

# Master in Accounting

Advanced Auditing

3rd edition



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(CPA & STATUTORY AUDITOR)

**2022/2023**



## Professor

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- President of the Supervisory Board of a bank
- Managing Partner at PremiValor Consulting
- Former Manager at PWC in Corporate Finance department (PT & UK)
- Specialist in Mergers & Acquisitions
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## Introduction

Late 20<sup>th</sup> century and early 21<sup>st</sup> century is being marked by events that brought Auditor profession to the spotlight: financial scandals, **Arthur Andersen** bankruptcy, pressure for **separation between consulting and auditing activities**, auditor rotation, **Sarbanes-Oxley Act** of 2002, Directive 2006/43/CE, Regulation (EU) n.º 537/2014 and Directive 2014 /56/EU of European Parliament and Council, new Statutes of Order of Statutory Auditors – Ordem dos Revisores Oficiais de Contas (Law 140/2015, of 7/9), legal framework of audit supervision and its code of ethics, etc.

On the other hand, audit is a discipline that crosses with other areas of management, namely taxation, company law, ethics, accounting, statistics, finance. In short, facts that have contributed to a growing interest of the academic community in the investigation of audit-related issues.



## Introduction

### Case Study a)

Based on public information provide 3 recent examples of financial scandals.

Prepare a presentation to share with colleagues.



## Introduction

### ❖ Examples of committed fraud

#### Enron

1. Used *special-purpose entities* (SPE) to decrease their responsibilities and to count **artificial income** for either SPE either Enron.
2. Contracts lasting for several years were accounted for in the first year, reducing costs and oversizing income.

#### WorldCom

1. **Current expenditures** were accounted as **investments** (with this they transformed the losses they indeed had into profits).
2. **Very large amount of loans** to top executives were not paid by them.

#### Tyco

1. **Manipulated the accounts** to show high profits.
2. **Non-approved loans** to top executives (these executives used company's money to buy personal property and other assets).

## Introduction

### ❖ Studies regarding fraud

Other fraud examples were studied by **Agrawal, Jaffe, and Karpoff (1999)**.

They identified **103 companies** accused of **fraud** present at Wall Street Journal Index between 1981 and 1992. They have also established 103 control companies whose code of economic activity and net sales were similar to that of companies with fraud.

- The companies that were part of fraud's companies sample had significantly more fraud than the ones of the control group in the 2 years before and 2 years after regarding the year of the key event for the study.
- The differences in operating performance around the event of fraud were not statistically different between two groups.

Regarding management rotation they “**didn't find evidence that fraud revelation leads to a subsequent alteration in the leadership structure**” – in the cases which CEO and Chairman are the same person.

They also evaluated the rotation for the tree top positions and the alterations remain non-significant between companies in fraud situation and the ones in the control group.



## Introduction

### ❖ Studies regarding fraud

During the year of the fraud event, and in the 3 following years, the companies in fraud situation reduce slightly their executive board, reducing simultaneously their internal and external members; on the other hand, the companies in the control group increased slightly their executive board (but not significantly).

- **The authors conclude that the reduced impact from reported frauds in the study may reflect the favorable economic and financial characteristics for the period 1981-1992.**

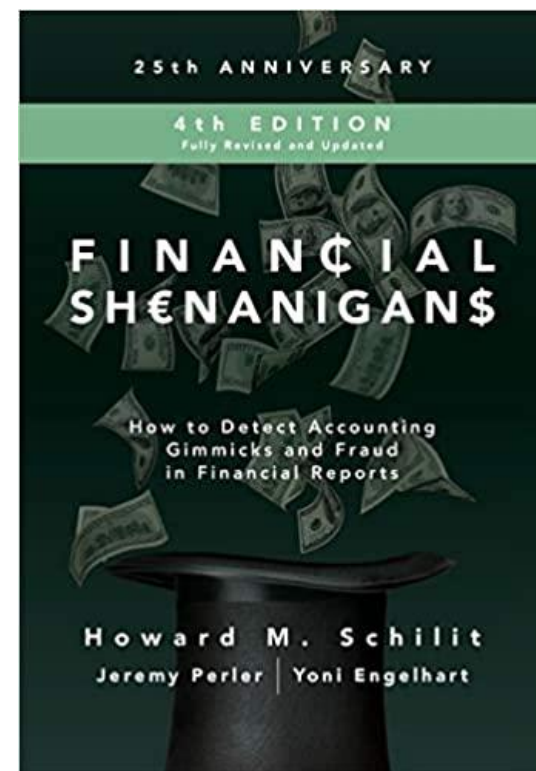
## Introduction

### ❖ Some books about corporate fraud

**Howard Schilit** published in 1993 the first edition of his book: “*Financial Shenanigans in 1993*”.

Created an analysis and research center (CFRA) to detect early warning signs in relation to operational problems or accounting “anomalies”. In the 2002 edition of his book, he mentions **30 techniques of financial “cheating”** defined as practices that intentionally distort the financial situation or performance reported by a company.

In 2002, a similar book with many other examples was published by Mulford and Comiskey.



**2018 edition**  
ISBN-13: 978-1260117264  
ISBN-10: 126011726Xpj v

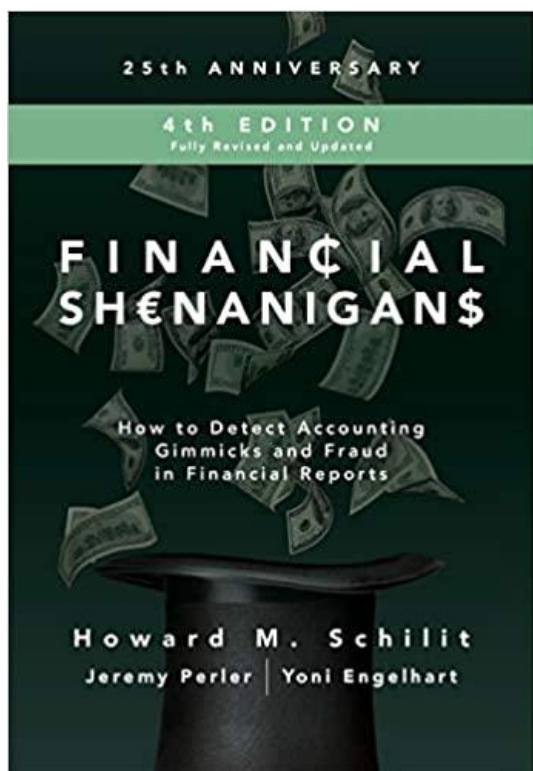
These disclosures have **caused outrage** and resulted in **Sarbanes-Oxley Act** (SOA) in July 30th, 2002.



## Introduction

### ❖ Some books about corporate fraud

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## Introduction

### ❖ Sarbanes-Oxley Act



The **Sarbanes-Oxley Act** covers 11 main areas:

#### 1. PCAOB – Public Company Accounting Oversight Board

PCAOB is a private nonprofit entity subjected to the regulation and supervision of the SEC.

This organization is responsible for the **supervision of the audit** listed companies and the establishment of standards for audit reports. All audit firms must be registered in the PCAOB.

All companies must report to its audit committee is composed of at least one member who is financial expert under the SEC definition.

## Introduction

### ❖ Sarbanes-Oxley Act (cont.)



#### 2. Auditor independence:

- **Audit** firms are prohibited to providing non-audit services such as **consulting**.
- The Audit Partner should rotate at least **each 5 years**.
- **Audit reports** should be directed to the **audit committee** rather than to the management body.
- The auditing firm should not have employed an accounting or financial responsible of the audited company during the period of one year before the audit.

## Introduction

### ❖ Sarbanes-Oxley Act (cont.)



**3. Certification:** The CEO and CFO must be sure that the report is according the SEC requirements and properly presents the financial position of the company (making false statements gives rise to a **prison sentence between 10 and 20 years**);

**4. Disclosures:** Each annual and quarterly report prepared in accordance with those norms SEC has to disclose all material **off-balance-sheet transactions**.

**5. Insider trading:** *Insider trading* with the stocks of the company in which they work is considered an event subject to disclosure that must be reported in a *Form 4* *within a period of 2 days* (previously was until the 10th day of the month following the realization of the transaction).

**6. Conflict of interests:** Personal loans are prohibited by companies to administrators and directors;

## Introduction

### ❖ Sarbanes-Oxley Act (cont.)



**7. Professional responsibility:** New regulations establish minimum standards of professional conduct regarding **lawyers** who practice their activity in entities supervised by SEC.

**8. Studies and Reports:** Must be conducted several studies.

**9. Fraud accountability:** The elimination, alteration or falsification of registrations is a **crime**.

**10. Sanctions:** All audit or work papers must be kept for **5 years**. False certifications or reports forgery must result in fines until **5 million dollar** and/or **prison until 20 years**.

**11. Authority of SEC:** Everyone who had violated the antifraud norms may be prohibited of exercise administrative or management positions.

## Introduction

### Case Study b.1)

Search for **Audit proposals** from Audit firms as for example from the Big 4 firms.

(to be presented in next class)





## Introduction

### Case Study b.2)

Make an initial search of recent academic papers (2 or 3 papers) addressing the topic of **corporate financial fraud**.

Prepare a summary in 2 or 3 PPT pages of each study that you found.

(to be presented in next class)

## Introduction

The exercise of functions related to the area of Accounting / Finance requires an understanding of the **audit process**, namely a knowledge of the **methodology** and the ethical implications of the decisions made by the auditor.

The objective of the course is to provide its participants with fundamental skills for a correct application of the **audit methodology**, focusing on the **standards, principles** and **practical aspects** of daily life of auditors.



## Introduction

The topics covered are basic topics for a student who wants to start a career as an auditor. But also for any student of the 2nd cycle of Bologna who is interested in auditing companies from an internal or external perspective.

**Critical analysis** and **communication skills** will be developed through a **case-based discussion** forum and **exercises** that will allow addressing some of the themes exposed in the various sessions.



## Objectives

At the end of the course, participants should be able to:

- Understand the **concept of Audit** and the **role of the Auditor**;
- Know some professional **regulation** of the activity of the **Chartered Accountants / Statutory Auditors**;
- Understand how to develop and analyze the **audit evidence** necessary to support the auditor's opinion;
- Know the different **phases** that make up the **auditing process**;
- Recognize the scope of the **different types of opinion** established in the **auditing standards** and be able to prepare the appropriate **final report**.



## Program

N.º	Subject
1	Introduction
2	Report in Audit
3	Professional regulation
4	Audit pillars: materiality, risk and evidence
5	Audit path, client acceptance and audit planning
6	Business knowledge and assessment of the risks of material misstatements
7	Internal control
8	Auditing the sales cycle, receivables and receipts
9	Auditing the purchasing cycle, payables and payments

## References

- ✓ Arens A. A., Elder R. J., Beasley M. S. e Hogan, C. E. (2020), *Auditing and assurance services (Global Edition)*, 17<sup>th</sup> Ed., Prentice-Hall.
- ✓ Almeida, B. (2017), *Manual de Auditoria Financeira*, 2.<sup>a</sup> edição, Editora Escolar,
- ✓ Costa, Carlos B. (2017), *Auditoria financeira – teoria e prática*, 11.<sup>a</sup> edição, Rei dos Livros.
- ✓ Hayes, R., Gortemaker, H. e Wallage, P. (2014), *Principles of Auditing: An Introduction to International Standards on Auditing*, 3<sup>rd</sup> Ed., Prentice-Hall.
- ✓ Messier Jr. W. F., Glover S. M., Prawitt D. F. e Eilifsen, A. (2013), *Auditing & assurance services*, 3<sup>rd</sup> international edition, McGraw-Hill.
- ✓ Johnstone, K. M., Gramling, A., e Rittenberg, L. E., (2019), *Auditing: a risk based-approach*, 11<sup>th</sup> edition, Cengage Learning.



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# Auditing and Assurance Services (Subscription), 17th Edition

Alvin A Arens, Michigan State University


Randal J Elder, The University of North Carolina Greensboro

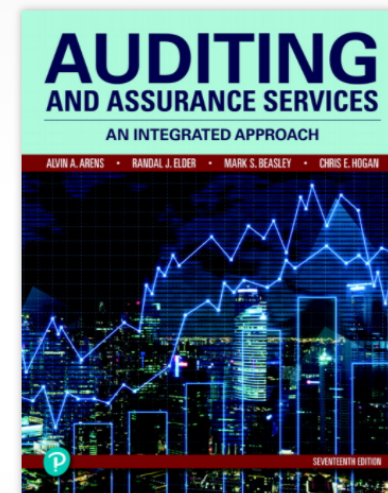
Mark S Beasley, North Carolina State University

Chris E Hogan, Michigan State University

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## Assessment

The maximum final grade is 20 which is calculated as follows:

### Continuous evaluation

- ✓ Class participation – 10%
- ✓ Group assignment (3 to 5 students) – 30%
- ✓ Individual written exam – 60%



The final grade will be obtained through the weighted average of the grades obtained in the three criteria listed above, and the grade obtained in the individual written test may not be less than 8 points out of 20.

### Evaluation without the class component

- ✓ Individual written exam – 100%

In the individual written exam, it is allowed to consult elements of study.

## Assessment

### Group work

**Assignment:** Analysis of scientific articles that focus on issues that are related to course topics. Presentation should answer the following questions:

- What is the research problem / question being analyzed in the paper?
- What is the econometric model adopted on the paper?
- What are the dependent variable(s) and explanatory variables?
- What are the main conclusions of the study?
- Why is this paper important to auditors and what are the main implications of this study for the profession?
- Clues for future research.



**15 to 20  
minutes  
presentation in  
class**

## Important Dates



- ✓ Sessions: September 14<sup>th</sup> to December 9<sup>th</sup>, 2022
- ✓ Delivery and discussion of group assignment: **16th** of November 2022
- ✓ Written exam of the regular assessment period: **January 4th**, 2023, at 09:00
- ✓ Written exam of retake assessment period: **January 30<sup>st</sup>**, 2023, at 09:00

[https://fenix.iseg.ulisboa.pt/teaching/\\_execution-course-functionalities/management/com.qubit.qubEdu.module.evaluations.presentation.uiLayer.evaluation.ManageEvaluationsUI?executionCourseID=565952135583510&executionCourseId=565952135583510#!com.qubit.qubEdu.module.evaluations.presentation.uiLayer.evaluation.ManageEvaluationsUI/executionCourseId=565952135583510/executionCourseId=565952135583510/\\$timestamp\\$=1663023749435/\\_qcheck=cbf8b58d250f694db87fdd9a1e282eddb8e4d3e4](https://fenix.iseg.ulisboa.pt/teaching/_execution-course-functionalities/management/com.qubit.qubEdu.module.evaluations.presentation.uiLayer.evaluation.ManageEvaluationsUI?executionCourseID=565952135583510&executionCourseId=565952135583510#!com.qubit.qubEdu.module.evaluations.presentation.uiLayer.evaluation.ManageEvaluationsUI/executionCourseId=565952135583510/executionCourseId=565952135583510/$timestamp$=1663023749435/_qcheck=cbf8b58d250f694db87fdd9a1e282eddb8e4d3e4)



## Example of an evaluation table of Auditors 'proposals concerning audit services

# 1. Introduction

## ✘ Importance of information

### ➔ Power of information

*It is widely accepted that knowledge has become the main force of production in recent decades. In the form of an informational commodity indispensable for a productive power, knowledge is already, and will continue to be, the main - perhaps the main - tool in the world competition for power.*

Jean François Lyotard (La Condition Postmoderne: Rapport sur le Savoir, 1979)

### ➔ Reliable information

*The truth is not simply what we think it is; it is also the circumstances in which it is said, and by whom, why and how it is said.*

Václav Havel (Disturbing the Peace - A Conversation with Karel Hvizdala, 1990)



## 1. Introduction

### ✘ Agency Theory (Jensen & Meckling, 1976)



Information  
asymmetry



Companies prepare  
information to provide  
to third parties

## 1. Introduction

### ✗ Duty of **accountability**

In order to reach all of our diverse audiences, the final report is now 17,000 pages.

You can pick it up here. hand-trucks are available at the back of the room.



**"I like the creative way you manipulate reality. You may be just the man we need to write our corporate annual reports."**

# 1. Introduction

## ✘ Duty of accountability

### Article 65.º CSC – Duty to report

- 1) The members of the board of directors shall prepare and submit to the competent bodies (General Assembly) of the company the management report, **including the non-financial statement or the separate report with this information (if applicable), the accounts for the financial year** and the other accounting documents provided for by law, for each annual financial year.
- 2) The preparation of the management report, **including the non-financial statement or the separate report (if applicable), the accounts for the financial year** and the other accounting documents **must** comply with the provisions of the law; the shareholders agreement may supplement, but not derogate from, those legal provisions.
- 5) The management report, **the separate report with the non-financial information (if applicable), the accounts for the financial year** and other accounting documents must be submitted to the competent body and assessed by it, except in special cases provided for by law, within **three months of the closing date of each annual financial year**, or within five months of the same date in the case of companies which must submit consolidated accounts, or which apply the equity method.

## 1. Introduction

### ✘ Duty of accountability

#### Article 66.º-A CSC – Notes to the accounts

- 1) Information on the fees invoiced by the Statutory Auditor (ROC)
- 2) Information on operations with related parties

#### Article 66.º-B CSC – Non-financial statement (for large companies)

- 1) Information on environmental, social and worker-related issues, equality between women and men, non-discrimination, respect for human rights, combating corruption and money laundering.
- 4) The non-financial statement referred to in paragraph 1 shall also include, where appropriate, a reference to the amounts shown in the annual financial statements and additional explanations of those amounts.

## 1. Introduction

### ✘ Duty to accounts for issuers with listed securities

Yearly Accounts	Semester Accounts
<p>Annual Report and Accounts</p> <ul style="list-style-type: none"> <li>• Management report, annual accounts, legal certification of accounts and other accounting documents required by law or regulation;</li> <li>• Report prepared by the auditor;</li> <li>• Statement by the management body that the accounts comply with accounting standards and the management report accurately describes the business and <b>main risks</b>;</li> </ul> <p>Annual <b>Corporate Governance Report</b></p>	<p>After a maximum of 3 months from the end of the 1st semester:</p> <ul style="list-style-type: none"> <li>• Condensed financial statements;</li> <li>• Interim management report;</li> <li>• Statement by the management body that the accounts comply with the accounting standards and the management report faithfully describes the business and the main risks.</li> </ul>

#### Audited information – art.º 8. CVM

- Annual Accounts
- Where the quarterly or half-yearly information has been subject to audit or limited review, the audit or review report shall be included or, if it has not been, this shall be stated.

## 1. Introduction

### ✘ Financial statements

Financial statements arise from a series of patrimonial facts that occurred in the life of an entity in each period, and which are reported through the following charts:

Microentities	Small companies	Other companies
<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Income Statement by Nature</li> <li>• Optional:               <ul style="list-style-type: none"> <li>- Apendix/notes,</li> <li>- Statement of changes in equity</li> <li>- Cash flow Statement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Income Statement by Nature</li> <li>• Apendix/notes</li> <li>• Optional:               <ul style="list-style-type: none"> <li>- Statement of changes in equity</li> <li>- Cash flow Statement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Income Statement by Nature</li> <li>• Statement of changes in equity</li> <li>• Cash Flow Statement</li> <li>• Apendix/notes</li> </ul>

## 1. Introduction

### ✘ Main accountability challenge



How users of financial information are assured that the information provided is **sufficient**, **appropriate**, **transparent** and **credible**?

## 1. Introduction

### ✘ Information risk

- There are countless stories of fraudulent financial reporting



**XEROX**  
CORPORATION



**ENRON**



**WORLD**COM

Brennan, N. M., & McGrath, M. (2007). FINANCIAL STATEMENT FRAUD: SOME LESSONS FROM US AND EUROPEAN CASE STUDIES. *Australian Accounting Review*, 17(2), 49-61.



## 1. Introduction

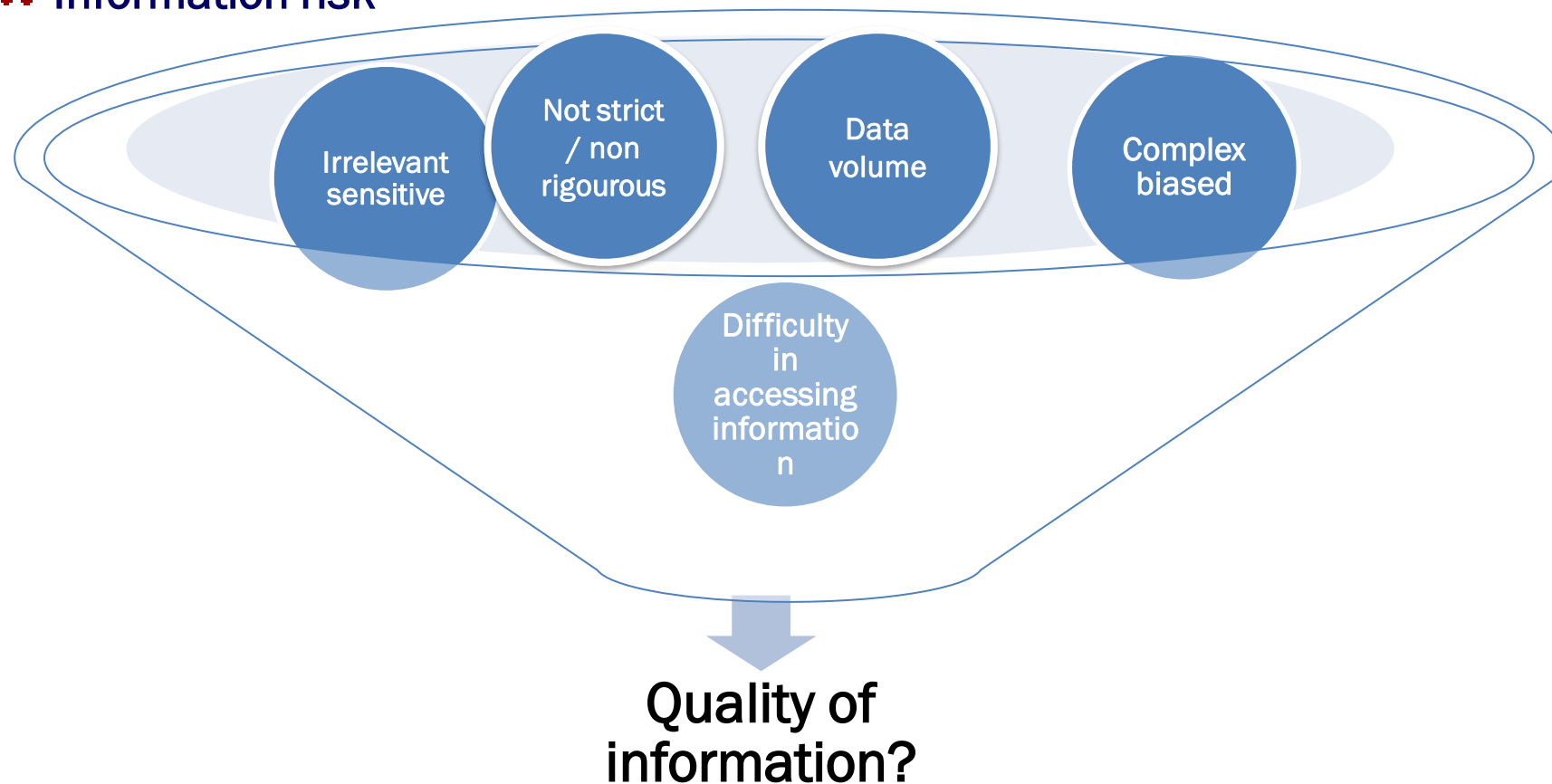
### ✘ Information risk

- Parliamentary Inquiry Committee into BES and GES **Bank of Portugal**
- ✓ *I speak from experience, if someone wants to cheat the **supervisor** cheats and hides* (Fernando Teixeira dos Santos, former Finance Minister)
- ✓ *When someone really wants to deceive someone, they deceive* (Machado Pereira, Statutory Auditor (ROC) of some companies of the Group)



## 1. Introduction

### ✘ Information risk



## 1. Introduction

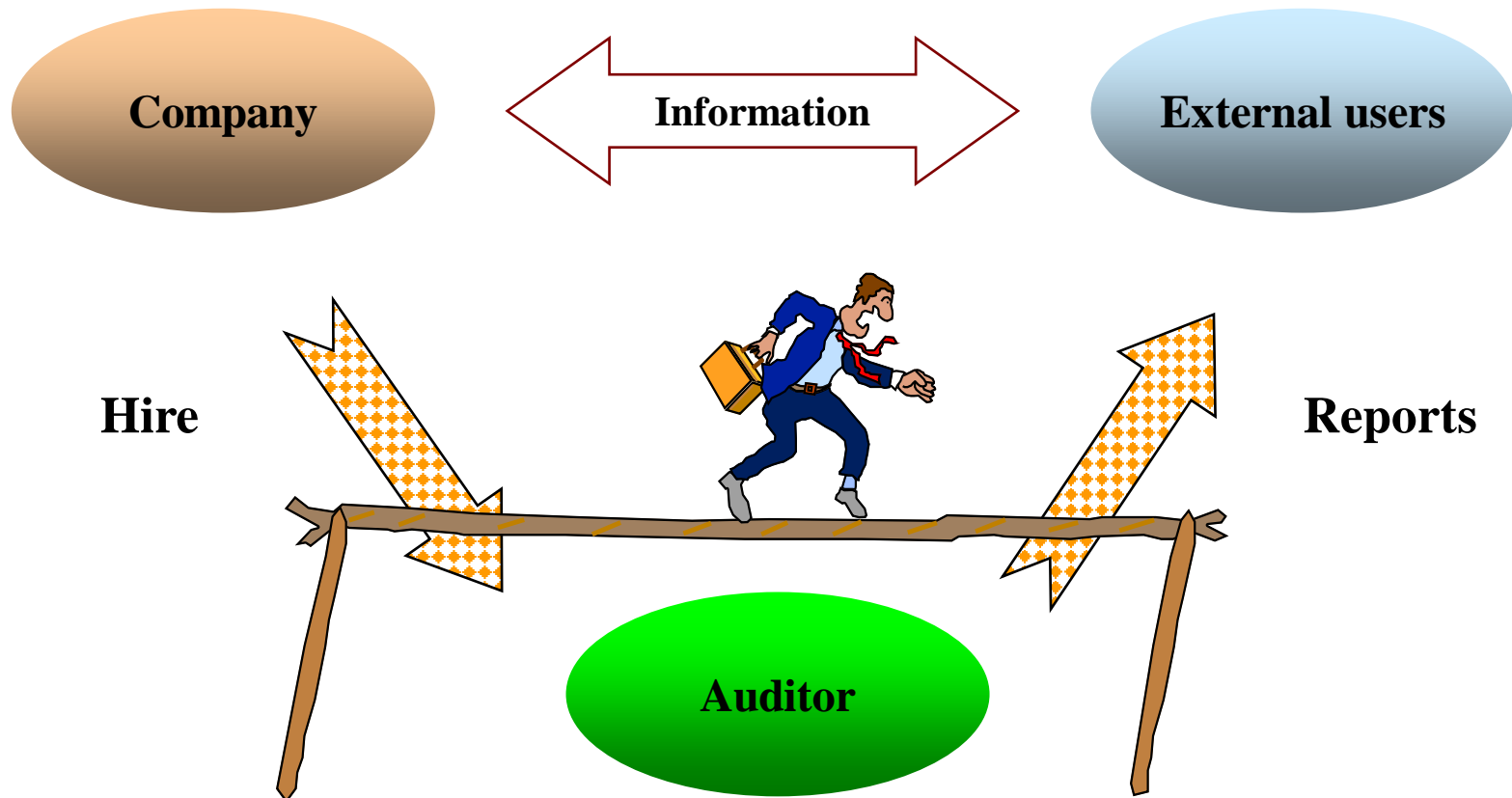
### ✘ Implications of information risk

In 1995, Robert Elliott (KPMG partner) indicates that the cost of capital of an American company is broken down into 3 tranches:



## 2. Financial Auditing

✘ Auditor's role: contributing to the Financial Statements **credibility**



## 2. Financial Auditing

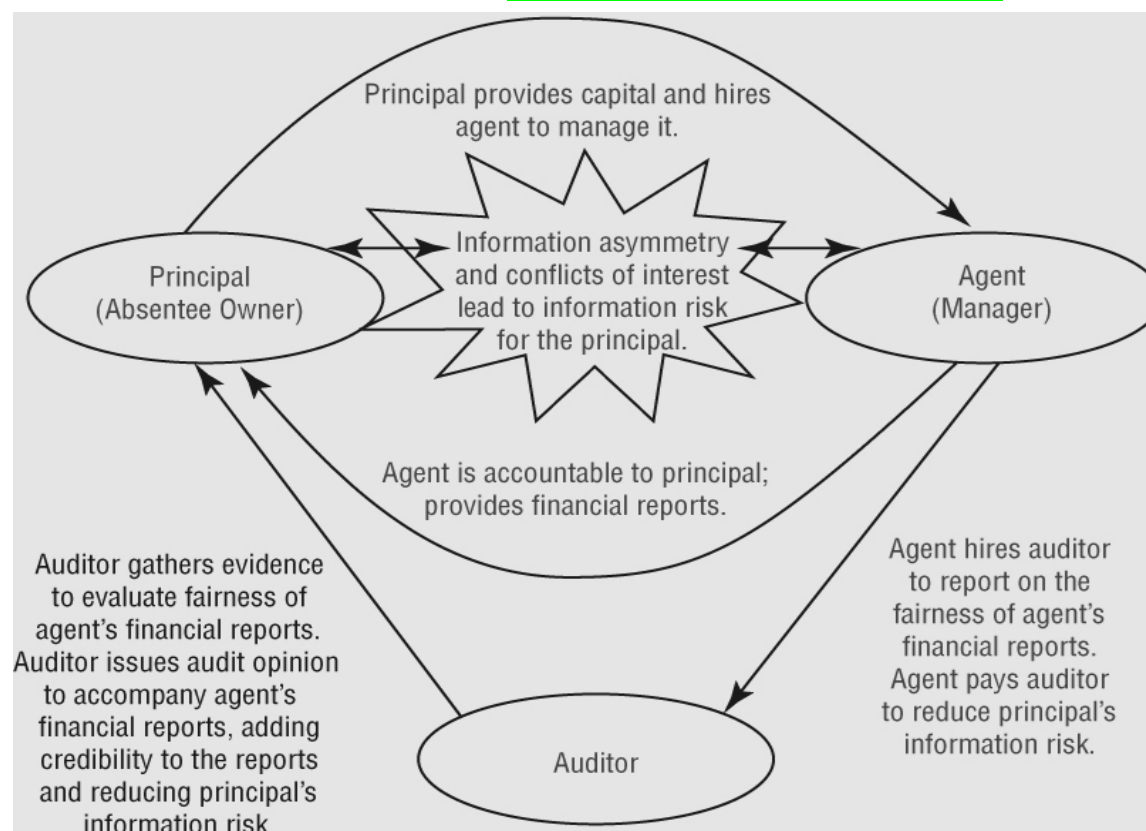
### ✘ Auditor's role - special function in the company

*By certifying the public reports that collectively depict a corporation's financial status, the **independent auditor** assumes a public responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's **creditors and stockholders**, as well as to the **investing public**. This public watchdog function demands .... complete **fidelity to the public trust**.*

Chief Justice Warren Burger (US Supreme Court)

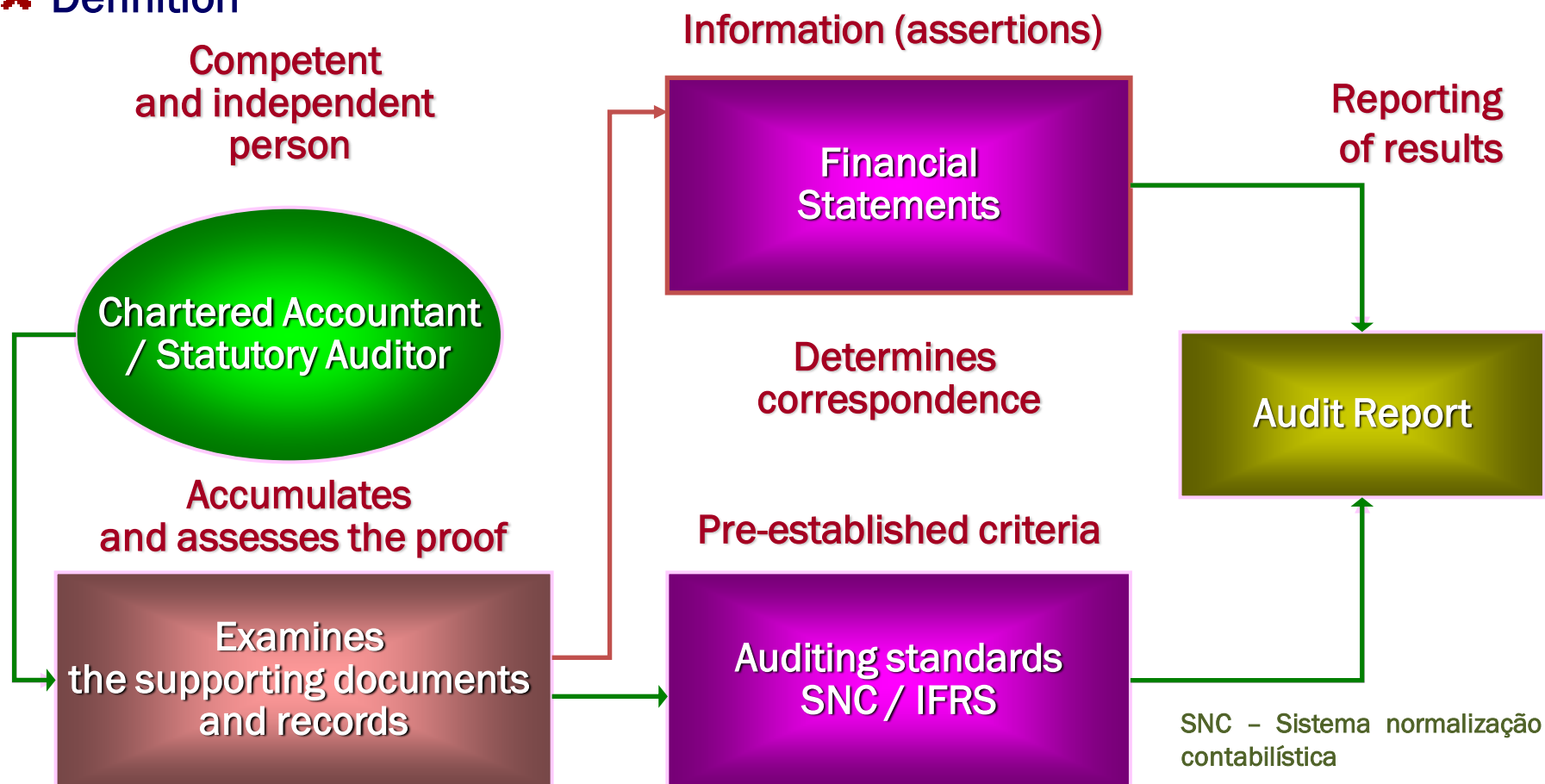
## 2. Financial Auditing

### ✘ What is the justification for the **existence of an audit?**



## 2. Financial Auditing

### ✘ Definition



## 2. Financial Auditing

### ✘ Overview



Fonte: <https://www.youtube.com/watch?v=aztSsS6GYw>



## 2. Financial Auditing

### ✘ Overview

*The public interest function of **statutory audit** means that a wide range of people and institutions rely on the quality of the work of statutory auditors or audit firms.*

*Good audit quality contributes to the orderly functioning of markets by improving the **integrity** and efficiency of financial statements.*

*Statutory auditors thus play a particularly important **social role**.*

Preamble of the Regulation (EU) N.º 537/2014 of the European Parliament and Council, from April 16<sup>th</sup>, 2014

## 2. Financial Auditing

### ✘ Auditor's responsibility

#### Auditor

- Responsible for the **audit report** and the **opinion issued**
- Duties to report to the **supervisory board** / **fiscal board** and competent authorities - Art. 63, 79 and 81 EOROC

#### Administration

- Is responsible for adopting adequate accounting policies and an **internal control system**, as well as for **presenting and preparing** the **financial statements**.

#### Consequences:

- **Chartered accountant** / Statutory Auditor (ROC) is jointly and **severally liable** to the company and stakeholders for any **damage** caused to them by their wrongful conduct – n.º 1 of art. 78 CSC
- Chartered accountant / Auditor (ROC) is liable to **creditors** for culpable failure to comply with legal or contractual provisions designed to protect them, and the assets become insufficient – n.º 2 of article 78 CSC
- For deficiencies in the report or opinion, the Chartered accountant / Auditor (ROC) is jointly and severally liable for damages caused to **issuers or third parties** – n.º 1 of article 10 CVM

## 2. Financial Auditing

### ✘ Auditor's general objectives – ISA 200 (§11 e 12) International Standards on Auditing\*

- ✓ When conducting an audit of financial statements, the **general objectives of the auditor** are:
  - Obtain **reasonable assurance** as to whether the FS **as a whole** are free of **material misstatement**, either due to **fraud or error**, thus enabling to express an opinion on whether the financial statements are prepared, in **all material respects**, according to an applicable **financial reporting framework**; and
  - **Reporting** on the **financial statements** according to its conclusions.

In all cases where **reasonable assurance of reliability cannot be obtained** and a qualified opinion is insufficient in the circumstances for reporting to users, **International Standards on Auditing (ISA)** require the auditor to give an **excuse of opinion** or to **resign** from work, when such a resignation is possible under applicable law or regulation.

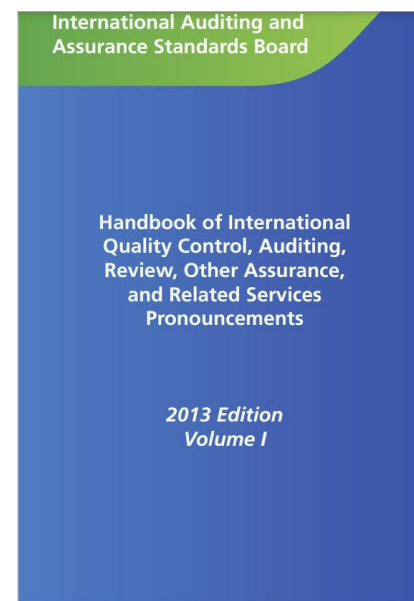
## 2. Financial Auditing

- **International Standards on Auditing (ISA)** are professional standards for the [auditing](#) of financial information. These standards are issued by the [International Federation of Accountants](#) (IFAC) through the [International Auditing and Assurance Standards Board](#) (IAASB).
- ISA guides the auditor to add value to the assignment hence building confidence of investors.

International Federation of Accountants

529 Fifth Avenue,

New York, NY 10017 USA



## 2. Financial Auditing

### ✘ Requirements to perform an audit– ISA 200

---

Comply with relevant **ethical requirements**

---

Plan and execute an audit with **professional skepticism**

---

Exercise **professional judgment** when planning and executing an audit

---

Obtain sufficient and appropriate **audit evidence** to reduce **audit risk** to an acceptable low level

---

Conduct the audit in accordance with applicable **auditing standards**

## 2. Financial Auditing

### ✘ Requirements to perform an audit– ISA 200

#### ✓ Professional Judgement

Auditors add value to users by making **quality decisions** associated with their **assessment** of the client's financial statements. Quality decisions are **impartial**, meet users' expectations, comply with professional **auditing standards**, and are based on sufficient **factual information** to support the decision that is made.



**A well-structured decision process is fundamental**

## 2. Financial Auditing

### ✘ Requirements to perform an audit– ISA 200

#### ✓ Professional Skepticism (art. 70 EOROC)

- An attitude that includes an **interrogative mind**, characterized by **doubt** and a **critical spirit** that is alert to conditions that may indicate a possible misstatement due to **error or fraud**, and a critical appreciation of the **evidence**.

- The auditor should plan and perform an audit with professional skepticism recognizing that there may be **circumstances/situations** that cause the **financial statements to be materially misstated**.



**EXERCISE:** Indicate some possible cases of some of these circumstances



## 2. Financial Auditing

### EXERCISE

Please indicate some possible cases of some of these circumstances/situations, mentioned before, that may cause the financial statements to be materially misstated.

### EXERCISE

Analyse the last accounts report published by Enron



## 2. Financial Auditing

### ✘ Requirements to perform an audit– ISA 200

#### ✓ Effect of the absence of skepticism and appropriate professional judgment

KPMG LLP served as the external auditor for some of the largest subprime mortgage lenders in the United States leading up to and during the housing market crisis of the mid-2000s. The audits of two of their largest lending clients, New Century Financial Corporation and Countrywide, ultimately led the firm to settle litigation charges in 2010 for \$44.7 million and \$24 million, respectively. The business model of these two subprime mortgage lenders consisted of providing loans to borrowers with weak credit histories. The business model had begun to fail during a short period of time in 2007, when the economy weakened, borrowers began defaulting, and home prices declined drastically. New Century filed for bankruptcy and Countrywide was purchased by Bank of America, which subsequently suffered massive losses related to business failures at Countrywide.

Just before the housing crash of 2007 put the companies in severe financial crises, KPMG had given both companies unqualified audit

opinions. In both cases, KPMG was subsequently accused of violating professional standards, lacking independence, and being negligent. KPMG defended itself by arguing that its audits were not the cause of the financial woes at New Century and Countrywide. Rather, the firm contended that it was the failed business model of the two companies that led to investor losses. As you read through this chapter, consider the following questions:

- How does the business environment affect the litigation risk faced by audit firms? (LO 1)
- Should auditors be held liable when their client's business fails or its financial statements contain a fraud that the auditors did not detect? (LO 2)
- What defenses do auditors use in response to litigation? (LO 3)
- What actions can auditors take to minimize litigation exposure? (LO 3, 4, 5, 6)

Source: Johnstone, K. M., Gramling, A. e Rittenberg, L. E., (2014), Auditing: a business risk approach, 9th edition, Cengage.

## 2. Financial Auditing

### ✘ Services provided by auditors

#### Exclusive competence of the Chartered Accountant / Statutory Auditor (ROC) (Article 41 + 42 + 45) - Functions of Public Interest

- Audit of the accounts
  - Statutory audit - derives from the law or from the statutes (CLC\*)
  - Voluntary review - derives from contract (Audit Report)
  - Services related to the previous two - when they have a specific or limited purpose or scope.
- Other functions where the law requires the intervention of the Chartered Accountant / Auditor (ROC)

#### Other functions that may be performed by the Chartered Accountant / Auditor (ROC) (Article 48)

- Lecturing
- Members of audit committees and supervisory or oversight bodies of companies or other entities
- Consultancy and other services in the scope of matters inherent to their professional training and qualification
- Insolvency Administrator

\* CLC – Certificação Legal de Contas

## 2. Financial Auditing

### ✘ Services provided by auditors

#### Entities subject to audit/revision of accounts

- Resulting from legal, statutory or contractual provision
- Have organized accounts and meet the requirements set out in n.º 2 of Article 262 of the CSC (exceed 2 of the 3 limits in **2 consecutive years**):
  - Balance sheet: 1.500.000€
  - Sales and other revenues: 3.000.000€
  - Number of employees: 50



**Exercise:** Conduct a search of the thresholds for other countries than Portugal

### 3. Audit Report

#### ✘ Audit Report (ISA 700, 701, 705, 706, 720)

**Unchanged  
opinion (clean  
opinion)**

**Modified opinion**

**Limitation of scope:**

- Client's imposition or other circumstances
- Absence of financial statement

**Qualified opinion with  
reserve(s) – opinião  
qualificada com reserva(s)**

**Refuse of opinion  
(escusa opinião)**

**Disagreement SNC/IFRS:**

- Recognition
- Measurement
- Disclosure

**Qualified opinion  
with reserve(s)**

**Adverse opinion**

**Declaration of inability/impossibility to report**

### 3. Audit Report

#### ✘ Selection of the modified opinion (ISA 705)

Nature of the matter that gives rise to the modification	Auditor's judgment on the depth of the effects or possible effects on the Financial Statements	
	Material but not deep misstatements - Distorções materiais, mas não profundas	Material and deep misstatements – distorções materiais e profundas
FS are materially misstated	Opinion with reservations (by disagreement)	Adverse opinion
Inability to obtain appropriate and sufficient evidence	Opinion with reservations (by limitation of scope)	Refuse of opinion (escusa opinião)