

# **BEHIND THE NUMBERS: AUDIT OBJECTIVES, PROCEDURES, EVIDENCE & DOCUMENTATIONS**



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# Introduction

## **It all starts with management.**

Every company — big or small — is responsible for preparing its own financial statements. These are reports that show how much the business earned, what it owns (like cash or buildings), what it owes (like loans or bills), and how it was funded. But financial statements don't just list numbers — they are based on decisions, guesses, and estimates made by management.

## **This is normal, but it also brings risk.**

Since management prepares the statements, there's a chance the numbers may be too optimistic, or some details may be missing or not explained well. Sometimes mistakes happen, and in rare cases, numbers might even be changed on purpose to make the business look better than it really is.

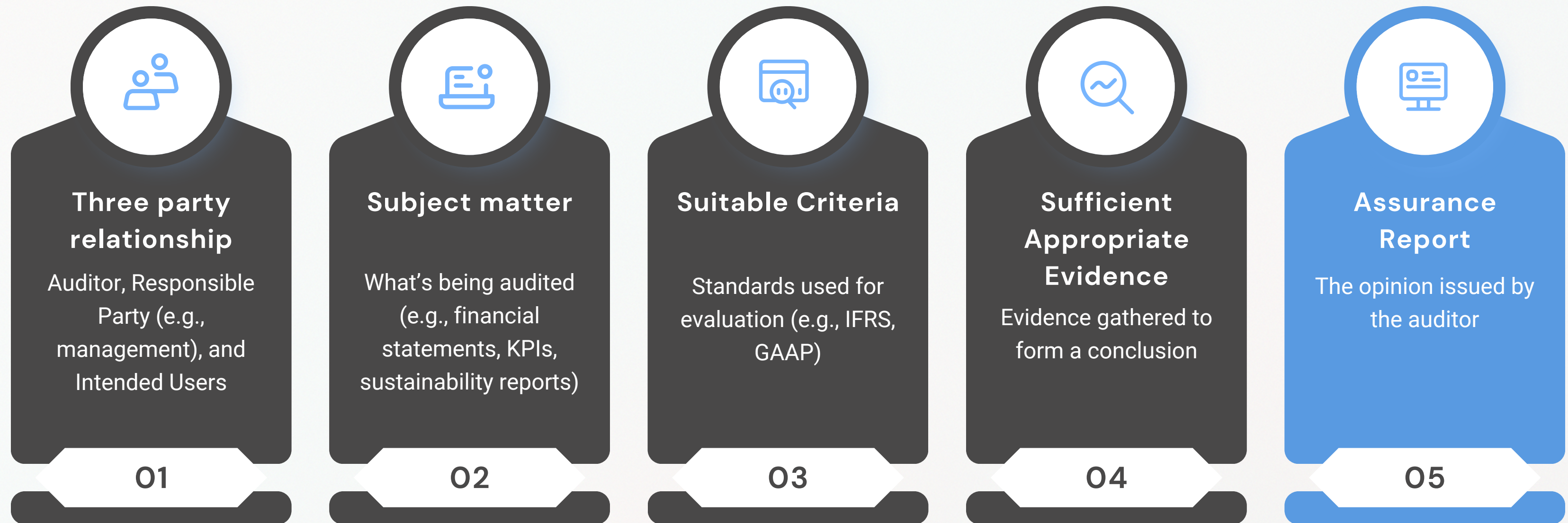
## **That's why an audit is important.**

An audit is done by an independent person — someone who is not part of the company. The goal is to check if the financial statements are correct and if they can be trusted. The auditor looks at documents, asks questions, and tests the numbers to make sure they are fair and follow the rules. This gives people like investors, banks, and even employees confidence that the information is reliable.





# THE 5 ELEMENTS OF ASSURANCE AN ENGAGEMENT



An audit is not just a checklist or a compliance activity — it's part of a structured, formal process called an **assurance engagement**. All assurance engagements follow a clear framework made up of five key elements. These elements are what make the audit **objective, independent, and credible** in the eyes of users.



# KEY AUDITING CONCEPTS

## Materiality

Auditors focus only on errors that are big enough to matter to the users of the financial statements. Not all mistakes are equal—some are too small to impact decisions.

## Professional skepticism

Auditors maintain a questioning mindset—they do not assume that all information provided by management is accurate. They look for evidence, not just explanations.

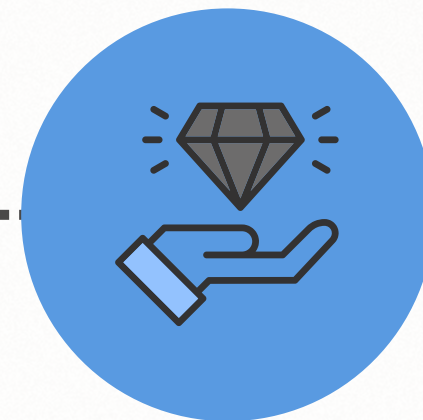
## Assertions

Every line in the financial statements makes a claim (or assertion). The auditor's job is to test whether those claims are true.

## Audit Risk

Audit risk is the chance that the auditor gives a clean opinion when there's actually a big mistake in the financial statements. The audit is planned and performed to reduce this risk to a low but acceptable level.

These concepts guide how auditors plan the audit, what they choose to test, and how they interpret results.



## Risk-Based Auditing

Auditors don't test everything. Instead, they focus on accounts that are more likely to have errors or fraud. This is called the risk-based approach.

## Audit risk model

These three risks—Inherent Risk, Control Risk, and Detection Risk—together make up the audit risk model, where inherent risk is the natural risk of error, control risk is the chance that internal controls won't catch it, and detection risk is the chance the auditor won't find it.

## Sufficiency and Appropriateness of Evidence

Sufficiency- Having enough evidence.  
Appropriateness = Making sure the evidence is relevant and reliable

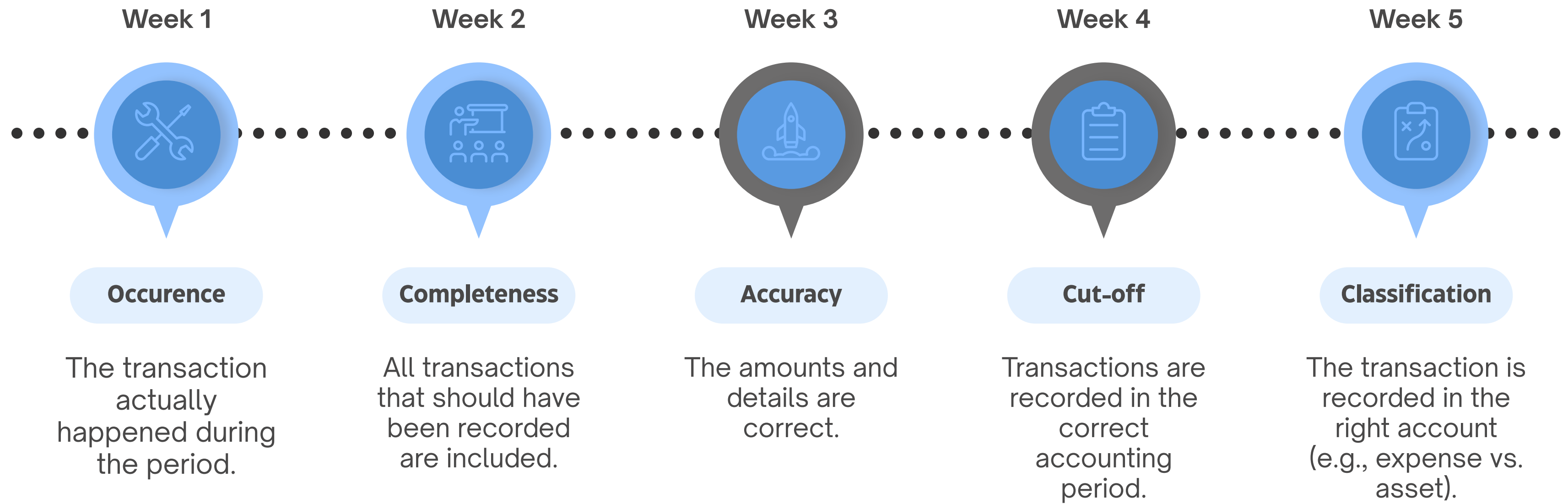
## Professional judgement

Auditors must use their training, experience, and ethics to make smart decisions—especially in areas involving estimates, uncertainties, or gray areas.



# ASSERTIONS-

## CLASSES OF TRANSACTIONS





# ASSERTIONS

## Existence

01

The asset or liability exists as of the balance sheet date.



02

## Rights and Obligations

The company legally owns the asset, or is responsible for the liability.

## Completeness

04

All balances that should be recorded are included.



03

## Valuation and Allocation

The amounts are correct, and any necessary adjustments (e.g., depreciation or impairment) have been made.

**ACCOUNT  
BALANCES**



# ASSERTIONS- PRESENTATION AND DISCLOSURE

01

## Occurrence and Rights/Obligations

The disclosed events actually happened and relate to the company.



02

## Completeness

All required disclosures have been included.



03

## Classification and Understandability

The information is presented clearly and grouped properly.



04

## Accuracy and Valuation

The amounts and details disclosed are correct and based on accurate data.





# AUDIT PROCEDURES

## TEST OF CONTROLS

Testing if the company's internal controls (e.g., approvals, segregation of duties, system access) are working as intended. If controls are effective, auditors may reduce the extent of other testing.

## SUBSTANTIVE PROCEDURES

Procedures designed to detect material misstatements in the financial statements.

## Test of details (TOD)

Checking individual transactions for validity, accuracy, and completeness to confirm that transactions really happened and were recorded properly.



## Test of balances (TOB)

Verifying ending balances in the accounts as of the reporting date to confirm balances exist, are owned by the company, and are valued correctly.

## Substantive Analytical Procedures (SAP)

Using comparisons, ratios, and trends to identify unusual amounts or patterns to detect possible misstatements that might not be obvious through other testing.



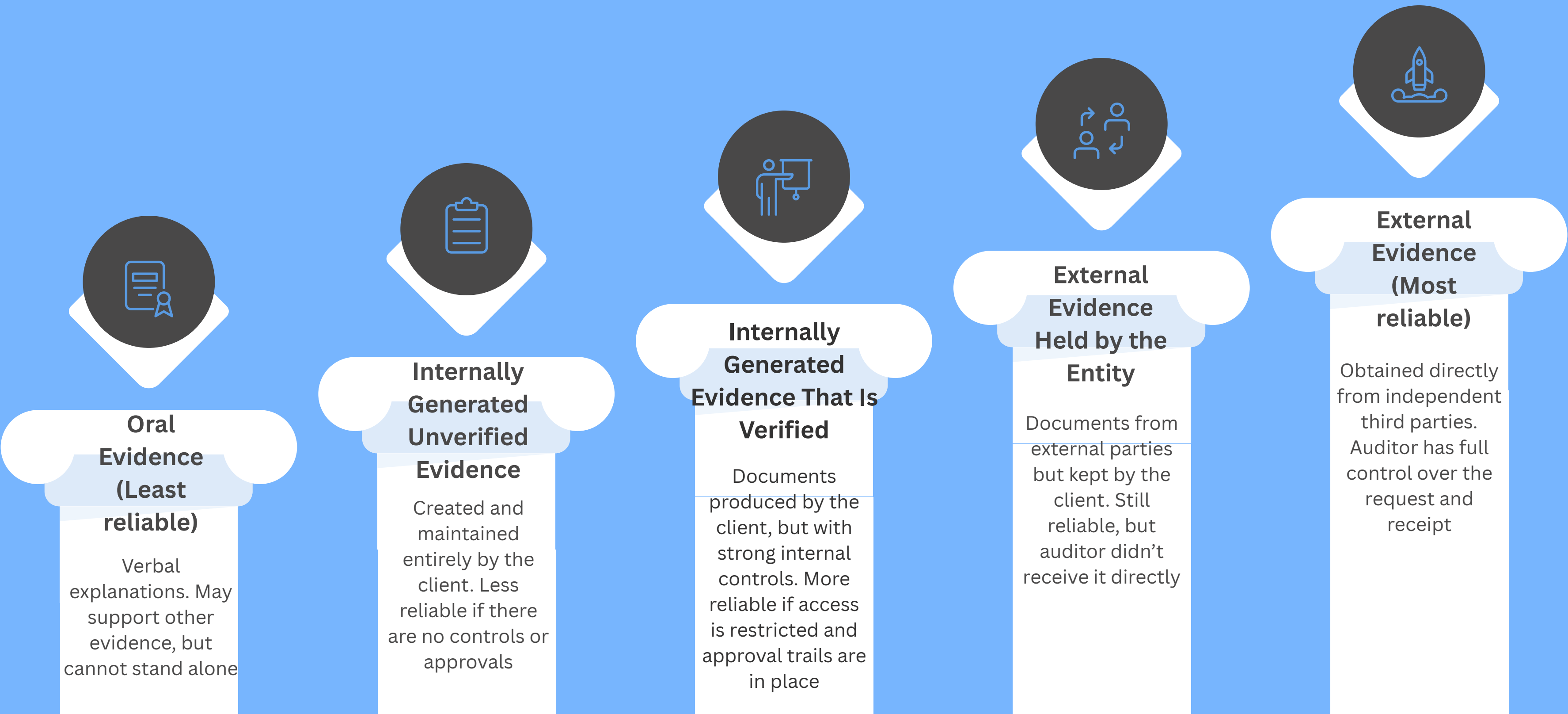
# TYPES OF AUDIT EVIDENCE

TYPE	DESCRIPTION	EXAMPLE
Physical	Direct observation by the auditor	Watching an inventory count
Documentary	Written or printed records	Invoices, contracts, receipts
Confirmations	Direct replies from third parties	Bank or customer confirmations
Analytical	Comparisons, ratios, and trends	Sales growth vs prior year
Oral (inquiry)	Verbal explanations from employees or management	Asking about a transaction or control
Reperformance	Auditor redoes a calculation	Recomputing depreciation
Observation	Watching a process in real-time	Observing cash handling



# SOURCES OF AUDIT EVIDENCES

## HIERARCHY OF RELIABILITY





# Documentation

Documentation is the written record of the auditor's work.

It shows:

- What the auditor did
- What was found
- What was concluded
- Who reviewed it and when

## Supports the audit opinion

Audit documentation provides proof that the audit procedures were performed, that the evidence gathered was sufficient and appropriate, and that the conclusions reached were based on that evidence.

## Helps with Review and Supervision

Audit documentation is used by Supervisors to review the work of staff, Engagement partners to assess key judgments and audit risks, Quality reviewers to ensure compliance with standards.

## Protects the Auditor Legally

In case of Client disputes (e.g., litigation, Regulatory inspections (e.g., by the SEC or BOA), the audit documentation is the only defensible record that shows what the auditor did and why.

## Allows Re-performance if Needed

Documentation enables another experienced auditor (not previously involved) to Understand the nature, timing, and extent of procedures, See what evidence was obtained. Understand the reasoning behind conclusions.



# CONSIDERATION OF IT SYSTEMS

Today, most financial information flows through computerized systems—whether it’s sales, inventory, payroll, or journal entries. Even if the input data is accurate, if the system processing or reporting the data is flawed, the output may still be wrong. That’s why auditors must evaluate the reliability of the system itself, not just the numbers it produces.



## RISK AREAS



### System reliance for financial data

Errors or fraud may be hidden behind clean-looking reports if system logic or processes are flawed



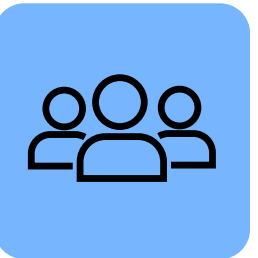
### Access & control weaknesses

Unauthorized actions, fraud, or override of controls may go undetected



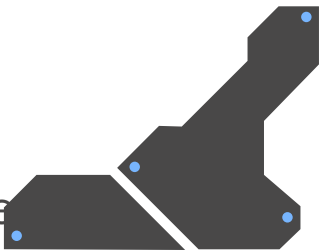
### Audit trail & change control gaps

Weak logs and uncontrolled system changes reduce auditability and increase error risk



### System integration & reporting issues

Data inconsistencies between systems or misconfigured reports may cause misstated balances





# FOUNDATIONS OF IT AUDIT

Financial data today is system-generated—general ledger balances, reports, invoices, etc.

If the confidentiality is weak, unauthorized people may post or alter entries.

If integrity is compromised, transactions may be manipulated without detection.

If availability fails, data may be lost or inaccessible, impairing the audit process.



## CONFIDENTIALITY

Financial information should be accessible only to authorized users.

Unauthorized access = risk of fraud, manipulation, or data leaks.



## INTEGRITY

Data must remain accurate, complete, and unaltered by unauthorized users or system errors. Key for journal entries, reports, and balances.



## AVAILABILITY

Systems and data must be available when needed—for operations, reporting, and audit purposes. Downtime can impair audit trail visibility or create cut-off risks.



# KEY IT AUDIT PROCEDURES

1

**USER ACCESS CONTROLS**  
Are only authorized users posting journal entries or approving transactions?  
**PROCEDURE**  
Review user role matrix and system access logs

2

**SEGREGATION OF DUTIES**  
Are conflicting duties (e.g., create & approve payments) assigned to different people?  
**PROCEDURE**  
Test user permissions across modules

3

**AUDIT TRAILS**  
Can system actions (edits, deletions) be traced back to a user?  
**PROCEDURE**  
Inspect audit logs and reversal trails

4

**AUTOMATED CONTROLS**  
Are system-based rules (e.g., PO matching, validation) active and working as configured?  
**PROCEDURE**  
Simulate transactions that violate thresholds

5

**CHANGE MANAGEMENT**  
Are changes to the accounting system tested and approved before implementation?  
**PROCEDURE**  
Review system change logs and approval documents

6

**BACK UP AND DISASTER RECOVERY**  
Can financial data be restored in case of system failure?  
**PROCEDURE**  
Inspect backup policies and test data restoration reports

7

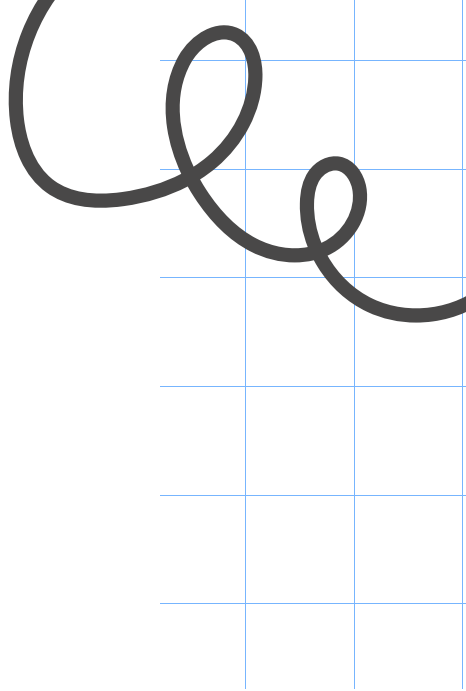
**SYSTEMS REPORT INTEGRITY**  
Are financial reports (e.g., AR aging, trial balance) configured accurately?  
**PROCEDURE**  
Recompute reports manually or verify mapping in report logic



# CONSIDERATION OF THE WORK OF INTERNAL AUDITORS

- In many organizations, the internal audit function plays a strong role in monitoring controls, reviewing risks, and performing independent checks—even before the external audit begins.
- Rather than duplicating effort, external auditors can consider using this work as part of their own evidence—but only if it meets quality and independence standards.
- This approach aligns with the principle of audit efficiency, but it must still meet the requirements of audit reliability and professional skepticism.





# AUDIT PROCEDURES WHEN USING THE WORK OF INTERNAL AUDITORS

## Evaluate the Internal Audit Function

Identify market needs and initial concepts for a new



## Market Research

Analyze trends and customer needs to validate the product idea.



## Improvement & Refinement

Iterate based on feedback from product testing results.



## Product Design

Develop the main design and features of the product before prototyping.



## Testing & Prototyping

Test the initial product to identify issues and improvements.



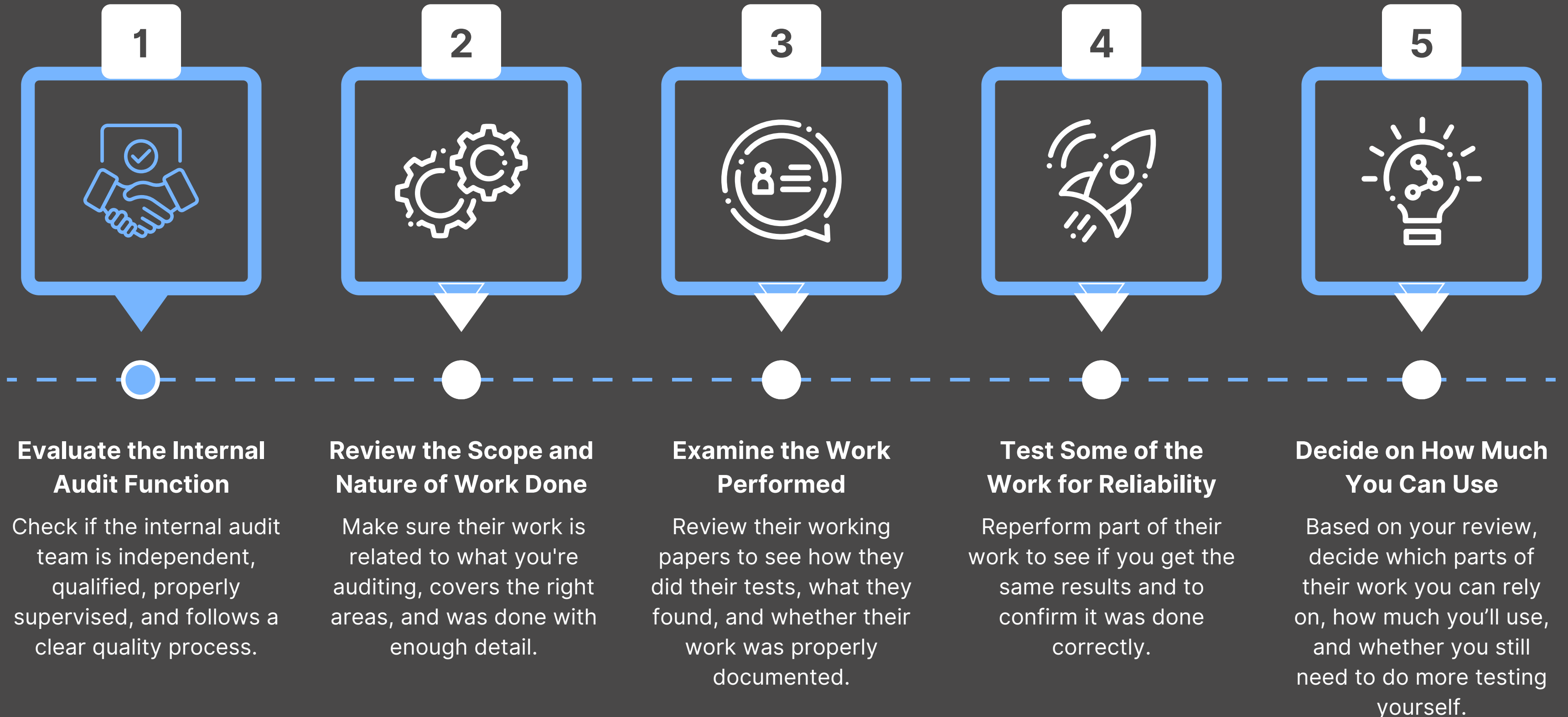
## Launch

The product is launched to the market with an integrated marketing strategy.





# AUDIT PROCEDURES WHEN CONSIDERING THE WORK OF INTERNAL AUDIT





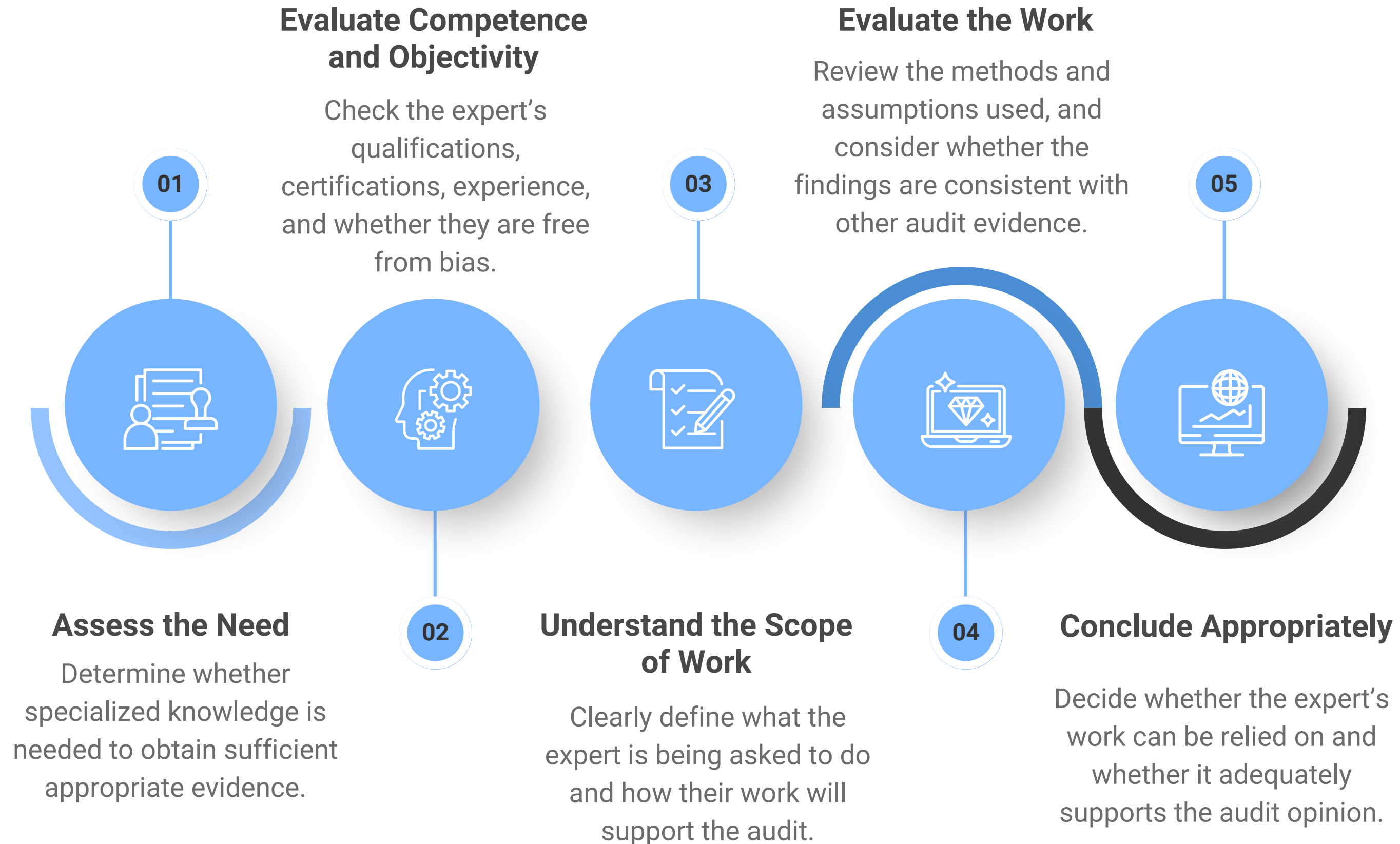
# USING THE WORK OF AN EXPERT

Sometimes, auditors encounter matters that require knowledge or skills beyond accounting—such as engineering, law, or actuarial science. In these cases, they may need to bring in an expert to help evaluate complex or technical issues. This typically arises in areas like property valuation, pension liability estimation, or interpreting legal disputes, where the auditor's general audit knowledge isn't enough to form a reliable conclusion.

An expert is someone with specialized training, experience, and qualifications in a specific field. Auditors consider using experts when dealing with topics such as valuing real estate or financial instruments, assessing insurance or pension obligations, interpreting complex contracts or lawsuits, estimating reserves (e.g., oil and gas or biological assets), or analyzing IT-related risks like cybersecurity breaches or AI systems.



# AUDIT PROCEDURES WHEN USING THE WORK OF EXPERTS





## SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS								
			B/S						P/L		
			E	V	C	R&O	P& D		O	M	C
C	CASH ON HAND AND IN BANKS										
1	Bank confirmations	Obtain a complete list of bank accounts (debit and credit balances) as well as related loan and similar contracts. Obtain bank confirmations for all accounts, including the accounts closed during the year to confirm the relationship with the bank including contingencies, liens, pledges, restrictions on the client ´s assets, guaranteed amounts etc. If there is a valid reason for not confirming all accounts, document the rationale in the working papers.	X	X	X	X	X				
2	Bank reconciliations	Examine the client's bank reconciliation as of year-end, including cash-in-transit accounts, (e.g. in subledgers) to verify the proper reconciliation of bank statements and general ledger accounts.	X	X	X						
3	Cash cutoff	Test cutoff of cash receipts and cash disbursements for transfers between different bank accounts at the balance sheet date.	X		X						
4	Cash valuation	Test appropriate valuation of cash and cash equivalents (including overdrafts) in foreign currencies.		X							



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
D	INVESTMENTS											
1	Verification of existence and ownership	Verify the existence and ownership of recorded securities through confirmation or examination of evidence of ownership (e.g., stock certificates, bank statements, broker statements).	X			X						
2	Detailed confirmation review	Review confirmation replies for evidence of the existence of marketable securities, and of liens, pledges or other security interests in marketable securities.	X		X	X	X					
3	Market valuation	Inspect market quotations or other evidence of current value of marketable securities, including those in foreign currencies.		X			X					
4	Valuation in accordance with accounting policies	Test that marketable securities are carried in accordance with the client's accounting policies or applicable financial reporting framework.		X			X					



# SPECIFIC AUDIT PROCEDURES

PROCEDURES			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>E</b>	<b>ACCOUNTS RECEIVABLES</b>											
1	Agreement of subledger with general ledger	Agree receivables subledger to the general ledger control account and investigate large and unusual reconciling items.	X		X							
2	Confirmations and subsequent cash receipts	Verify the existence of accounts receivable trade through confirmation or subsequent cash receipts or a combination of those procedures. Consider using the audit risk tables or E&Y Microstart to determine the extent of the sample or document the rationale for the sample selection in the working papers.	X	X		X	X					
3	Roll-forward procedures	If accounts are verified at an interim date, review the "roll-forward" of activity from the interim date to the balance sheet date in a manner responsive to our combined risk assessment and compare level of activity with prior periods. Investigate unusual items; consider confirming (at the balance sheet date) significant new accounts and those accounts with significant increases or decreases between the interim date and the balance sheet date.	X	X	X							
4	Accounts receivable cutoff	Perform analytical procedures to identify peaks in sales volume in the last few days or weeks of the year and test cutoff by inspecting sales register, billings, shipping documents and other supporting documents before and after the year-end date. Where we perform substantive procedures at an interim date, we perform cutoff testing at that date also.	X		X							
5	Allowance for doubtful accounts	Evaluate the adequacy of the allowance for doubtful accounts.		X			X					
6	Other adjustments to accounts receivable	Evaluate the adequacy of other adjustments to accounts receivables, such as rebates, credit memos, discounts.		X			X					
7	Accounts receivable in foreign currencies	Test appropriate valuation of accounts receivables in foreign currencies.		X			X					
8	Credit balances and unusual items	Inquire about or review list of credit balances and investigate large items.	X		X							



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>F</b>	<b><u>INVENTORIES</u></b>											
1	Observation of physical inventories	Observe the taking of physical inventories ensuring that Client count instructions are followed and that inventories owned by others are separated and trace test counts to the inventory compilation.	X	X	X	X						
2	Confirmation of inventories held by others	If significant, confirm inventories held by others at the physical inventory date and trace confirmed quantities to the inventory compilation; consider observing these physical inventories as well.	X		X	X						
3	Reconciliation of inventory compilation with general ledger	Review the reconciliation of the valued physical inventory compilation with the general ledger account balances and the perpetual inventory records. Investigate large and unusual reconciling items.		X	X							
4	Roll-forward procedures	If inventories are taken at an interim date, review the "roll-forward" documentation in a manner responsive to our combined risk assessment and investigate unusual items.		X	X							
5	Inventory cutoff	Trace the cutoff information obtained during the physical observation to the accounting records of sales and purchases.	X		X							
6	Valuation in accordance with accounting policies	Test the valuation of inventory to ensure that it is performed in accordance with the client's accounting policies or applicable financial reporting framework.		X			X					
7	Net realizable value testing	Test the allowances to reduce the valuation of inventory to net realizable value, e.g., reserves for slow moving items, obsolescence or lower of cost or market.		X								



# SPECIFIC AUDIT PROCEDURES

PROCEDURES		RELEVANT ASSERTIONS									
		B/S					P/L				
		E	V	C	R&O	P&D		O	M	C	P&D
<b>G</b>	<b>PREPAID EXPENSES, DEFERRED EXPENSES AND OTHER CHARGES</b>										
1	Verification of existence and valuation	Verify existence and carrying amounts through examination of supporting documents, or confirmation or a combination of those procedures.									
		X	X	X	X	X					
<b>H</b>	<b>INVESTMENTS INCLUDING INVESTMENTS IN AFFILIATES</b>										
1	Verification of existence and ownership	Verify the existence and ownership of recorded investments, including those in affiliates, through confirmation or examination of evidence of ownership. Investigate unusual items.									
		X		X	X	X					
2	Detailed minutes review	Review minutes (shareholders, board, executive committee, etc.), agreements and confirmation replies for evidence of existence, liens, pledges or other security interests in investments; and of commitments to acquire or dispose of investments.									
		X	X	X	X	X					
3	Valuation in accordance with accounting policies	Inspect market quotations, financial statements of investees and other evidence of current value, cost or equity amount of investments and test that investments are carried in accordance with the client`s accounting policies or applicable financial reporting framework including foreign currency translations.									
			X			X					
4	Impairment testing	Use information obtained during the audit in determining whether management has identified appropriate indicators of impairment and ensure that reserves carried forward from prior periods are still appropriate.									
			X			X					



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>I</b> <b>INTERCOMPANY BALANCES AND TRANSACTIONS</b>												
1	Verification of intercompany account balances	Obtain a complete list of affiliated companies and obtain confirmation of receivables from and payables to affiliates, or agree the account balances with those in the affiliates' records.	X	X	X	X	X					
2	Valuation of intercompany accounts	Test the carrying amounts of intercompany accounts, including those in foreign currencies.		X								
3	Intercompany accounts cutoff	Test cutoff by inspecting sales register, billings, shipping documents and other supporting documents before and after the year-end date.	X		X							
4	Allowance for doubtful intercompany receivables	Evaluate the adequacy of the allowance for doubtful intercompany receivables considering the aging and findings from audit procedures performed in the area of investments.		X								
<b>J</b> <b>LONG TERM RECEIVABLES, NONCURRENT DEPOSITS AND OTHER LONG TERM FINANCIAL ASSETS</b>												
1	Verification of existence and ownership	Verify the existence and ownership of long-term receivables through confirmation or examination of supporting documentation.	X	X	X	X	X					
2	Valuation of long-term financial assets	Test the carrying amounts of long-term financial assets.		X								



# SPECIFIC AUDIT PROCEDURES

PROCEDURES	Significant Account and Primary Substantive Procedures	RELEVANT ASSERTIONS									
		B/S					P/L				
		E	V	C	R&O	P&D		O	M	C	P&D
<b>K</b>	<b><u>PROPERTY, PLANT AND EQUIPMENT AND RELATED INCOME STATEMENT ACCOUNTS</u></b>										
1	Agreement of subledgers with general ledger	Obtain a schedule of property, plant and equipment, including capitalized leases, and related additions, disposals, reclassifications and depreciation, depletion and/or amortization (PPE subledger) and agree balances to the respective general ledger accounts.	X	X	X				X	X	
2	Additions and disposals	For significant additions and disposals during the year, examine invoices, capital expenditure authorizations, leases and other data that support these additions and disposals.	X	X	X	X	X		X		X
3	Leases, repair and maintenance	Review and examine support for rentals under operating leases and for significant charges to repairs, maintenance and other expense accounts to determine if they should be capitalized as property, plant and equipment.	X		X		X				X
4	Depreciation, depletion and amortization	Review reasonableness of depreciation, depletion and amortization charge by reference to the client's accounting policies or applicable financial reporting framework and expectation for current year.		X				X	X		X
5	Impairments of property, plant and equipment	Use information obtained during the audit in determining whether management has identified appropriate indicators of impairment.		X					X		



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>L</b> <b>INTANGIBLES INCLUDING GOODWILL</b>												
1	Evidence of changes in intangibles	Obtain a schedule of intangibles, including goodwill, and test the bases on which additions, amortization and disposals are recorded. Examine invoices, authorizations, contracts, agreements, and other data that support ownership of intangibles or deferred charges capitalized and disposed of during the year.	X	X	X	X	X					
2	Impairment of intangibles	Test the need for depreciation according to the client's accounting policies or applicable financial reporting framework to reflect impairment of the carrying amounts of intangible assets or goodwill, which are not subject to regular depreciation.		X								
<b>M</b> <b>NOTES PAYABLE</b>												
1	Verification of notes payable and related obligations	Confirm notes payable or review supporting documentation as to amounts owed, terms, collateral and restrictions and the debtor's compliance with the loan provisions and identify liens, security interests, and assets pledged as loan collateral.	X	X	X	X	X					
2	Inspection of contracts	Inspect documentation of loan agreements or other short-term lending arrangements (e.g., factoring) to determine the terms, restrictions, revolving lines of credit, and other pertinent provisions of notes payable.	X	X	X	X	X					
3	Compliance with contract terms	Test calculations and other evidence relating to compliance with the terms, restrictions, or other provisions of loan agreements.		X		X	X					



# SPECIFIC AUDIT PROCEDURES

PROCEDURES			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
N			ACCOUNTS PAYABLE, TRADE									
1	Agreement of subledger with general ledger	Agree the accounts payable subledger to the general ledger control account and investigate large and unusual reconciling items.	X		X							
2	Unusual item review	Inquire about or perform a review of accounts payable subledger for unusual items, e.g., significant debit balances in the accounts payable subledger or other unexpected amounts to verify proper classification and valuation.	X	X	X	X	X					
3	Accounts payable cutoff	Perform cutoff tests for goods and services received as well as for supplier credit memos to ensure that transactions are completely recorded in the correct period.	X		X	X						
4	Search for unrecorded liabilities	Perform a search for unrecorded liabilities at the year-end date by selecting subsequent disbursements and unmatched invoices and receiving reports.		X	X							
5	Analysis of supplier balances	Compare supplier balances post year end to those at year end and investigate unusual or significant changes.			X							
6	Valuation of accounts payable	Test appropriate valuation of accounts payable in foreign currencies.		X								



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>0</b>	<b><u>INCOME TAXES, DEFERRED TAXES AND RELATED INCOME STATEMENT ACCOUNTS</u></b>											
1	Reconciliation of accounting to taxable income	Test the reconciliation of the current year book/local GAAP/statutory and taxable income, validate the split between permanent and timing differences, and compare reconciling items with those in prior years and examine support.	X		X		X			X		X
2	Provisions for income taxes	Test computations of provisions for current and deferred income taxes for the current year and reconcile to appropriate balance sheet and income statement accounts.		X			X			X		X
3	Impairment of deferred tax assets	Investigate potential impairments of deferred tax assets.		X		X				X		
4	Movement of income tax account balances	Review the movement of income tax account balances from prior year (including those currently payable or deferred) and valuation allowances for deferred tax assets.		X	X				X	X	X	
5	Provisions for certain tax positions	Determine whether provision should be made for any tax positions taken by the client or other tax contingencies, e.g., as a result of related party transactions, that may be challenged by tax authorities.		X		X	X			X		X
6	Basis for recording related party transactions	Test that intercompany and other related party transactions have a valid business reason and are recorded on an arm's length basis. If in doubt, consider the involvement of appropriate specialists.		X		X	X					

# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>P</b>		<b>PROVISIONS, ACCRUED AND OTHER LIABILITIES, DEFERRED INCOME</b>										
1	Correctness and completeness of provisions	Review the schedule of provisions, accrued liabilities and deferred income for correctness and completeness, agree amounts to the general ledger accounts and ensure proper cutoff.	X		X							
2	Pension and other employee related long-term reserves	Examine the composition and computation of pension and other employee related long-term reserves for reasonableness and consider the use of specialists.	X	X								
3	Appropriateness of other liabilities	Review other liabilities to determine they are appropriate. Determine that the amounts appear to be reasonable in comparison with prior years and under consideration of your understanding of the clients business and changes to it.	X									
4	Detailed review of lawyers confirmations	Review lawyer confirmations as required in the PGAP, minutes and other documents to ensure that appropriate reserves/accruals have been recorded by the client.	X	X	X	X	X					
5	Search for unrecorded reserves and accruals	Search for unrecorded reserves/accruals, e.g., related to employees, contracts (rent, lease), finance (interest), sales (product and service warranties, commissions, returns), purchases (goods and services, licenses, royalties), services received (audit, tax, legal, consulting).		X	X	X						



# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>Q</b>	<b><u>LONG TERM DEBT, LEASES AND RELATED INCOME STATEMENT ACCOUNTS</u></b>											
1	Long-term debt interest expenses and compliance with agreements	Review summary of Long-term debt & Interest prepared by the client for reasonableness of calculations of interest expense and accrued interest including foreign currency translations and agree schedules to general ledger. Test compliance with the terms, maturities, restrictive covenants, or other provisions of debt agreements.	X	X	X	X	X		X	X	X	X
2	Inspection of new agreements	For new agreements in the year under audit, inspect original or authenticated copies of debt agreements, or other related documents to test the terms, restrictive covenants and other pertinent provisions of long-term debt.				X	X					X
3	Collaterals	Identify liens, security interests, and assets pledged as collateral for debt, cross-reference to the corresponding general ledger accounts and ensure proper disclosures.			X	X	X					X
4	Verification of existence and obligations	Confirm long-term debt or review supporting documentation as to amounts owed, terms, collateral, restrictions and the client's compliance with the provisions of the agreements.	X	X	X	X	X				X	
5	Lease and rent contracts	Review summary of lease and rent contracts and test correct presentation (e.g., operating or finance lease) in the financial statements.	X				X		X			X

# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>S</b>	<b>DERIVATIVES/ HEDGING/ COMMITMENTS/ CONTINGENCIES</b>											
1	Verification of existence and ownership	Verify the existence and ownership of recorded derivatives through confirmation with the broker/dealer or counterparty or examination of evidence of ownership. Confirm both settled and unsettled transactions with the broker/dealer or counterparty. Request the inclusion of other information about the derivative, such as whether there are any side agreements.	X		X	X	X					
2	Detailed review of minutes and other evidence	Review minutes, contract agreements, and confirmation replies for evidence and completeness of the existence of derivatives, of liens, pledges, or other security interests in derivatives; and of commitments to acquire or dispose of derivatives.			X	X						
3	Inquiry for completeness of derivatives	Inquire about aspects of operating activities that might present risks hedged by derivatives.			X							
4	Identification of embedded or surprise derivatives	Identify any embedded or surprise derivatives not otherwise identified in steps 1 to 3 above, e.g., use the derivatives identifier tool (e.g., U-261 or IFRS)".			X							
5	Test of fair value of derivatives	Test the fair value of derivatives and the appropriate recording in the financial statements.		X								
6	Inquiry for completeness of significant commitments	Inquire of management for complete listing of significant commitments, e.g., purchase or sale contracts, fixed-priced or long-term agreements, service guarantees, insurance policies and determine whether or not disclosures need to be made.			X	X	X					
7	Identification of significant contingencies	Review lawyers' confirmations and other appropriate documents for significant contingencies and determine whether or not accruals need to be recorded and/or disclosures need to be made.	X	X	X	X	X					



# SPECIFIC AUDIT PROCEDURES

PROCEDURES			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
T EQUITY												
1	Equity reconciliation schedule	Obtain an equity reconciliation schedule, including retained earnings, agree to general ledger accounts and test movements from prior year end to current year end to ensure proper accounting for changes in equity, (e.g., profit distributions, other equity reductions or increases) and determine completeness and compliance with laws and regulations including taxation issues.			X	X	X					
2	Minutes and equity transactions	Review board of director, shareholder and committee meeting minutes as well as changes to the articles of incorporation for issues affecting the financial statements including the notes. If applicable, confirm all significant transactions with a transfer agent or share registrar. Agree any changes in stock to the general ledger.			X		X					
3	Inquiry for stock option agreements	Inquire of management for any stock option agreements and determine appropriate further audit procedures.	X	X	X							
4	Appropriateness of dividend payments	Ensure that all dividend payments are appropriately approved and declared, and that tax regulations have been followed.			X							

# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>UA</b> <b>REVENUE/ SALES</b>												
1	Overall analytical review for significant income statement accounts	Perform an overall analytical review for all significant income statement accounts and investigate in any significant changes or lack of expected changes, e.g. by means of computer-assisted audit techniques (CAAT). Ensure to include those accounts not already covered through balance sheet account testing.							X		X	X
2	Revenue recognition procedures	Perform revenue recognition procedures (if not already covered by tests of accounts receivables, trade and intercompany), for example, analytical procedures using disaggregated data (e.g., by month, by product line, by geographical area, by segment), inquiry of sales and marketing personnel for any unusual transactions, or similar items, review of the terms of sales agreements - including sales incentives- and client's policies for handling returns, to identify potential unusual transactions or events.							X	X	X	
<b>UB</b> <b>OTHER INCOME</b>												
1	Contents of miscellaneous income	Understand contents of miscellaneous income accounts. Investigate significant unusual transactions, if not already covered by balance sheet account testings.							X	X	X	X



## SPECIFIC AUDIT PROCEDURES

PROCEDURES			Significant Account and Primary Substantive Procedures		RELEVANT ASSERTIONS														
					B/S						P/L								
					E	V	C	R&O	P&D		O	M	C	P&D					
UC			FINANCE INCOME																
1	Interest and dividend income	Test interest and dividend income for significant investments or check reasonableness by comparing with the related investment balances.										X	X	X	X				
2	Changes in value of investments	Determine that changes in the value of investments is properly recorded in the income statement.											X					X	

VA			COST OF SALES																
1	Comparison of cost of sales with prior period	Obtain detail of Cost of Sales accounts in comparison with the prior period. Investigate and explain major changes, large or unusual transactions, or the lack of expected changes, if not already covered through analytical review of sales accounts including gross-margin analysis.										X	X	X	X				
2	Large and unusual expense review	Review the appropriateness of large and unusual expenses.										X							

VB			PAYROLL																
1	Payroll analytics	Compare the average pay per employee or hour to prior year including employee benefits, if significant. Consider dis-aggregating to types of employees or by location.										X	X	X	X				
2	Pension expenses	Test correctness of journal entries in connection with pensions and post-retirement expenses, current payments and for changes in pension reserves.											X					X	

# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures		RELEVANT ASSERTIONS									
		B/S					P/L				
		E	V	C	R&O	P&D		O	M	C	P&D
<b>K</b>	<b>DEPRECIATION/ DEPLETION/ AMORTIZATION</b>										
1	See worksteps for PPE under section K										

<b>VC</b>	<b>SELLING AND DISTRIBUTION EXPENSES</b>										
1	Comparison of selling and distribution expenses with prior period Obtain detail of Selling and Distribution Expense accounts in comparison with the prior period. Investigate and explain major changes, large or unusual transactions, or the lack of expected changes.							X	X	X	X
2	Large and unusual expense review Review the appropriateness of large and unusual expenses.							X	X		



## SPECIFIC AUDIT PROCEDURES

PROCEDURES			Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS													
						B/S						P/L							
						E	V	C	R&O	P& D		O	M	C	P& D				
VD			ADMINISTRATIVE AND OTHER EXPENSES																
1	Contents of Administrative and Other Expenses	Understand contents of Administrative and Other expense accounts, e.g., in the areas of professional services fees, repairs and maintenance, leases and rents, management compensation, political contributions and donations, and miscellaneous. Compare with previous period and investigate any unusual transactions.										X	X	X	X				
2	Review of underlying documentation	For significant transactions identified in the previous step, review underlying documentation for reasonableness and business purpose.										X	X	X					
3	Completeness of lawyers' confirmations	Verify through a review of lawyers fees that all lawyers and in-house legal counsels, who handle significant litigation or other claims, have been covered in the lawyers' confirmation work.												X	X				

# SPECIFIC AUDIT PROCEDURES

PROCEDURES  Significant Account and Primary Substantive Procedures			RELEVANT ASSERTIONS									
			B/S					P/L				
			E	V	C	R&O	P&D		O	M	C	P&D
<b>VE</b> <b>FINANCE EXPENSES</b>												
1	Interest Expenses	Review the reasonableness of interest expense for significant loans by comparing with the related loan balances.							X	X	X	X
2	Changes in value of investments	Determine that changes in the value of investments is properly recorded in the income statement.								X		X
<b>O</b> <b>INCOME AND OTHER TAXES</b>												
1		See worksteps for Income taxes, deferred taxes and related income statement accounts under O.										
2	Other taxes	Review significant other taxes, e.g., property taxes, for correctness and proper cutoff.							X	X	X	X



## EMERGING AUDIT PROCEDURES FOR EVOLVING BUSINESS MODELS

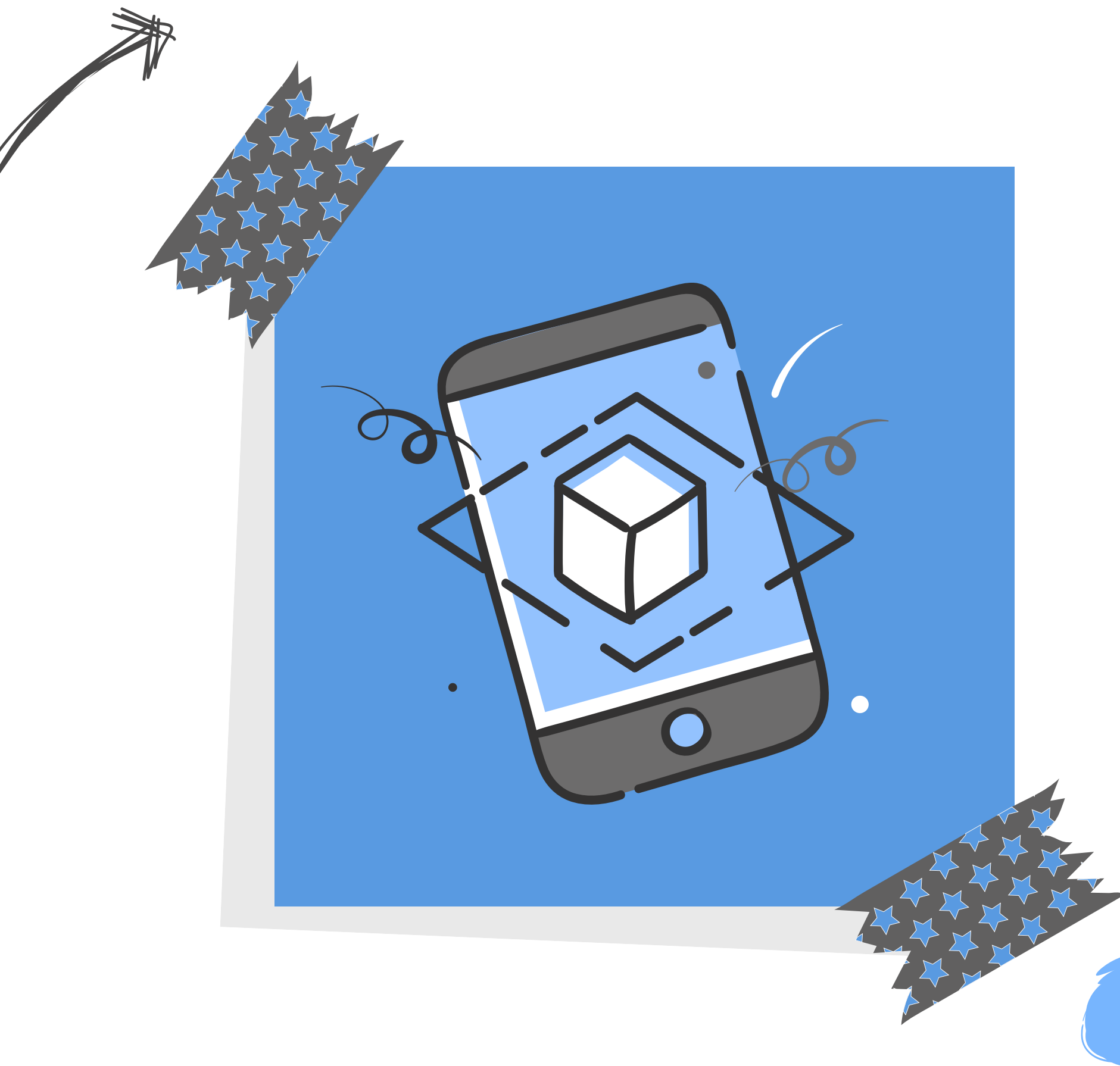
# Data Analytics & Continuous Monitoring

What's New: Auditors use data analytics tools (e.g., ACL, IDEA, Power BI) to analyze 100% of transactions—not just samples.

### Emerging Procedures:

- Trend detection, anomaly identification, and automated exception reporting
- Real-time transaction monitoring and dashboard-based risk analysis
- Data visualization to validate journal entry patterns





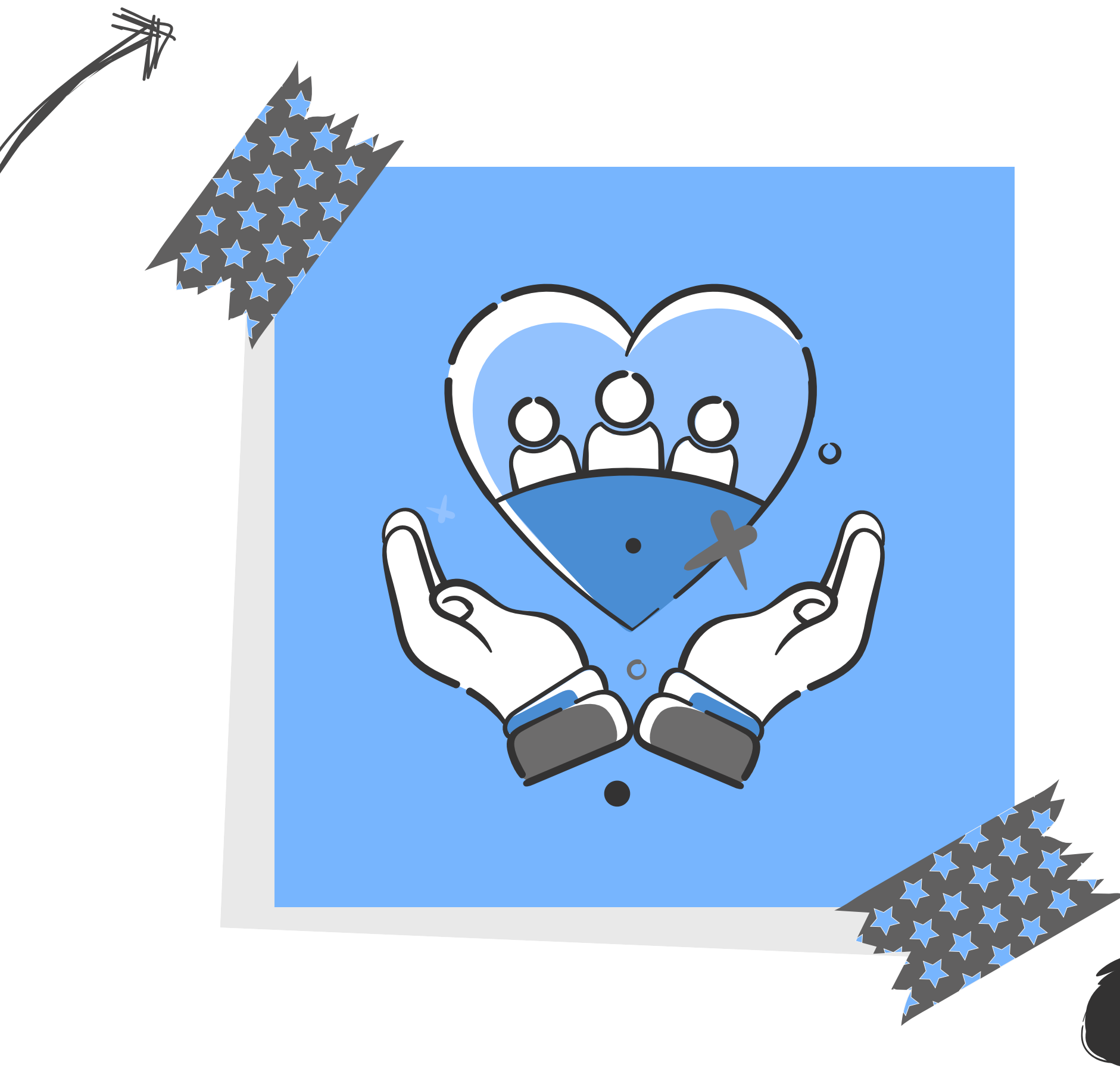
# Digital Revenue Streams and E-Commerce Audits

What's New: Revenue now comes from digital platforms, mobile apps, and online channels.

## Emerging Procedures:

- Cut-off and completeness testing from system-generated transaction logs
- Integration checks between payment gateways and ERP
- Digital sales channel reconciliations (e.g., Shopify, Lazada, GCash)





# Valuation of Intangible Assets and Digital Assets

What's New: Rise in cloud licenses, NFTs, software-as-a-service (SaaS), and crypto holdings.

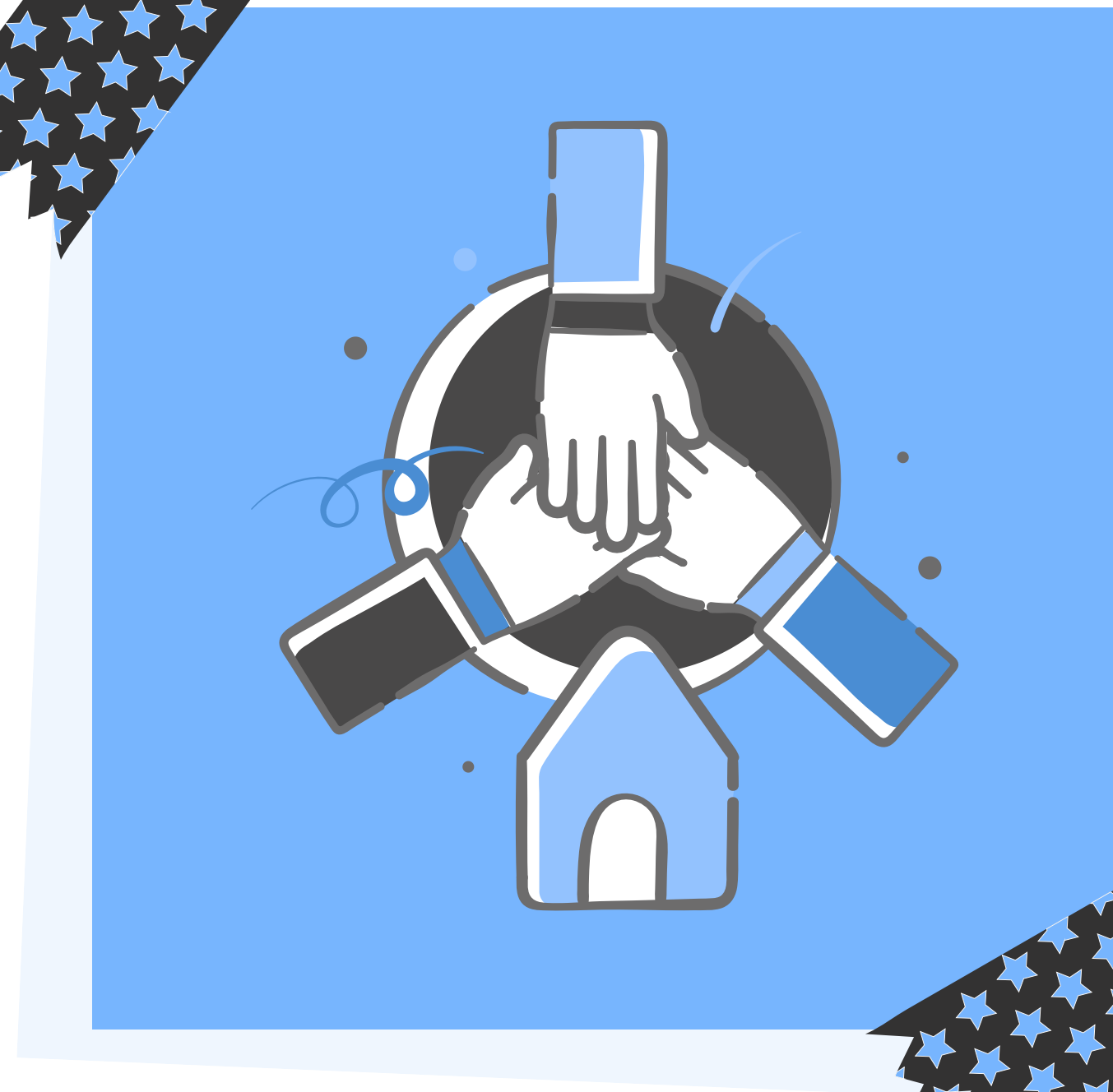
## Emerging Procedures:

- Expert valuation reviews of IP, licenses, and digital tokens
- Fair value testing of crypto with reference to market exchanges
- Impairment review of tech-based intangibles

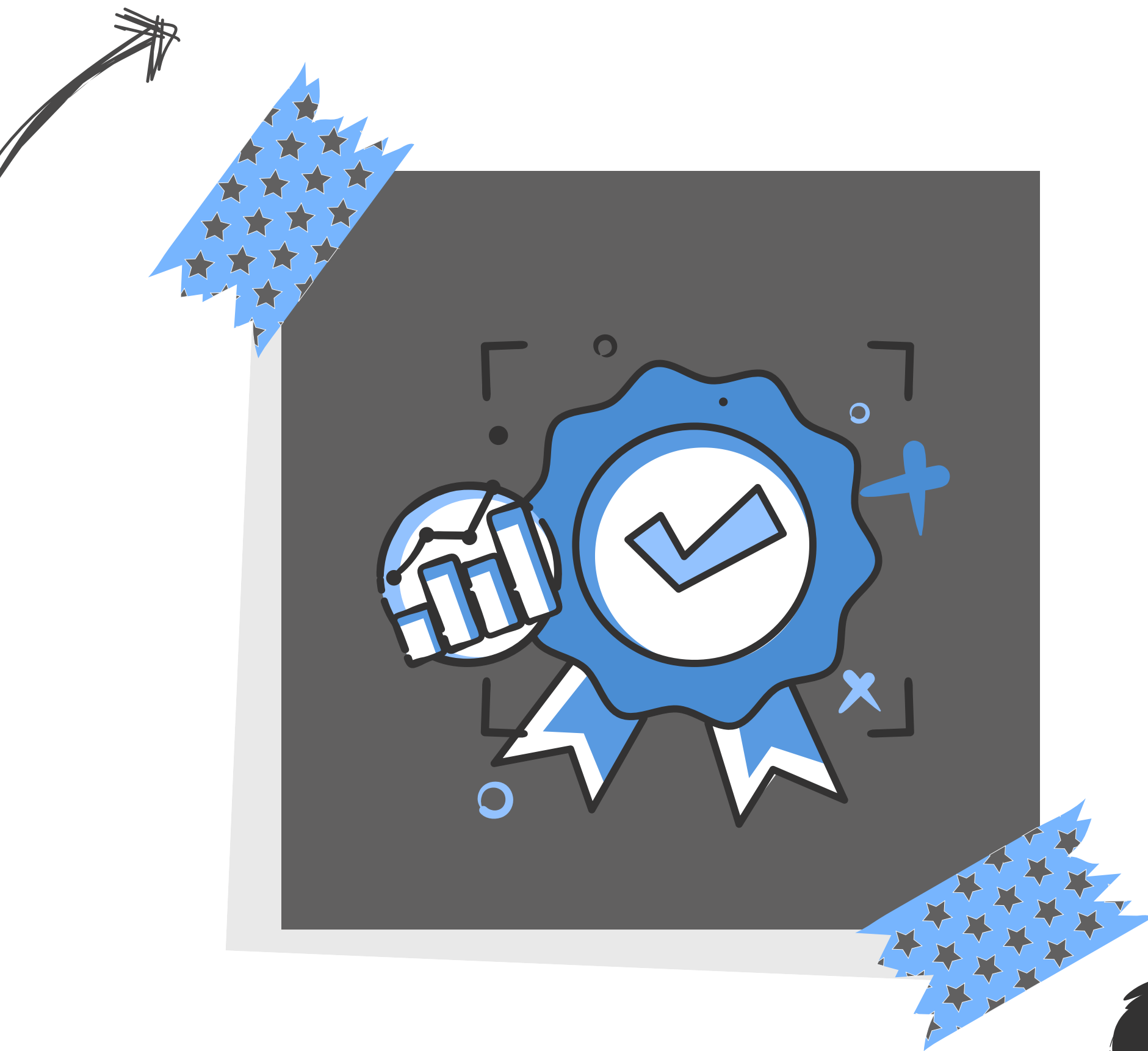
# Assessment of ESG-Related Disclosures

What's New: Increasing stakeholder and regulator focus on Environmental, Social, and Governance (ESG) reporting.

- Emerging Procedures:
- Evaluate controls around non-financial reporting (carbon metrics, DEI disclosures)
- Corroborate reported sustainability data with operational records
- Assess frameworks used (e.g., GRI, SASB, TCFD)







# Cybersecurity and IT Risk Audits ✓

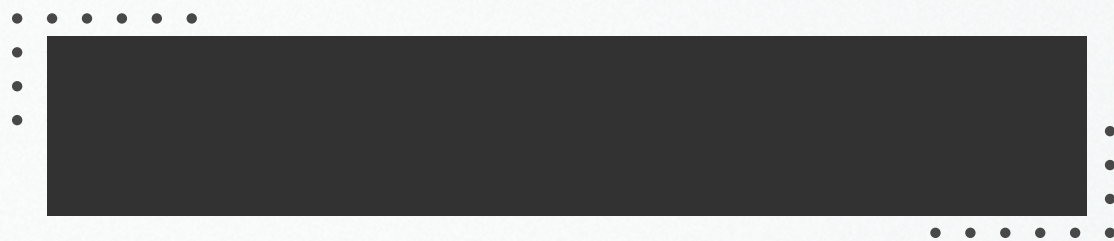
What's New: Cyber threats now pose a material business risk.

Emerging Procedures:

- Review of cybersecurity governance, breach logs, and incident response plans
- Testing system back-up processes and business continuity procedures
- Evaluation of access rights, MFA (multi-factor authentication), and endpoint protection



# **RECURRING RED FLAGS: TOP FS ERRORS AUDITORS CATCH EVERY YEAR**



**Date:** June 14, 2025

**Presented by:** Randy S. Paderes, CPA, CIA





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# *Why these mistakes matter* →

These are the most common audit findings flagged during financial statement (FS) reviews. Understanding these mistakes is crucial, as it helps avoid delays, post-audit adjustments, or even qualified audit opinions. Most of these issues reflect gaps in tie-ups, disclosures, reconciliations, and supporting documentation—areas that auditors consistently review for accuracy and completeness.



# PRIOR YEAR WORKING PAPERS AND OPENING BALANCES

- ▶ Missing or unreconciled opening balances from last year
- ▶ No access to or loss of prior year working papers (wp)
- ▶ Carryovers not updated for adjusting entries from prior audit

**Always validate opening  
balances and trace  
adjustments to prior year  
issues.**



# PAJE AND OTHER ADJUSTMENTS

- ▶ Proposed Adjusting Journal Entries (PAJE) not recorded or approved
- ▶ Client books still reflect unaudited balances
- ▶ Management doesn't understand how PAJE affects financials

**All audit adjustments must be booked for FS to be reliable.**



# LOANS AND LIABILITIES

- ▶ Short-term/ Long-term portions of loans not properly reclassified
- ▶ Mismatch between loan schedules and GL balances
- ▶ Interest not accrued or loans lacking amortization schedules

**Loan disclosures should tie to amortization and correct classification.**



# MISSING SCHEDULE AND ATTACHMENTS

- ▶ No supporting schedules for major accounts (e.g., PPE, taxes, accruals)
- ▶ FS notes do not match internal working files
- ▶ Breakdown of “Other” accounts missing

**Every material line item must be supported by a schedule.**



# INTERCOMPANY TRANSACTIONS

- ▶ Intercompany transactions and balances not reconciled
- ▶ Mismatched due to timing or missing confirmations
- ▶ Intercompany revenues and expenses not eliminated

**Balances must match across entities to avoid audit adjustments.**



# AGED RECEIVABLES AND PAYABLES

- ▶ Long outstanding AR or AP not assessed for collectibility or settlement
- ▶ No impairment analysis or reversal of payables
- ▶ Subsidiary ledger not tied up to the AR/ AP Control account

**Old balances need proper documentation or clearing.**



## OTHER ASSETS

- ▶ No schedule of Creditable withholding tax certificates (CWT)
- ▶ CWTs are not accounted for properly.
- ▶ Subsidiary ledger not tied up to the AR/AP Control account

**Old balances need proper documentation or clearing.**



# LEASE ACCOUNTS

- ▶ Lease liabilities and right-of-use (ROU) assets do not reconcile with lease agreements; new lease accounting standards (e.g., PFRS 16) not implemented or improperly applied.

**Old balances need proper documentation or clearing.**



# TAX ACCOUNTS

- ▶ Tax reconciliations not maintained (e.g., VAT, EWT, ITR vs GL)
- ▶ Deferred tax assets (DTA) not recorded nor supported by future benefits
- ▶ DTA movements do not tie up with Provision for tax benefits
- ▶ FS tax account balances inconsistent with returns

**CWT balances must be supported by schedules and tied to actual certificates and ledgers.**



# QUESTION AND ANSWER SEGMENT







# THANK YOU

