Lisbon School of Economics & Management
Universidade de Lisboa

Master in Accounting

Advanced Auditing

Telmo Francisco Vieira

(CPA & STATUTORY AUDITOR)

2026/2027

Telmo Vieira

- Prof. at ISEG / Univ. de Lisboa
- Certified Public Accountant (CPA) and Statutory Auditor
- President of the Supervisory Board of a bank – Banco BNI EUROPA
- Managing Partner at PremiValor Consulting
- Former Manager at PWC in Corporate Finance department (PT & UK)
- Specialist in Mergers & Acquisitions
- Coordinator of the:

  H - INNOVA HEALTH INNOVATION HUB

  INNCYBER INNOVATION HUB

  H2O & SUSTAINABILITY INNOVATION HUB

PROFESSOR

Telmo Francisco Vieira

(CPA and Statutory Auditor)

tfv@iseg.ulisboa.pt

Telmo.vieira@premivalor.com

+ 351 917 820 650

Telmo Vieira

- Coordinator of the Cybersecurity Executive Program at Faculty of Sciences of Lisbon University (FCUL)
- Mentor and Investor on STARTUPS
- Loves sports: tennis, bicycle, skate, longboard, driving 4x4
- Enjoys travelling and explore new places and cultures

➢ Management Consulting and M&A Deal Support Across Key Locations:

Lisbon | London | Madrid | San Francisco | São Paulo | Warsaw

COURSE SYLLABUS

N.º	Subject
1	Introduction
1.1	Course Objectives
2	Financial Auditing
3	Audit reports
4	Professional regulation
5	Audit pillars: materiality, risk and evidence
6	Audit path
7	Client acceptance and acceptance of the commitment
8	Audit planning
8.1	Business knowledge and assessment of the risks of material misstatements
8.2	Internal control system
9	Additional audit procedures and misstatement evidence
10	Assessment and Audit Report
11	Auditing the sales cycle, receivables and receipts
12	Auditing the purchasing cycle, payables and payments
13	Assessing the going concern assumption
14	Completing the Audit
15	Introduction to emerging areas and their implications for auditing practice

COURSE SYLLABUS

N.º	Subject
15.1	Cybersecurity and auditing
15.2	Artificial Intelligence and auditing
15.3	ESG, sustainability, and auditing

BIBLIOGRAPHY

- ✓ Arens, A. A., Elder, R. J., Beasley, M. S. & Hogan, C. E. (2023), Auditing and Assurance Services: An Integrated Approach, 18th ed., Pearson.
- ✓ Hayes, R., Wallage, P. & Eimers, P. (2024), Principles of International Auditing and Assurance, 5th Edition, Amsterdam University Press.
- ✓ Zehms, K. M., Gramling, A. A. & Rittenberg, L. E. (2024), Auditing: A Risk-Based Approach, 12th Edition, Cengage.
- ✓ Almeida, Bruno José Machado (2022), Manual de Auditoria Financeira - Uma Análise Integrada Baseada no Risco, **4.ª edição**, Escolar Editora.
- ✓ Costa, Carlos Baptista da (2023), Auditoria Financeira – Teoria e Prática, 13.ª edição atualizada e aumentada, Rei dos Livros.

BIBLIOGRAPHY

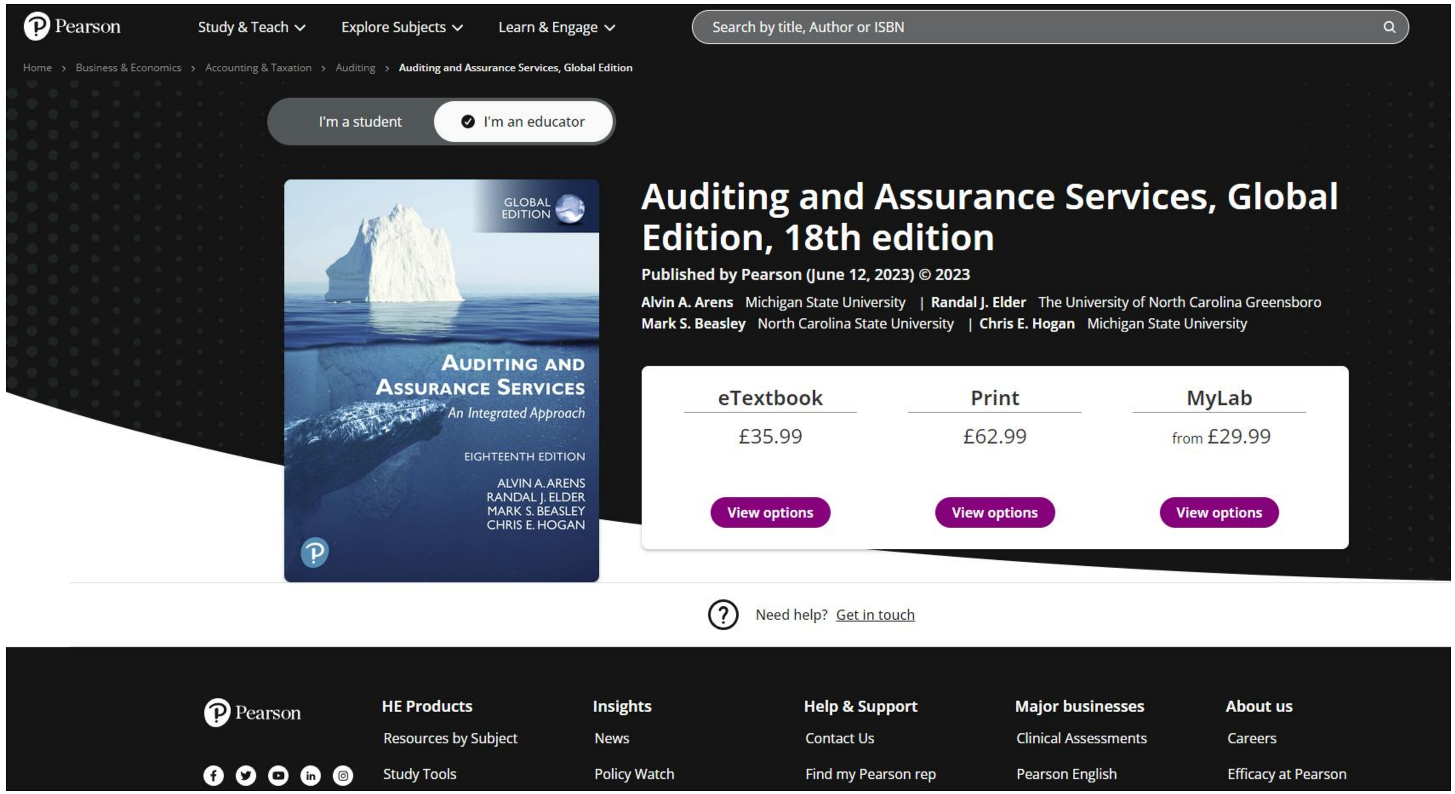
Key Textbook for the Course

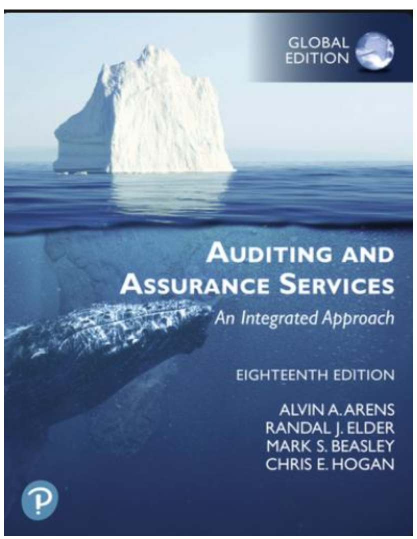
ISBN-13: 9781292448985

Auditing and Assurance Services, Global Edition

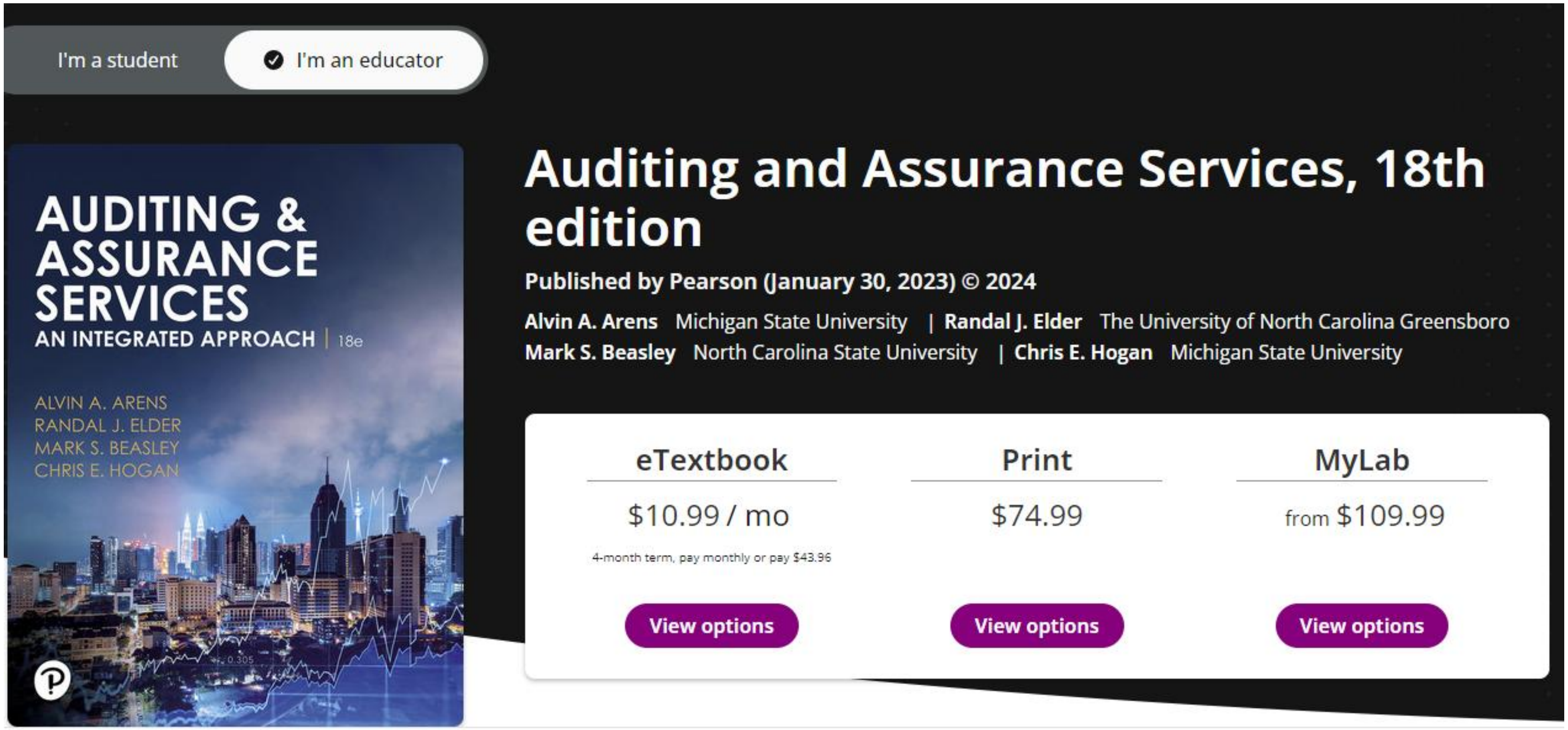
Published June 12, 2023

Pearson Education Limited





https://www.pearson.com/en-gb/subject-catalog/p/auditing-and-assurance-services-global-edition/P200000009899/9781292449104



https://www.pearson.com/en-us/subject-catalog/p/auditing-and-assurance-services/P200000010148/9780138103064

EVALUATION

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

❖ 1st Sitting (**Continuous evaluation)**

✓ Class Participation and Case Study Analysis – 15%

✓ Group work (3 to 5 students) – 25%

✓ Written Individual Exam (1st Sitting) – 60%

Note 1: The exam is closed-book. No consultation of elements allowed.

Note 2: To obtain final approval in the course, students must achieve a minimum grade of 7.5 out of 20 in the 1st Sitting exam.

❖ **2nd Sitting**

Written Individual Exam (**2nd Sitting) -** 100%

EVALUATION

Group work

Assignment: Analysis of a scientific paper that focus on issues that are related to course topics. Assignment 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 minutes presentation in class

IMPORTANT DATES

- ✓ Delivery and discussion of group work assignment: October **27th**, 2026
- ✓ Written exam of the regular assessment period: **December 3th**, 2026, at 09:00
- ✓ Written exam of retake assessment period: **January 9th**, 2027, at 10:00

1. Introduction

Late 20th century and early 21st century is being marked by events that brought Auditor profession to the spotlight: financial scandals, **Arthur Andersen** bankruptcy, pressure for **separation between of 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 the **Portuguese Institute of Statutory Auditors (OROC)** – 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, auditing is a discipline that intersects with several fields of management, including **taxation, company law, ethics, accounting, statistics**, and **finance**, and more recently, **artificial intelligence** and **cybersecurity.** These connections have contributed to a growing academic interest in the study and investigation of audit-related topics.

FINANCIAL AUDITING IN 2026: A PROFESSION IN TRANSFORMATION

- ✓ **Artificial Intelligence & Data Analytics:** increasing use in risk assessment, audit planning, document analysis and audit evidence.
- ✓ **Fraud – ISA 240 (Revised):** stronger focus on professional skepticism, fraud risk assessment and auditor responses.
- ✓ **Going Concern – ISA 570 (Revised 2024):** enhanced auditor responsibilities in assessing management's going concern evaluation.
- ✓ **Sustainability Assurance:** increasing importance of assurance over sustainability information.
- ✓ **Cybersecurity & Technology Risk:** growing relevance for financial reporting, internal controls and audit procedures.

KEY MESSAGE: Technology is transforming how audits are performed, but professional judgement, professional skepticism and sufficient appropriate audit evidence remain fundamental.

Sources: *IAASB, Technology Position (2024); ISA 570 (Revised 2024); ISA 240 (Revised) (2025); PCAOB (2024). The IAASB's Technology Position explicitly seeks to facilitate appropriate use of technology while maintaining audit quality (IAASB).*

1. Introduction

Case Study a.

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

Prepare a presentation to share with colleagues.

1. Introduction

❖ Examples of commited 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. **Manipuled 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).

1. 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 significatively 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.

1. 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 significatively).

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

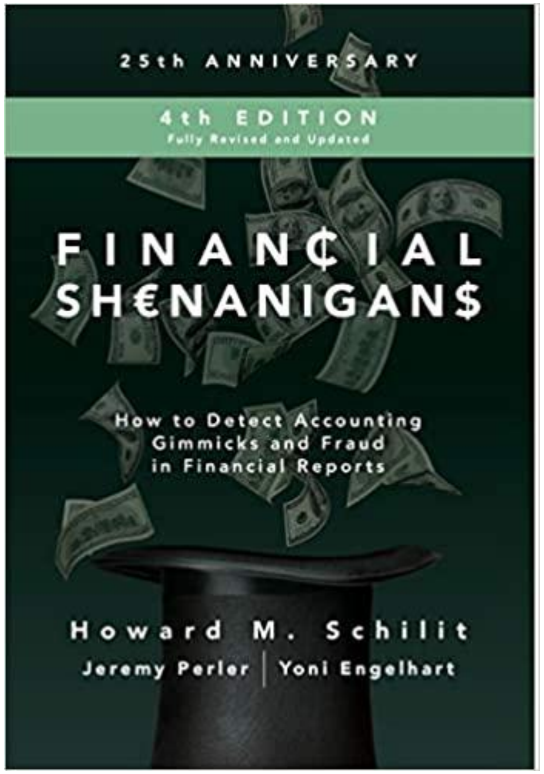
1. Introduction

❖ Some books about corporate fraud

Howard Schilit published the first edition of ***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.

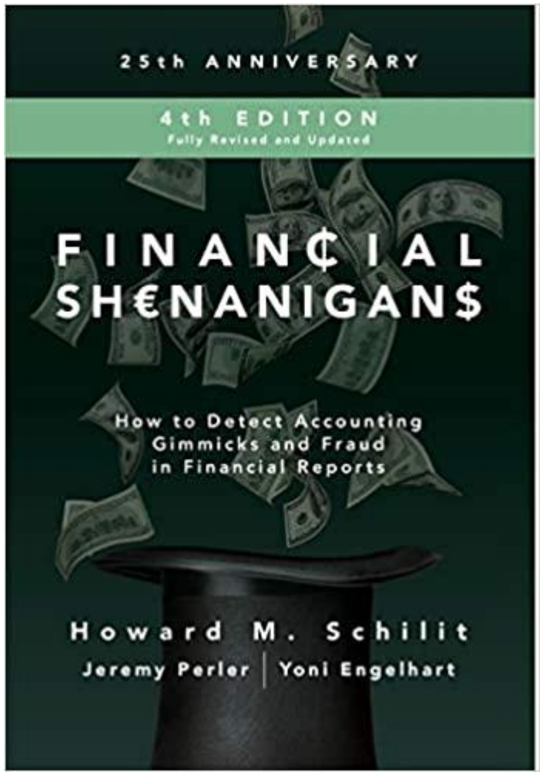


2018 edition
ISBN-13: 978-1260117264
ISBN-10: 126011726Xpj v

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

1. Introduction

❖ Some books about corporate fraud



2018 edition

ISBN-13: 978-1260117264
ISBN-10: 126011726Xpj v

Contents

FRAUD AUDITING: WHAT IS CHANGING? – ISA 240 (REVISED)

Key developments

- ✓ **Reinforced professional skepticism** throughout all stages of the audit.
- ✓ **A stronger "fraud lens"** in identifying and assessing risks of material misstatement.
- ✓ **Clearer auditor responses** to identified or suspected fraud.
- ✓ **Greater attention** to management bias and contradictory audit evidence.
- ✓ **Enhanced communication** with management and those charged with governance.
- ✓ **Increased transparency** in the auditor's report.

Effective date
Audits of financial statements for periods beginning on or after
15 December 2026

KEY MESSAGE: Fraud risk is increasingly integrated throughout the audit process rather than treated as an isolated consideration.

Source: *IAASB, ISA 240 (Revised) – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, 2025.*
These are the principal areas highlighted by the IAASB when it issued the revised standard.

1. 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.

Public accounting firms that issue audit reports for U.S. public companies or broker-dealers, or play a substantial role in those audits, **must be registered** with 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.

1. Introduction

❖ Sarbanes-Oxley Act (cont.)

2. Auditor independence:

- Audit firms are **prohibited** from providing certain **non-audit services** to their audit clients, in order to safeguard auditor independence.
- 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.

1. 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;

1. 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.

1. Introduction

Case Study b.

b.1) Search for **Audit proposals** from Audit firms as for example from the **Big 4 firms**.

(to be presented in next class)

Try to find proposals related to European countries or the United States.

b2) From the client's perspective, beyond the standard execution of the **audit assignment**, what **additional aspects** can contribute to creating value for the client's organization?

1. Introduction

Case Study c.

Conduct a preliminary literature search to identify **two to three recent**, peer-reviewed academic articles on **corporate financial fraud**, **audit technology** or **AI in auditing** (preferably published within the last five years).

For each article, prepare a 3 to 4 slide PowerPoint summary covering:

(i) research question and context,

(ii) data and methodology,

(iii) key findings and contributions,

(iv) limitations and implications for practice

(to be presented in next class)

1. 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.

1. 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.

1.1. Course 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.**
- Understand how **AI, data analytics and emerging technologies** are affecting audit risk, audit evidence and professional judgement.

Opportunities	Audit Risks / Challenges
Analyse larger populations of transactions	Reliability of AI outputs
Identify unusual transactions and patterns	Automation bias
Support audit risk assessment	Data quality and completeness
Analyse contracts and other documents	Confidentiality and data protection
Support review of financial disclosures	Over-reliance on technology
Increase audit efficiency	Need for appropriate human oversight

KEY PRINCIPLE: AI can support the auditor's work, but **responsibility** for professional judgement and the audit opinion **remains with the auditor**.

Sources: PCAOB, Generative Artificial Intelligence in Audits and Financial Reporting (2024); IAASB, Technology Position (2024).
The PCAOB's outreach found GenAI use in audit still limited but evolving rapidly; the IAASB has committed to adapting standards to technology-enabled procedures.

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

EVALUATION CRITERIA & WEIGHTS

#	Evaluation Criterion	Weight
1	Banking Sector Experience & Expertise	15%
2	Audit Team Quality & Seniority	15%
3	Proposed Audit Approach & Methodology	15%
4	Audit Quality & Regulatory Track Record	15%
5	Independence & Conflict Management	10%
6	Technology, Data Analytics & IT Audit Capability	10%
7	Audit Fees & Commercial Proposal	10%
8	Communication & Audit Committee Interaction	5%
9	Transition & First-Year Audit Plan	5%
	TOTAL	**100%**

WEIGHTED SCORING – COMPARING BIDDERS

Weighted Score = Score (1–5) × Weight / 5 | Example: PwC scores 4/5 on Banking Experience (15% weight) → 4/5 × 15 = 12 points

Criterion	Weight	Auditor A	Auditor B	Auditor C	Auditor D
Banking Experience	15%	5	4	5	4
Audit Team	15%	4	5	4	4
Audit Methodology	15%	5	4	4	5
Audit Quality / Reg. Track Record	15%	4	5	4	4
Independence	10%	5	5	4	5
Technology & Data Analytics	10%	5	4	5	4
Fees	10%	3	4	5	3
Communication	5%	4	5	4	5
Transition Plan	5%	4	4	5	4
Weighted Total (100%)	**100%**	—	—	—	—

MANDATORY REQUIREMENTS & KEY TAKEAWAY

Mandatory Requirement	Assessment
Statutory eligibility to audit the bank	Pass / Fail
Auditor independence	Pass / Fail
Compliance with auditor-rotation requirements	Pass / Fail
Absence of prohibited conflicts of interest	Pass / Fail
Compliance with restrictions on non-audit services	Pass / Fail
Appropriate professional indemnity / insurance	Pass / Fail
Acceptance by relevant regulatory framework	Pass / Fail
Capacity and resources to perform the engagement	Pass / Fail

"The cheapest auditor should not necessarily be the preferred auditor."
For a financial institution, selection should primarily reflect audit quality, sector expertise, independence, regulatory credibility and team quality — price is only one component (e.g., 10% price / 90% quality-technical).

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

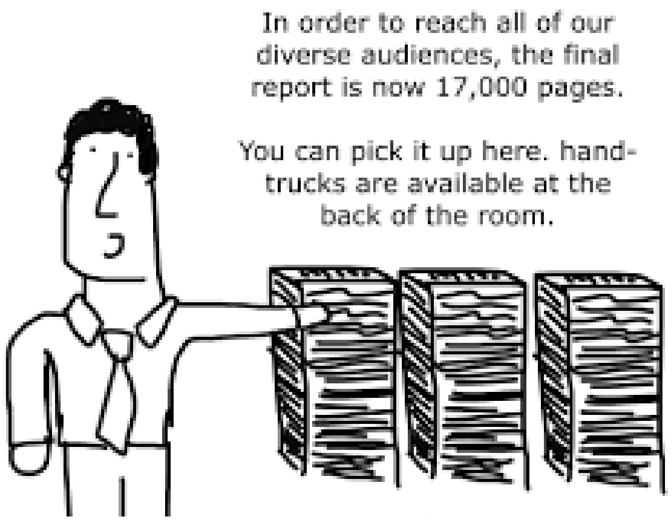
- Agency Theory (Jensen & Meckling, 1976)

Information asymmetry

Companies prepare information to provide to third parties

1. Introduction

- Duty of accountability



"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.

2026 UPDATE: EU corporate reporting is transitioning from "non-financial reporting" towards a sustainability reporting and assurance framework under the CSRD and subsequent amendments."

1. Introduction

Duty to accounts for issuers with listed securities

Yearly Accounts	Semester Accounts
Annual Report and Accounts • Management report, annual accounts, legal certification of accounts and other accounting documents required by law or regulation; • Report prepared by the auditor; • Statement by the management body that the accounts comply with accounting standards and the management report accurately describes the business and **main risks**; Annual Corporate Governance Report	After a maximum of 3 months from the end of the 1st semester: • Condensed financial statements; • Interim management report; • 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.

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
• Balance Sheet • Income Statement by Nature • Optional: - Apendix/notes, - Statement of changes in equity - Cash flow Statement	• Balance Sheet • Income Statement by Nature • Apendix/notes • Optional: - Statement of changes in equity - Cash flow Statement	• Balance Sheet • Income Statement by Nature • Statement of changes in equity • Cash Flow Statement • Apendix/notes

1. Introduction

- Main accountability challenge

Quality of information

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

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**

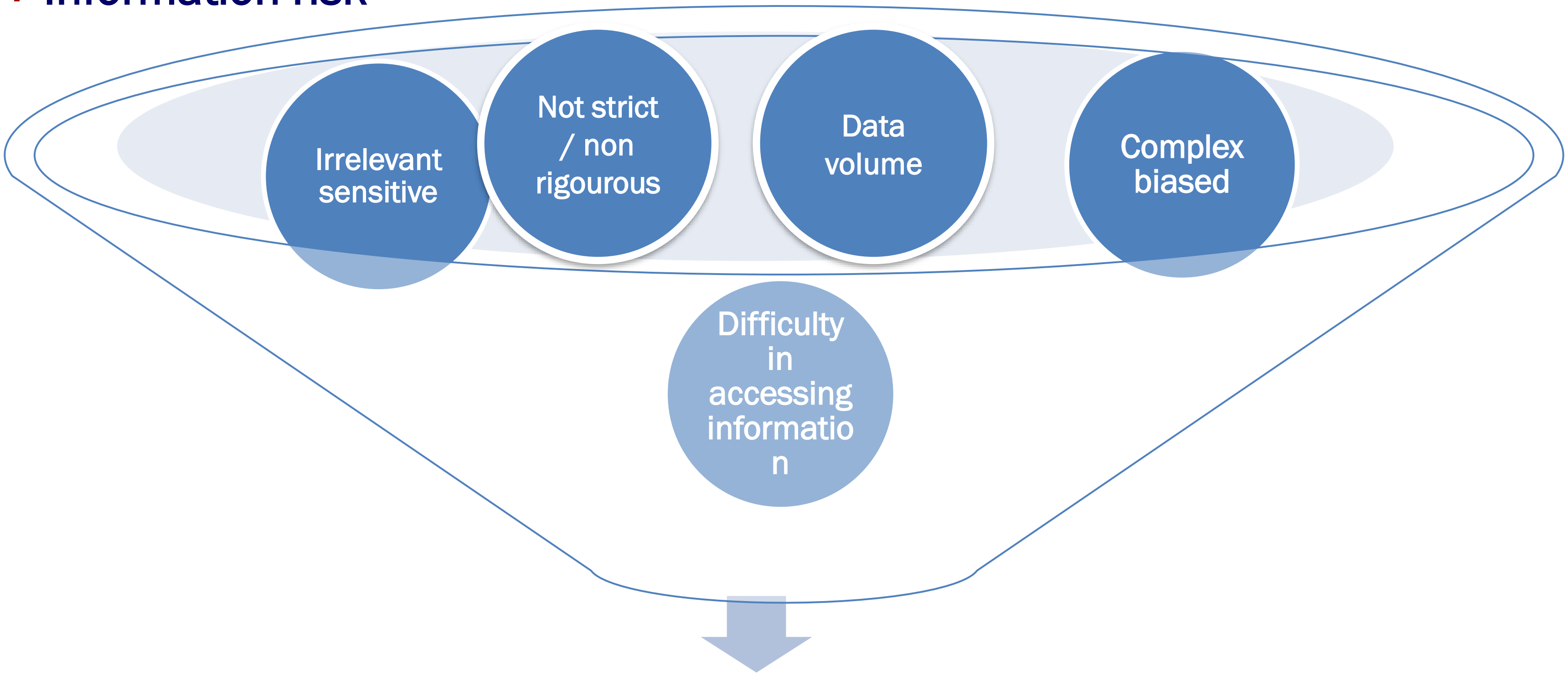
Bank of Portugal

✓ *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



Quality of information?

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:

Cost of Capital 13%

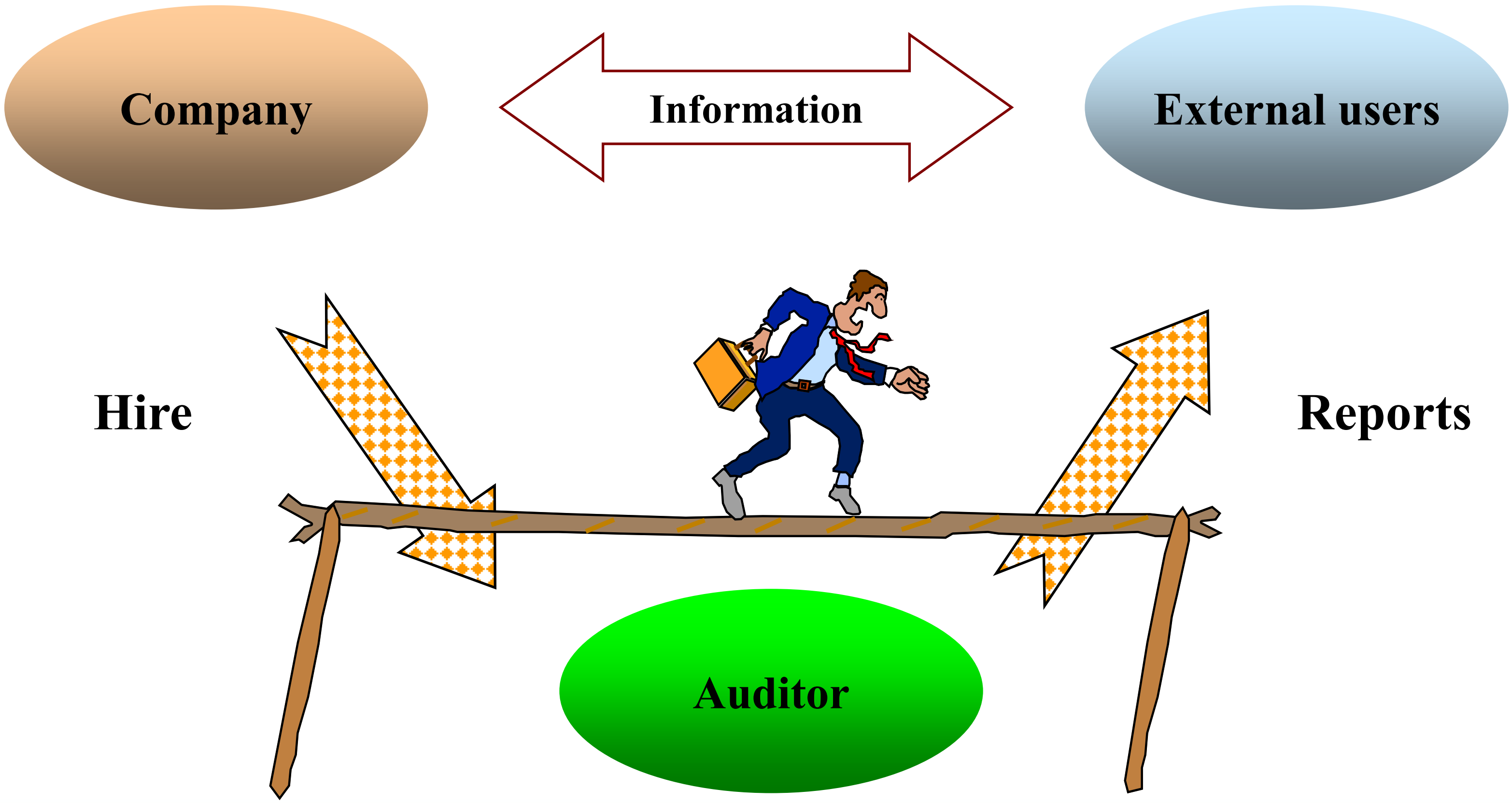
5.5% risk-free interest rate

3.5% economic risk premium (business risk)

4.0% information cost (information risk)

2. Financial Auditing

- Auditor's role: contributing to the Financial Statements credibility



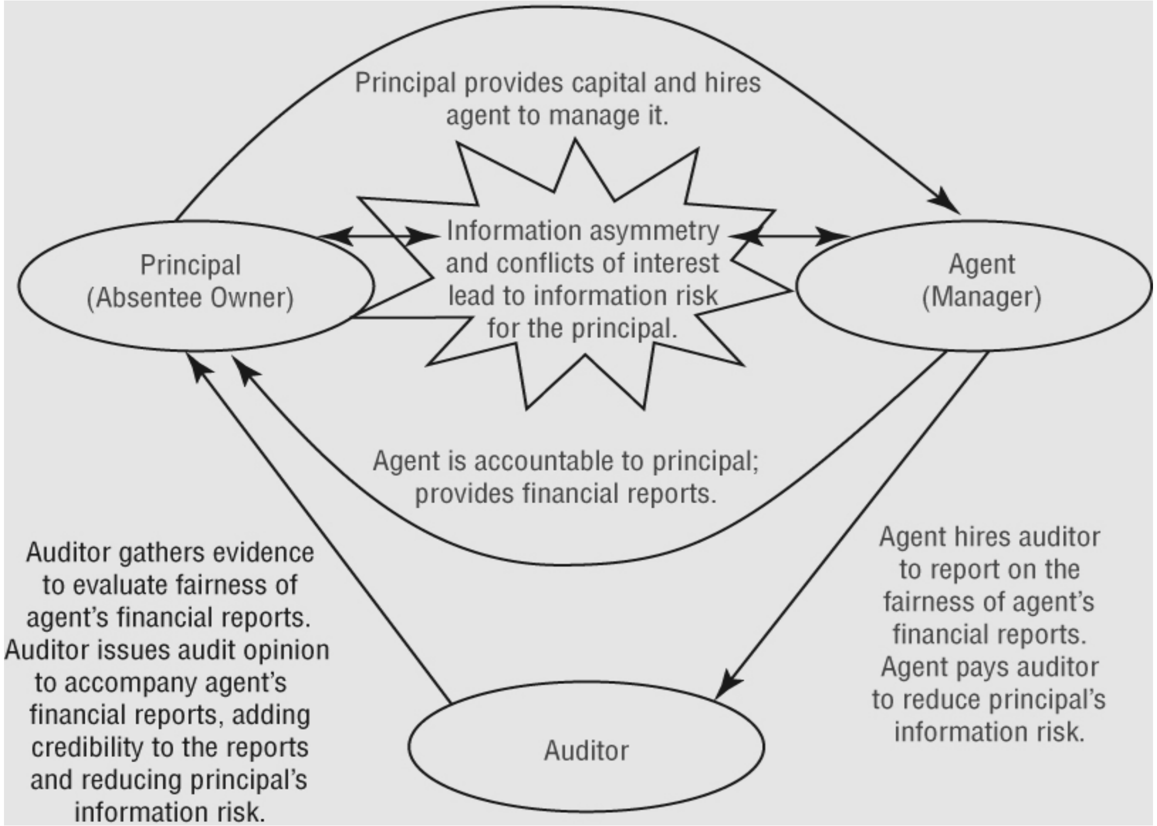
2. Financial Auditing

- **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)

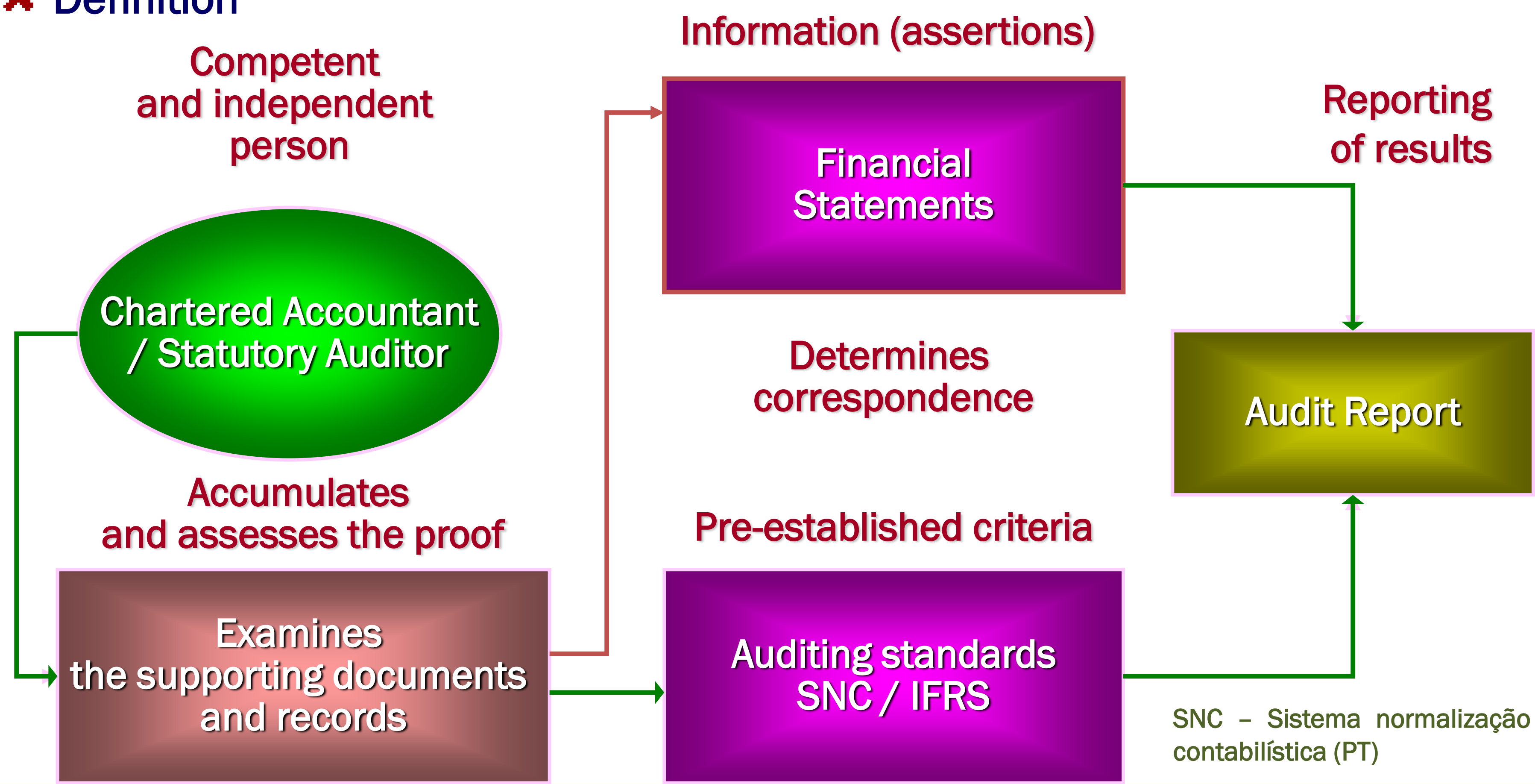
2. Financial Auditing

- What is the justification for the existence of an audit?



2. Financial Auditing

- Definition



SNC – Sistema normalização contabilística (PT)

2. Financial Auditing

- Overview

Fonte: https://www.youtube.com/watch?v=aztSsS6GYYw

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 16th, 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 **overall objectives** of the auditor are:

- To obtain **reasonable assurance** about whether the financial statements as a whole are free from **material misstatement**, whether due to **fraud or error**, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an **applicable financial reporting framework**; and

- To **report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings**.

Where reasonable assurance cannot be obtained and a qualified opinion would be insufficient in the circumstances, the auditor is required to:

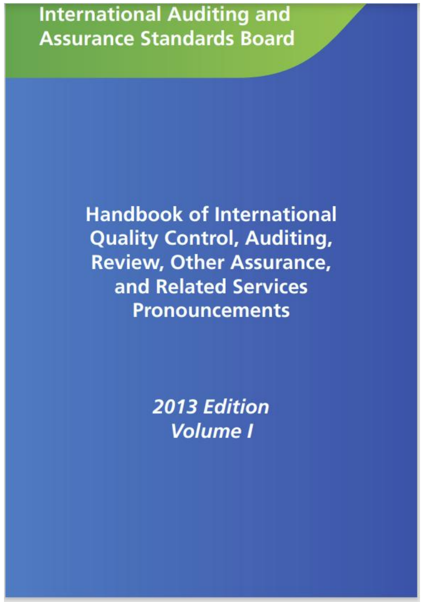
- **disclaim an opinion**; or

- **withdraw from the engagement**, where withdrawal is possible under applicable law or regulation.

KEY MESSAGE:
Reasonable assurance is a **high, but not absolute, level of assurance**.

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

KEY MESSAGE:
ISAs provide the framework for the audit, but their application requires **professional judgment and professional skepticism**.

REQUIREMENTS FOR CONDUCTING AN AUDIT – ISA 200

Comply with relevant ethical requirements, including independence

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 all ISAs relevant to the engagement

KEY MESSAGE:
Audit quality depends not only on compliance with procedures, but also on the auditor's **independence, judgment, skepticism and evaluation of audit evidence**.

✘ Requirements to perform an audit– ISA 200

✓ Professional Judgement

Professional judgment is the application of relevant:

- professional training;
- knowledge;
- experience; and
- auditing, accounting and ethical standards

when making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

2. Financial Auditing

✘ Requirements to perform an audit– ISA 200

✓ Professional Judgement

Professional judgment is particularly important when:

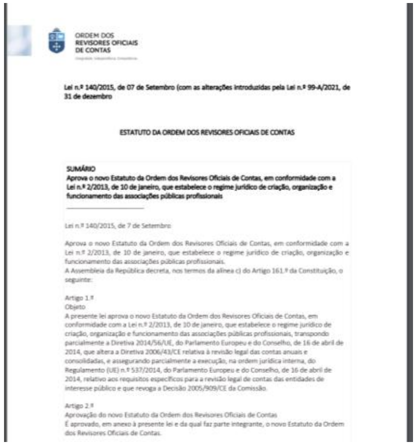
- determining **materiality**;
- identifying and assessing **audit risks**;
- determining the nature, timing and extent of audit procedures;
- evaluating whether **sufficient appropriate audit evidence** has been obtained;
- assessing accounting estimates and management judgments; and
- reaching conclusions supporting the auditor’s opinion.

KEY MESSAGE:
A well-structured decision-making process is fundamental to high-quality professional judgment.

2. Financial Auditing

✘ Requirements to perform an audit– ISA 200

✓ Professional Skepticism (art. 70 EOROC)



ORDEM DOS REVISORES OFICIAIS DE CONTAS

Lei n.º 140/2015, de 07 de Setembro (com as alterações introduzidas pela Lei n.º 99-A/2021, de 31 de dezembro

ESTATUTO DA ORDEM DOS REVISORES OFICIAIS DE CONTAS

SUMÁRIO
Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais

Lei n.º 140/2015, de 7 de Setembro

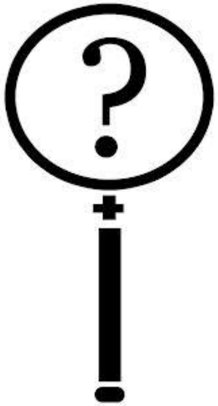
Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais.
A Assembleia da República decreta, nos termos da alínea c) do Artigo 161.º da Constituição, o seguinte:

Artigo 1.º
Objeto
A presente lei aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais, transpondo parcialmente a Diretiva 2014/56/UE, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, que altera a Diretiva 2006/43/CE relativa à revisão legal das contas anuais e consolidadas, e assegurando parcialmente a execução, na ordem jurídica interna, do Regulamento (UE) n.º 537/2014, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, relativo aos requisitos específicos para a revisão legal de contas das entidades de interesse público e que revoga a Decisão 2005/909/CE da Comissão.

Artigo 2.º
Aprovação do novo Estatuto da Ordem dos Revisores Oficiais de Contas
É aprovado, em anexo à presente lei e da qual faz parte integrante, o novo Estatuto da Ordem dos Revisores Oficiais de Contas.

Professional skepticism is an attitude that includes:

- a **questioning mind**;
- being alert to conditions that may indicate possible misstatement due to **error or fraud**; and
- a **critical assessment of audit evidence**.

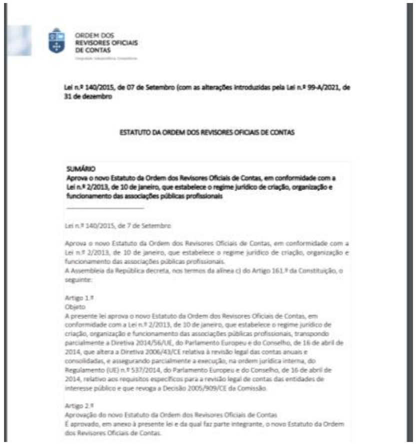


The auditor shall plan and perform the audit with professional skepticism, recognising that circumstances may exist that cause the financial statements to be materially misstated.

2. Financial Auditing

✘ Requirements to perform an audit– ISA 200

✓ Professional Skepticism (art. 70 EOROC)



ORDEM DOS REVISORES OFICIAIS DE CONTAS

Lei n.º 140/2015, de 07 de Setembro (com as alterações introduzidas pela Lei n.º 99-A/2021, de 31 de dezembro

ESTATUTO DA ORDEM DOS REVISORES OFICIAIS DE CONTAS

SUMÁRIO
Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais

Lei n.º 140/2015, de 7 de Setembro

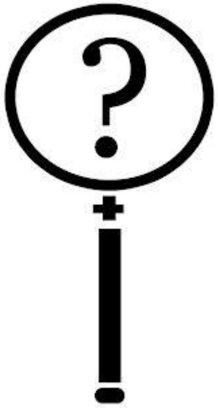
Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais.
A Assembleia da República decreta, nos termos da alínea c) do Artigo 161.º da Constituição, o seguinte:

Artigo 1.º
Objeto
A presente lei aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais, transpondo parcialmente a Diretiva 2014/56/UE, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, que altera a Diretiva 2006/43/CE relativa à revisão legal das contas anuais e consolidadas, e assegurando parcialmente a execução, na ordem jurídica interna, do Regulamento (UE) n.º 537/2014, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, relativo aos requisitos específicos para a revisão legal de contas das entidades de interesse público e que revoga a Decisão 2005/909/CE da Comissão.

Artigo 2.º
Aprovação do novo Estatuto da Ordem dos Revisores Oficiais de Contas
É aprovado, em anexo à presente lei e da qual faz parte integrante, o novo Estatuto da Ordem dos Revisores Oficiais de Contas.

Professional skepticism requires the auditor to remain alert to, for example:

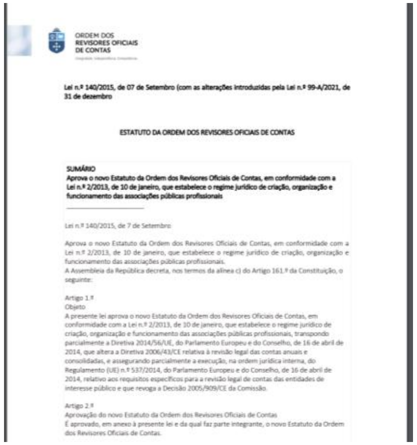
- contradictory audit evidence;
- information that brings into question the reliability of documents or responses obtained;
- conditions that may indicate possible fraud;
- management bias; and
- circumstances suggesting the need for additional audit procedures.



2026 PERSPECTIVE:
The revised **ISA 240** further reinforces the importance of professional skepticism throughout the audit and promotes a stronger **"fraud lens"** in identifying and assessing risks.

2. Financial Auditing

- Requirements to perform an audit– ISA 200
  - ✓ Professional <u>Skepticism</u> (art. 70 EOROC)



ORDEM DOS REVISORES OFICIAIS DE CONTAS

Lei n.º 140/2015, de 07 de Setembro (com as alterações introduzidas pela Lei n.º 99-A/2021, de 31 de dezembro

ESTATUTO DA ORDEM DOS REVISORES OFICIAIS DE CONTAS

SUMÁRIO
Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais

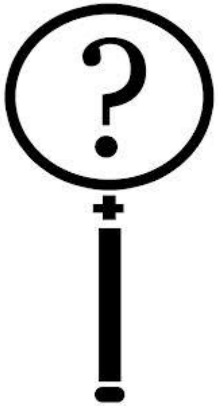
Lei n.º 140/2015, de 7 de Setembro

Aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais.
A Assembleia da República decreta, nos termos da alínea c) do Artigo 161.º da Constituição, o seguinte:

Artigo 1.º
Objeto
A presente lei aprova o novo Estatuto da Ordem dos Revisores Oficiais de Contas, em conformidade com a Lei n.º 2/2013, de 10 de janeiro, que estabelece o regime jurídico de criação, organização e funcionamento das associações públicas profissionais, transpondo parcialmente a Diretiva 2014/56/UE, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, que altera a Diretiva 2006/43/CE relativa à revisão legal das contas anuais e consolidadas, e assegurando parcialmente a execução, na ordem jurídica interna, do Regulamento (UE) n.º 537/2014, do Parlamento Europeu e do Conselho, de 16 de abril de 2014, relativo aos requisitos específicos para a revisão legal de contas das entidades de interesse público e que revoga a Decisão 2005/909/CE da Comissão.

Artigo 2.º
Aprovação do novo Estatuto da Ordem dos Revisores Oficiais de Contas
É aprovado, em anexo à presente lei e da qual faz parte integrante, o novo Estatuto da Ordem dos Revisores Oficiais de Contas.

EXERCISE: next page



2. Financial Auditing

A) EXERCISE

1. Identify circumstances that could indicate a risk of material misstatement due to fraud or error.

B) EXERCISE

2. Analyse Enron's last published annual report and identify potential red flags that should have triggered professional skepticism.

3. Select one recent corporate failure or accounting scandal and identify similar red flags.

2. Financial Auditing

Requirements to perform an audit– ISA 200

✓ Effect of the absence of skepticism and apropriate 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 statements

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)**

Telmo Francisco Vieira

CPA & Statutory Auditor

tfv@iseg.ulisboa.pt | telmo.vieira@premivalor.com

+ 351 917 820 650

https://www.linkedin.com/in/telmo-vieira-9892a42/