA 210.9 - 210.13



Required Procedures- Obtaining Information Regarding

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- ▶ The integrity of the owners and key management
- ▶ Whether the engagement team is competence by having capability, time and resources
- ▶ Whether the firm and engagement team can comply with ethical requirements
- ▶ Significant matters arisen during the previous audit and their implications



Risk Assessment Processes

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- ▶ Inherent risk identification
- ▶ Inherent risk assessment
- ▶ Identify significant risk
- ▶ Understanding internal control
- ▶ Communicating deficiencies in internal control
- ▶ Concluding risk assessment



Risk Assessment

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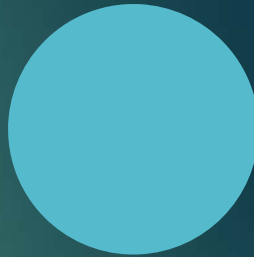
- ▶ First step is to understand the client's business
- ▶ After that ask yourself what can go wrong (Business risk and Fraud risk)
- ▶ Does management aware and have the process to assess them
- ▶ What do they do to reduce the risk to acceptable level



Understanding the Entity's Business

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- ▶ External business drives
- ▶ Entity's business objectives and strategies
- ▶ Management process
- ▶ Control environment
- ▶ Core business process
- ▶ Information used by management to run business etc.



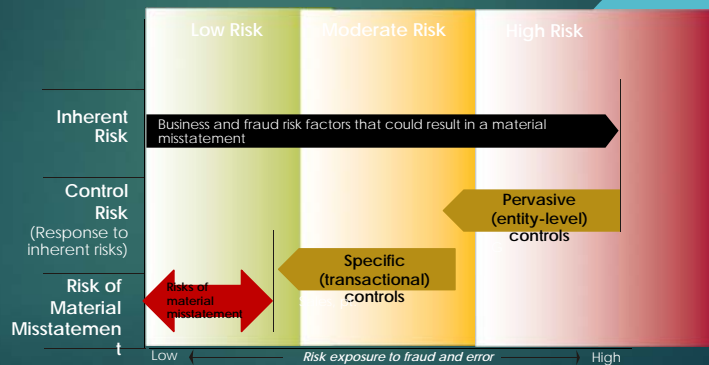
Risk and Control

The relationship between risk and control can be illustrated as follows.

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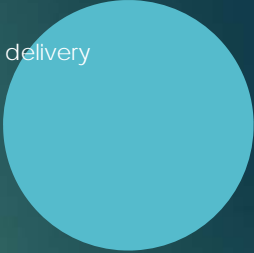


7 Key drivers of audit quality

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- ▶ Tone at the top
- ▶ Association with the right client
- ▶ Clear standards and robust tools
- ▶ Recruitment, development and assignment of appropriately and qualify staff



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- ▶ Commitment to technical excellence and quality service delivery
 - ▶ Performance of effective and efficient audits
 - ▶ Commitment to continuous improvement