An Auditors Insight:
Streamlining your statutory audit and maximising the benefit accruing to your organisation

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Partner Whelan Dowling & Associates

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Approach for Today

- What is a Statutory Audit
- Audit Fees
- The Auditor Regulator
- Professional Skepticism
- Audit File
- Audit Materiality
- Audit Evidence
- Audit Testing
- Audit Letters
- Common Year-End Adjustments
- Recommendations

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What is a Statutory Audit?

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Definition of Statutory Audit

An audit is an impartial examination and evaluation of the accounting records of a company by a statutory auditor.

The purpose of the audit is to verify that the records are an accurate and fair representation of the company's transactions, and involves obtaining evidence about the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

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Extracts From The Auditors Report

In our opinion, the company financial statements:

- **give a true and fair view** of the assets, liabilities and financial position of the Company as at 31st December 2022 and of its net movement in funds for the year then ended;
- have been **properly prepared** in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Basis for opinion

- We conducted our audit **in accordance with International Standards on Auditing** (Ireland) (ISAs (Ireland)) and applicable law.
- We are **independent** of the company.
- We believe that the audit evidence we have obtained is **sufficient and appropriate** to provide a basis for our opinion.

Going Concern

- We have concluded that the director's use of the **going concern** basis of accounting in the preparation of the financial statements **is appropriate**.

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Extracts From The Auditors Report

Auditors' responsibilities for the audit of the financial statements

- Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are **free from material misstatement**, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion.
- **Reasonable assurance** is a high level of assurance but is **not a guarantee** that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.
- Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to **influence the economic decisions of users** taken on the basis of these financial statements.

The purpose of our audit work and to whom we owe our responsibilities

- This report is made solely to the Company's members in accordance with Section 391 of the Companies Act 2014.
- We do not accept or assume responsibility to anyone other than the Company and the Company's members for our audit work.

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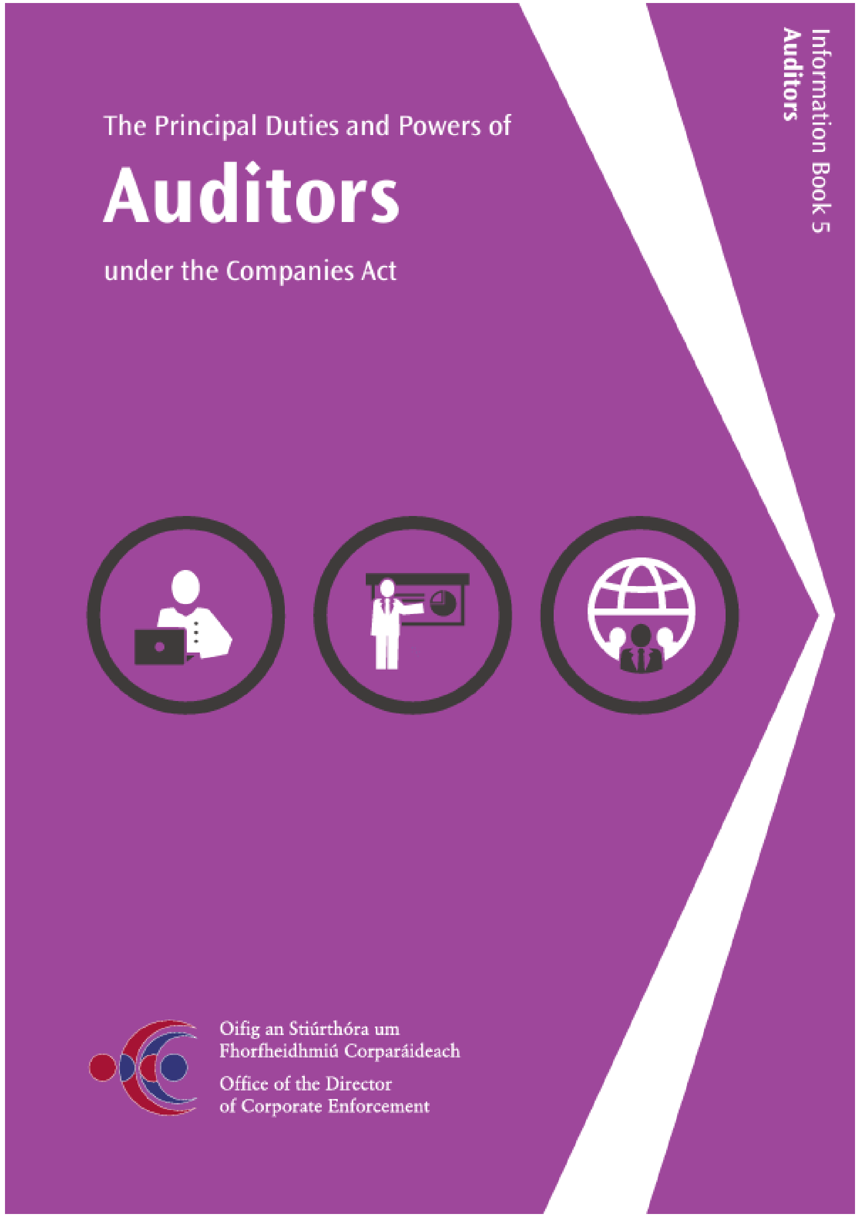
Auditors Duties & Power



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Audit Fees

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How Do We Decide on Your Audit Fees

- **Professional Time x Hourly Charge Rate – Ultimate Consideration**
- **Who are your Stakeholders & Funders**
- **SORP vs. Non-SORP**
- **Complexity of Financial Statements – I&E, Balance Sheet & Notes**
- **Level of Audit Risk – CARB Selection**
- **Number of Transactions and Number of Charity Staff**
- **Any Adverse Publicity**
- **Going Concern Issues**
- **Charity Sector You Operate In**
- **Internal Practice Costs**
- **Quality of Books & Records**
- **High Profile vs Low Profile**
- **Prior Years Audit Experience - “Never Again!!”**
- **New Engagements – Previous Audit Fee**

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Why are our audit fees rising?

A fall in the number of auditors in Ireland risks dramatically increasing the costs of audits, CPA Ireland has warned.

CPA Ireland President Mark Gargan said ***"The growing shortage of accountants***, ***rising costs***, and the ***increasing regulatory requirements*** of audits have all resulted in a significant drop in the number of audit firms in Ireland in recent years. This scarcity can only result in one thing, a jump in costs for businesses, which many may struggle to bear."

There has been a ***31% drop in the number of firms licensed to audit in Ireland since 2014***.

There are now 1,059 compared with 1,542 in 2014. In the ***last five years*** alone the number of ***audit firms has dropped by 201 or 16%.*** While the number of auditors has fallen by a similar number from 1,956 in 2018 to 1,725 last year.

The decline in the number of audit licenses being renewed is more pronounced in Small – Medium Sized Practices. "Where the pressure is becoming particularly acute is in smaller firms as they deal with the pressures imposed by the shortage of accountants. ***By the end of this decade, it is plausible that there will be no sole practitioners offering statutory audits anymore."***

"It is entirely possible that costs will double or more for many businesses over the next few years."

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Why are our audit fees rising?

- The growing shortage of accountants – Talent Retention
- Rising costs – Staff wages, Insurance, IT, Rent, Light & Heat, Etc…
- Increasing regulatory requirements – More Complex Audit Files
- 31% drop in the number of firms licensed to audit - 1,542 (2014) vs. 1,059 (2023)
- By the end of this decade, it is plausible that there will be no sole practitioners offering statutory audits anymore
- Possible that costs will double or more over the next few years

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Review of some audit fees

Charity Name	Audit Fee	Income	Net Assets
Trocaire	€61k	€73m	€59m
CRC	€21k	€28m	€28m
DePaul	€37k	€29m	€6m
Rehab	€186k	€105m	€67m
Peter McVerry	€25k	€62m	€49m
FAI	€154k	€54m	€2.5m

Charity Name	Audit Fee	Income	Net Assets
Irish Film Institute	€11k	€4m	€1.8m
Breast Cancer Ireland	€11k	€4m	€2m
Womens Aid	€8k	€4.6m	€4.4m
Make-A-Wish	€10k	€1.9m	€2.2m
Business to Arts	€8k	€0.5m	€0.05m
The Little Museum of Dublin	€7.5k	€1m	€0.9m

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The Auditors Regulator

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Audit Regulatory Considerations

- **CARB Audit Review**
- **CARB Whole Firm Review**
- **CARB AML / CTF Review**
- **Preparation for CARB Audit – 4 to 6 weeks**
- **Client Portfolio – Normal vs. Public Interest (CLG's)**
- **Quality of File / Score – A / B / C / D**
- **Breach or Needs Improvement – (Black & White)**
- **Fine, Publication, Consent Order, Hot File Review, Revocation**
- **Reputational Damage – Newspaper, Google Search, Loss Fees**
- **Insurance Costs**
- **Accounts Restatement**
- **Staff Retention and Staff Attraction**

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Professional Skepticism

Auditors are required to be Skeptics

Lord Denning - 1958

“[a]n auditor is not to be confined to the mechanics of checking vouchers and making arithmetical computations. **He is not to be written off as a professional "adder-upper and subtractor"**. His vital task is to take care to see that errors are not made, be they errors of computation, or errors of omission or commission, or downright untruths. To perform his task properly, he must come to it with **an inquiring mind - not suspicious of dishonesty, I agree - but suspecting that someone may have made a mistake somewhere and that a check must be made to ensure that there has been none.”**

Lord Denning - 1968

“… we say that the auditors are bound to inquire. We do not say that in the absence of anything to put them on inquiry the auditors are to probe with a suspicious mind, but **they are there to verify and not to proceed blindly.**”

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Auditors & Fraud

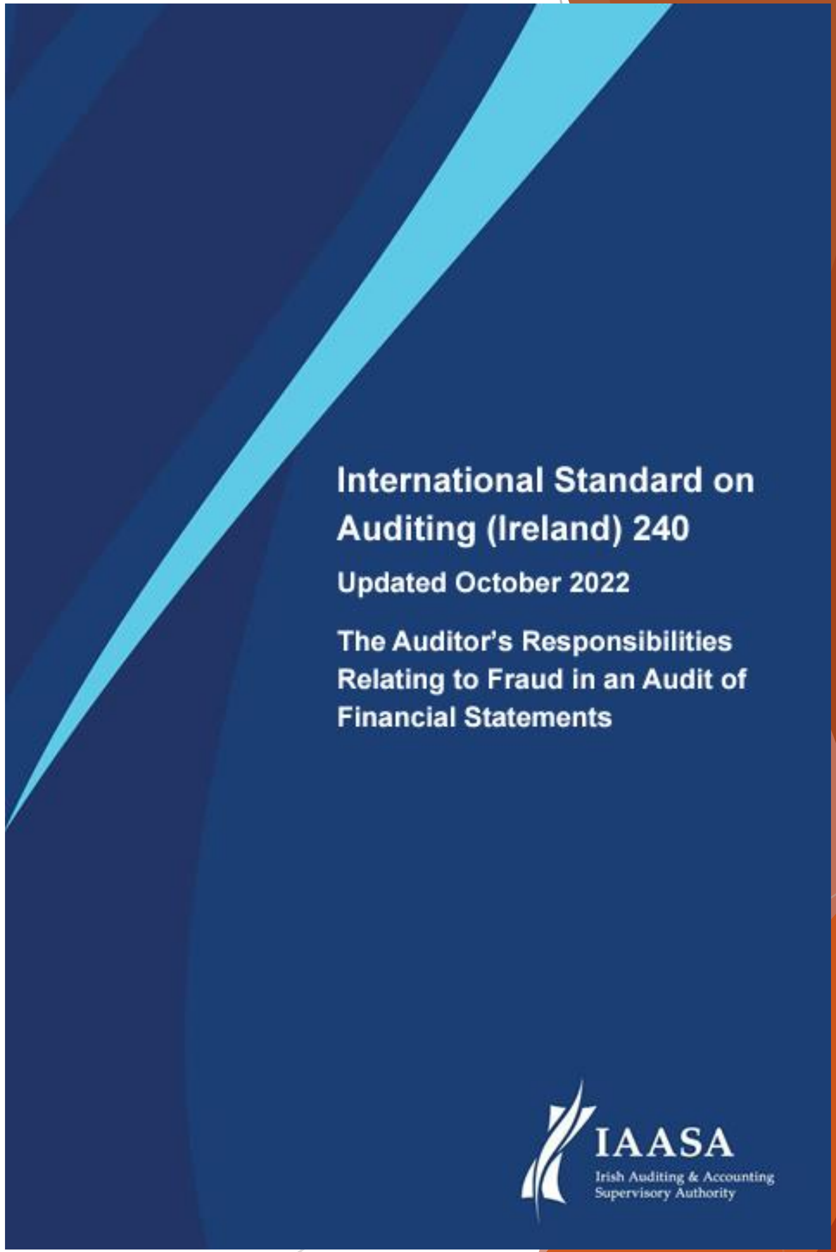
However, an auditor **<u>is not</u>** in breach of their duty where they fail to uncover a fraud or misfeasance that is so carefully concealed that no reasonably qualified auditor would investigate it or uncover it.

According to Justice Lopes:

“auditors must not be made liable for not tracking out ingenious and carefully laid schemes of fraud when there is nothing to arouse their suspicion, and when those frauds are perpetrated by tried servants of the company and are undetected for years by the directors. So to hold would make the position of an auditor intolerable.”

<u>Fraud must be considered at all stages of the audit process</u>

Planning
Performance
Completion



What's Professional Skepticism under ISA 200

In accordance with ISA (Ireland) 200, the auditor shall maintain professional skepticism throughout the audit, **recognizing the possibility that a material misstatement due to fraud could exist**, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

The auditor shall **undertake risk assessment procedures** and design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

Unless the auditor has reason to believe the contrary, the **auditor may accept records and documents as genuine**. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. **The auditor shall remain alert for conditions that indicate a record or document may not be authentic.**

Where responses to inquiries of management, those charged with governance or others within the entity are inconsistent, or appear implausible, the auditor shall investigate the reasons.

Internal Controls Assurance

Auditors evaluate the charity's internal controls to determine their effectiveness in preventing and detecting errors or fraud.

Strong internal controls help ensure the reliability of financial reporting and safeguard the charity's assets.

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Documentation of Internal Controls

- Clearly document internal controls and procedures related to financial processes.

- This includes controls over cash handling, expense approval, and financial reporting.

- Well-documented internal controls not only demonstrate the organization's commitment to sound financial management but also assist auditors in evaluating the effectiveness of these controls.

Audit File

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Audit File Structure

Audit Completion	Matters Forward Checklist	A3
	Engagement Quality Review (Hot File Review)	A4
	Audit Completion - Audit Partner's Conclusion	A5.1
	File Completion Checklist	A5.2
	Memorandum of Significant matters	A6
	Review of Communications to Those Charged with Governance	A7
	Letter of Representation Review	A8
	Summary of Errors Schedule	A9
	Final Analytical Review	A10
	Financial statements disclosures - Republic of Ireland	A10.2a
	Financial Statements Call-Over Checklist	A10.3
	Events after the End of the Reporting Period	A11
	Going Concern	A12.1
	Going Concern Questionnaire	A12.2
	The Auditor's Report	A13.1
	Audit Conclusion Summary	A13.2
	Fraud	A14
Planning	Independence and Acceptance of Appointment or Re-appointment	B1
	Audit Planning Checklist	B1.1
	Audit Planning Memorandum	B2
	Materiality	B3
	Opening Balances/Comparatives	B4
	Audit Exemption - Republic of Ireland	B5.1
Internal Control	Internal Control and Accounting Systems	C1
	Maintenance of Books and Records	C2

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Audit File Structure

Financial Statement Areas	Intangible Fixed Assets Including Goodwill - Lead Schedule	D-
	Intangible Fixed Assets Including Goodwill - Work Programme	D1
	Tangible Fixed Assets - Lead Schedule	E-
	Tangible Fixed Assets - Work Programme	E1
	Investments and Derivatives - Lead Schedule	F-
	Investments and Derivatives - Work Programme	F1
	Stocks and Work In Progress - Lead Schedule	G-
	Stock and Work in Progress - Work Programme	G1
	Stock and Work in Progress – Attendance Tests	G2
	Debtors - Lead Schedule	H-
	Debtors - Work Programme	H1
	Bank Balances and Cash in Hand - Lead Schedule	I-
	Bank Balances and Cash in Hand - Work Programme	I1
	Creditors - Lead Schedule	J-
	Creditors - Work Programme	J1
	Taxation - Lead Schedule	K-
	Taxation - Work Programme	K1
	Liabilities, Contingencies and Charges	L1
	Statutory Matters, Share Capital and Reserves - Lead Schedule	M-
	Statutory Matters, Share Capital and Reserves - Work Programme	M1
	Sales and Income	N1
	Purchases and Expenses	O1
	Salaries and Wages - Lead Schedule	P-
	Salaries and Wages - Work Programme	P1
	Related Parties	Q1
	Compliance with Laws and Regulations	R1
	Trial Balance	S1

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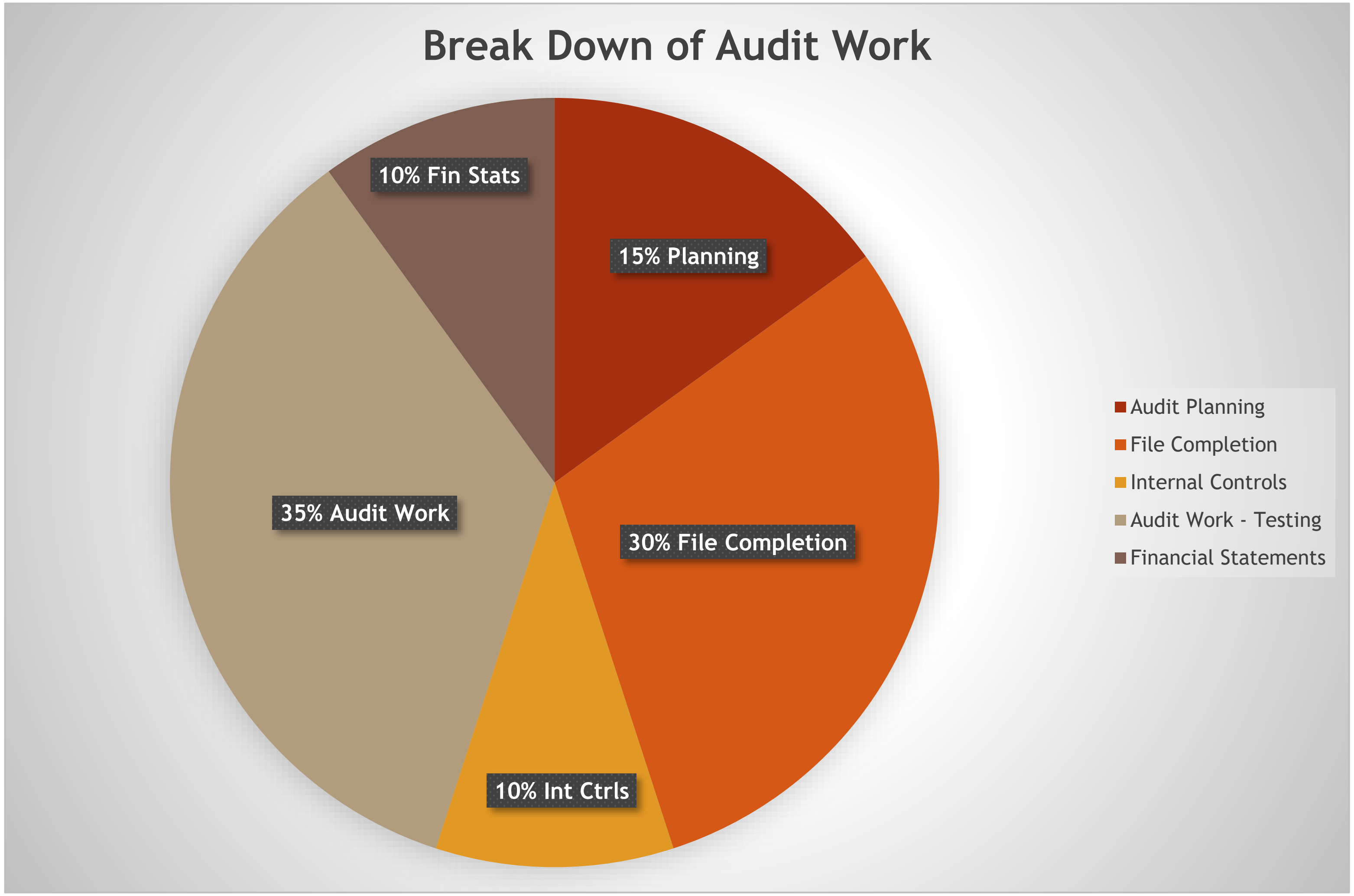
Audit Approach – Time Allocation %



Audit Materiality

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Material Misstatement – Auditor Consideration

- A material misstatement **(Qualitative or Quantitative)** in a set of audited financial statements is an error or omission that **could influence the economic decisions of users of the financial statements.**

- In other words, if a misstatement is large enough or significant enough, **it could change the way that investors, lenders, or other stakeholders view the financial health of the company.**

- The determination of whether a **misstatement is material is a judgment that is made by the auditor.**

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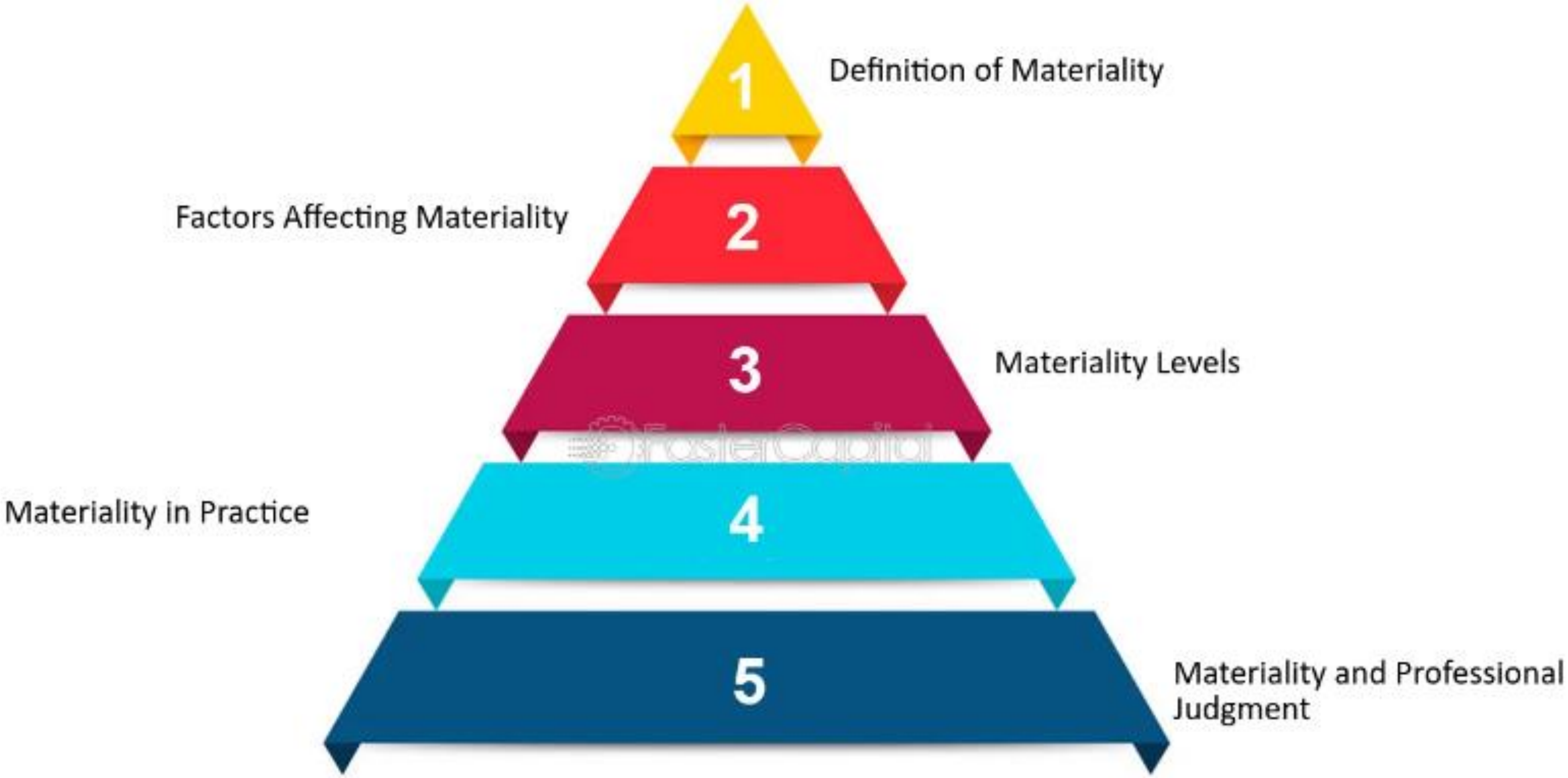
Audit Materiality Pyramid



Audit Materiality Working

Materiality Determination	This Year Actual	This Year Estimated	Last Year Actual
	€	€	€
Profit before tax, after adjusting for exceptional items and directors' bonuses:	254,123	302,020	75,000
% thereof	25,412	30,202	7,500
10%			
Turnover:	2,750,123	2,645,525	2,612,983
% thereof	27,501	26,455	26,130
1%			
Net Assets:	562,612	306,500	788,511
% thereof	28,131	15,325	39,426
5%			

Audit materiality - Set as an average of the above 3 materiality settings	27,015	23,994	24,352
Performance materiality - set as 75% of Audit materiality	20,261	17,996	18,264
Specific materiality (see definition above)			
Clearly Trivial *(Amounts that will not be further investigated) 10%*	2,026	1,800	1,826

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Audit Materiality Considerations

- The auditor's responsibility is to provide reasonable assurance that the financial statements are free from material misstatements. This means that the auditor must gather enough evidence to conclude that it is likely that there are no material misstatements in the financial statements. If the auditor is unable to obtain sufficient evidence, they may issue a qualified opinion or an adverse opinion.

- Here are some examples of misstatements that could be considered material:
  - **An understatement of revenue**
  - **An understatement of expenses**
  - **An overstatement of assets**
  - **An understatement of liabilities**
  - **A failure to disclose a contingent liability**

- The auditor will consider all of the relevant facts and circumstances when making a judgment about whether a misstatement is material. The auditor's goal is to ensure that the financial statements are accurate and complete so that users can make informed economic decisions.

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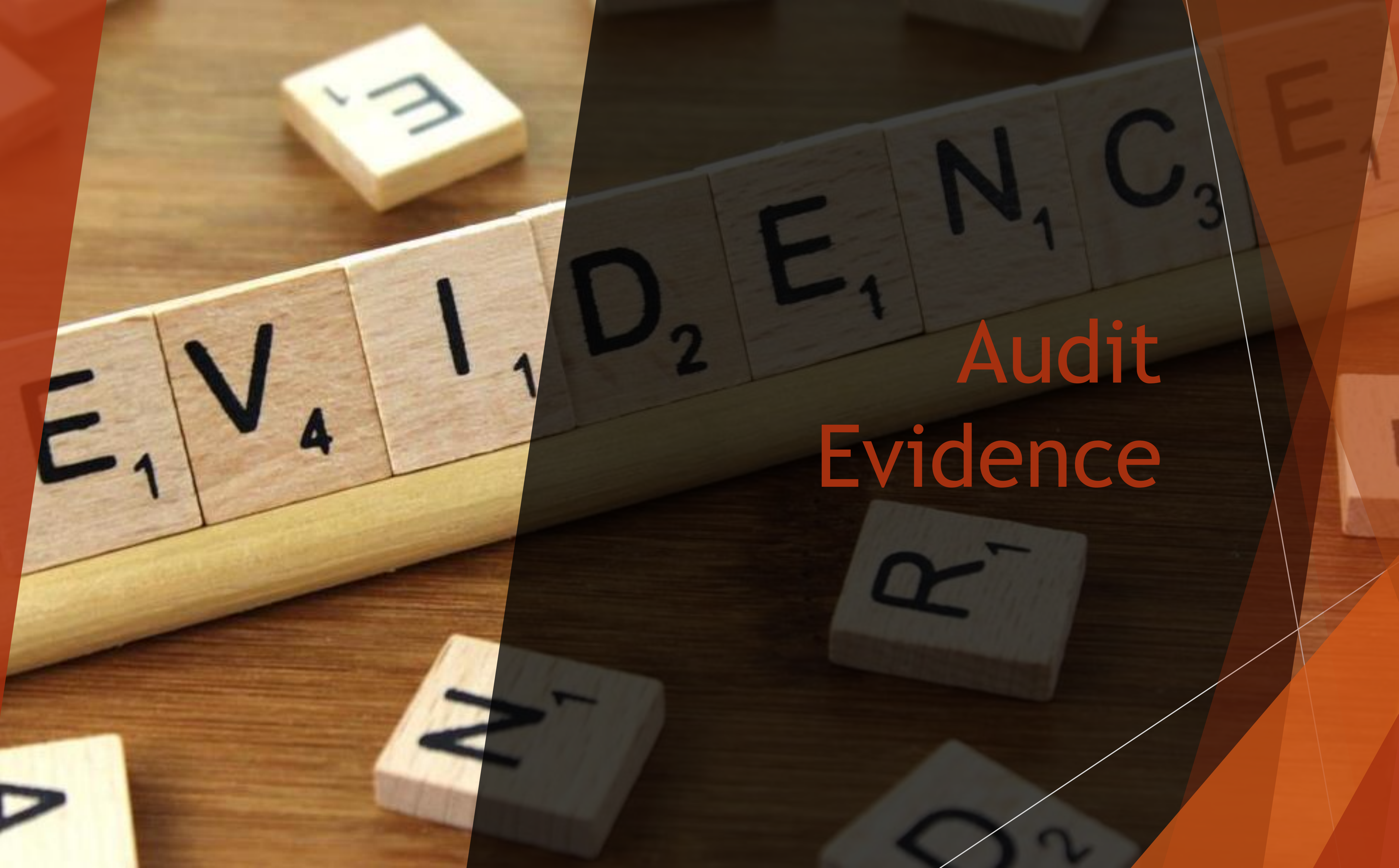

Audit Evidence

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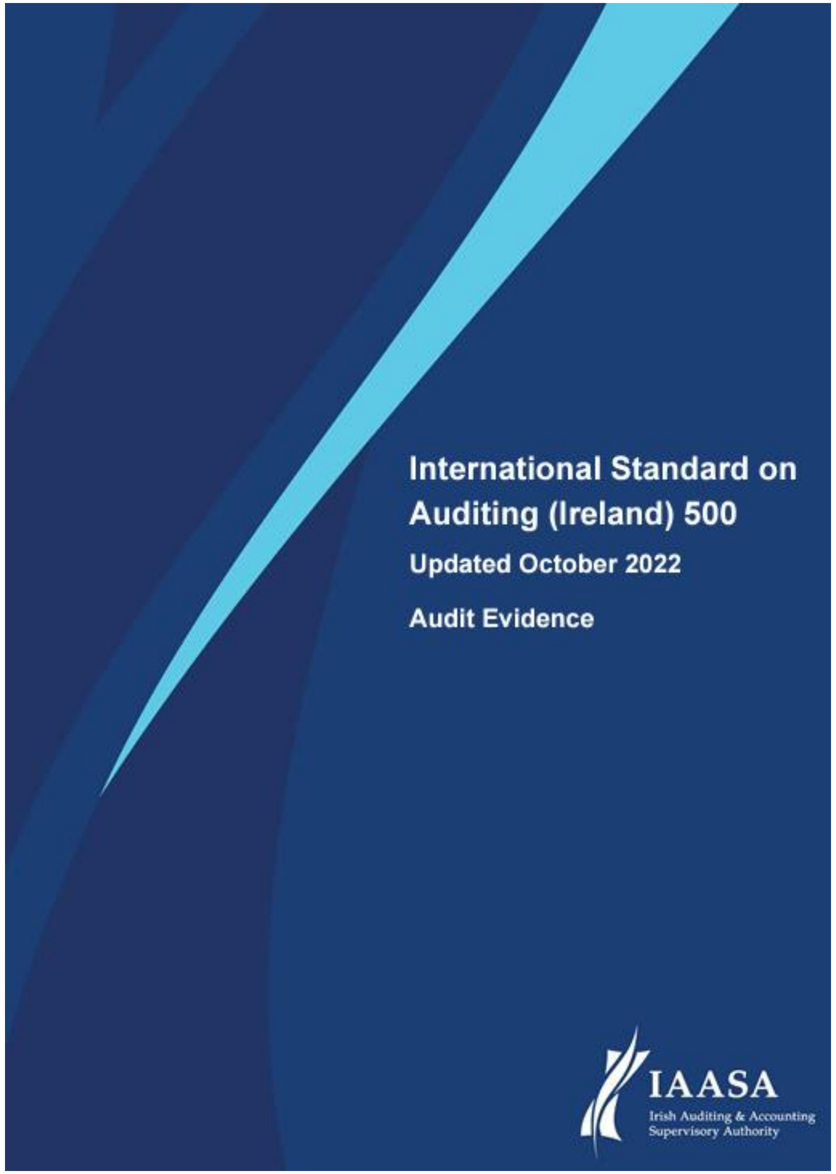
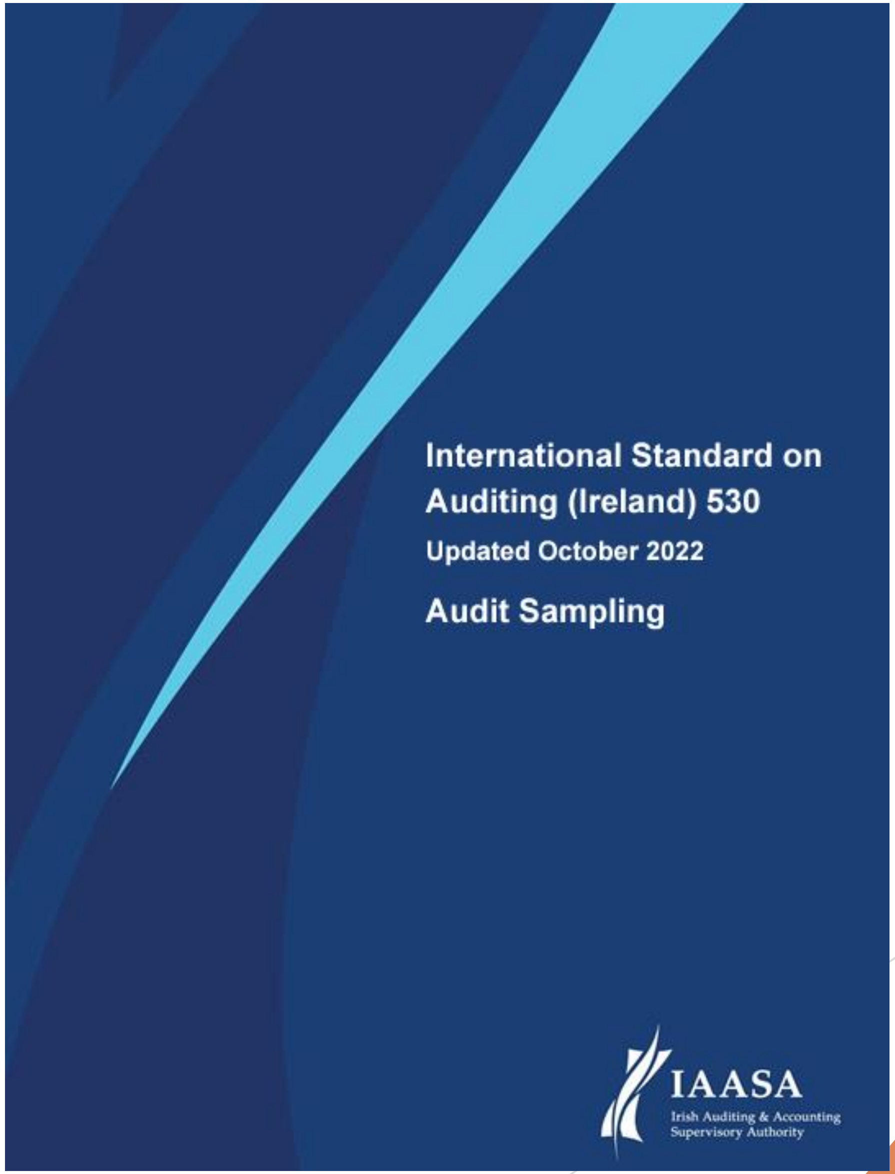
Audit Evidence & Sampling





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Audit Evidence

- **Sources of audit evidence:**
  - Accounting records
  - Supporting documents
  - Internal controls
  - Inquiry
  - Observation
  - Analytical procedures
- **Characteristics of audit evidence:**
  - Relevancy
  - Reliability
  - Sufficiency
  - Appropriateness
- **Use of audit evidence:**
  - Verify transactions
  - Verify existence and valuation of assets
  - Assess internal controls
  - Identify trends and anomalies

Audit evidence is the information that auditors use to arrive at their conclusions about the accuracy of financial statements.

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Types of Audit Evidence

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Audit Testing

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Audit Testing

- **Audit testing involves:** examining a sample of transactions, balances, and internal controls to gather evidence and support audit conclusions. **The auditor's objective is to obtain sufficient and appropriate audit evidence to form an opinion on whether the financial statements are free from material misstatements.**

1. **Common audit testing procedures for charities include:**
2. **Testing of controls:** Assessing the *effectiveness of internal controls* in preventing and detecting material misstatements.
3. **Substantive testing of transactions:** Examining a sample of transactions to verify their *occurrence, authorization, completeness, and accuracy.*
4. **Substantive testing of balances:** Examining a sample of account balances to verify their *existence, valuation, and presentation*.

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Audit Testing - Sample Sizes

Sample Size Determination

The appropriate sample size for charity audits depends on various factors, including:

- **Population size:** The number of items in the population being tested.
- **Tolerable error:** The maximum amount of misstatement that the auditor is willing to accept without modifying the audit opinion.
- **Expected error rate:** The auditor's estimate of the expected rate of misstatement in the population.
- **Confidence level:** The desired level of assurance that the sample results are representative of the entire population.

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Audit Testing – Charity Audit Considerations

- **When determining sample size for charity audits, auditors should consider specific factors related to the nature of each individual charity:**

- **Diverse sources of revenue:** Charities often have multiple sources of funding, such as donations, grants, and fundraising events, requiring careful examination of each revenue stream.
- **Complex expense transactions:** Charities may incur expenses related to grant programs, volunteer activities, and overseas operations, necessitating thorough scrutiny of these transactions.
- **Non-monetary transactions:** Charities may engage in non-monetary transactions, such as inventory donations or in-kind services, which require specialized audit procedures.
- **Compliance with non-profit regulations:** Charities must comply with specific non-profit regulations, such as those related to revenue recognition, expense allocation, and financial disclosures.

Audit Letters & Communication

Audit Letters & Why

- **Professional Clearance Letter** – 1st year only upon appointment
- **Engagement Letter** – annually, setting out mutual responsibilities & fees
- **AML / CTF Letter – Directors ID x2** – Legally obliged to obtain
- **Audit Planning Letter** – annually, request for records and agreed timelines
- **Bank Letter** – annually through "Circuit" – Independent verification of cash at bank & loans
- **Solicitor Letter** – annually through "Circuit" – Contingent Liabilities
- **Funder Confirmation Letter** – Completeness of Income
- **Audit Report** – Our ultimate opinion to members
- **Letter of Representation** – BOD writing to auditors to reaffirm verbal and written statements
- **Letter to Those Charged With Governance** – BOD will have an understanding of all significant issues that have arisen from the audit process.

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Letter to Those Charged With Governance – ISA 260

Financial Reporting
We have no financial reporting observations to bring to your attention

Internal Control
We identified no significant deficiencies in internal control.

Risk Assessment
No new matters have arisen since our initial risk assessment was completed.

Status
We have completed the majority of our audit work.

Update on significant Audit and Accounting Matters
We have no significant valuation matters to bring to your attention in relation to assets or liabilities.
We have no significant matters to bring to your attention regarding the existence of assets or liabilities.

Fraud Risk
We have no matters regarding identified or suspected fraud to report to you.

Audit Misstatement
There are no audit misstatements to bring to the attention of the board.

Independence
We continue to be independent of the company.

Other
We have no other matters to communicate regarding our audit work.

This communication should be viewed as a **crucial reporting 'output' of the audit.**

It allows management to be informed of significant matters arising from the audit process, and allows management the chance to respond to the auditor regarding these matters.

It also allows management to take action to improve the accounting and financial reporting function of the entity.

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Communication with Auditors

Establish open and proactive communication with the auditors.

Discuss the audit timeline, expectations, and any changes in the charity's operations or accounting policies.

Addressing questions and concerns in advance helps build a cooperative relationship with the auditors and minimizes surprises during the audit.

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Common Year End Adjustments

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Common Year-End Adjustments

- Capitalization and depreciation!!!
- Deferred income release from prior year
- Year-end deferral for unspent grant income
- Allocation between restricted and unrestricted overheads
- Adjusting overheads to adjust restricted deficits
- Accruals & Prepayments
- Opening Balance Reconciliations

Prepare Schedules and Reconciliations

- Provide the auditors with detailed schedules and reconciliations for key financial accounts.
- This includes reconciling bank statements, accounts receivable, accounts payable, and any other significant balances.
- Having these schedules prepared in advance can expedite the audit process and demonstrate the accuracy of reported financial information.
- **You know your figures, don’t be waiting for the auditor to tell you how your accounts look!**

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TAKEAWAYS

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Recommendations – Help Us to Help You

- ***Accounts File*** *– Prepare an accounts preparation file, referenced, with evidence*
- ***Lead Schedules*** *– Prepare lead schedules agreeing to financial statements*
- ***Referencing*** *– Reference all documents and make it easy to find items / transactions*
- ***Documentation Ready*** *– Be prepared and have all expected documentation ready*
- ***Going Concern Review*** *– Clearly document your basis for going concern (GC)*
- ***Budgets & Forecasts*** *– Prepare clear projections with assumptions, supporting GC*
- ***Trustees Report*** *– Draft in advance of the audit and provide ASAP*
- ***No Adjustments*** *– Try to ensure there are no accounting adjustments required*
- ***Declarations Ready*** *– Fraud, Going Concern, Subsequent Events Etc…*
- ***Audit Letters Return*** *– Return all audit letters ASAP*
- ***Stick to the Audit Plan*** *– Agree clear timelines to the audit and stick to them*
- ***No Surprises*** *– Auditors hate surprises, i.e. post balance sheet review*
- ***Subsequent Review*** *– Shorten dates from year end to approval date*
- ***Foreseeable Future*** *– 12 months from date of audit report*
- ***Approval and Sign-Off*** *– Shorten dates from year end to approval date*

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QUESTIONS?
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- Thank you for your time!