

**Dissertation Submitted in Partial Fulfilment of the  
Requirements for the degree of Masters**

**Major: Audit and Management Control**

**THEME:**

**The external audit process for the fixed  
assets cycle**

**Case study: client audited by EY**

**Submitted by:**

Ms. BAHRI Sana

**Supervised by:**

Pr. RABIA Lamia

**Academic year**

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## ***Dedication***

*This master's dissertation is dedicated to all the loving individuals in my life who have supported me through the difficult moments.*

*I would like to start with my parents for their endless love, sacrifices and encouragement, I wouldn't have been able to be here without you.*

*To my uncle Djiyad, whose encouragement meant more than ever.*

*And to my uncle Halim rebi yerahmo, who is encouraging me from afar, you may not be here with me, but you will always be in my heart.*

*To my sister Pipina who stood by me more than anyone else and brother Mouh.S for always being by my side.*

*To the members of my family and my closest cousins Amira, Lina and Abla.*

*To my best friends back home Maroua and Salma.*

*To my dear classmates and friends Nysrine, Selma, Zhour, Sihem, Nassim and Anis whom i shared all types of emotions with.*

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## List of abbreviations

| Abbreviation | Full Form                           |
|--------------|-------------------------------------|
| AR           | Audit Risk                          |
| CIP          | Construction in Progress            |
| CRA          | Combined Risk Assessment            |
| CR           | Control Risk                        |
| DR           | Detection Risk                      |
| EY           | Ernst & Young                       |
| IAS          | International Accounting Standards  |
| IR           | Inherent Risk                       |
| ISA          | International Standards on Auditing |
| IT           | Identification Threshold            |
| OM           | Overall Materiality                 |
| PM           | Performance Materiality             |
| PPE          | Property, Plant, and Equipment      |
| RMM          | Risk of Material Misstatement       |
| SAD          | Summary of Audit Differences        |
| TE           | Tolerable Error                     |
| VAT          | Value-Added Tax                     |

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## **Abstract**

External audit is an independent process aimed at assessing the reliability of a company's financial statements. The fixed assets cycle is a key area, given the significant role of tangible and intangible assets in the financial structure of an entity.

This work focuses on an external audit mission related to fixed assets, combining a theoretical foundation with a practical case study. The analysis involved understanding the company's environment, testing asset-related accounts, and verifying compliance with accounting standards.

The results revealed certain discrepancies and led to recommendations to improve internal procedures. This mission provided a deeper understanding of the challenges involved in auditing the fixed assets cycle.

**Keywords :** external audit, fixed assets, tangible and intangible assets, accuracy, compliance.

## Résumé

L'audit externe est un processus indépendant visant à évaluer la fiabilité des états financiers d'une entreprise. Le cycle des immobilisations constitue un domaine clé, compte tenu du rôle important des actifs corporels et incorporels dans la structure financière d'une entité.

Ce travail porte sur une mission d'audit externe relative aux immobilisations, combinant une base théorique avec une étude de cas pratique. L'analyse a consisté à comprendre l'environnement de l'entreprise, à tester les comptes liés aux immobilisations et à vérifier le respect des normes comptables.

Les résultats ont révélé certaines anomalies et ont conduit à des recommandations pour améliorer les procédures internes. Cette mission a permis d'approfondir la compréhension des enjeux liés à l'audit du cycle des immobilisations.

**Mots-clés :** audit externe, immobilisations, actifs corporels et incorporels, exactitude, conformité.

## الملخص

التدقيق الخارجي هو عملية مستقلة تهدف إلى تقييم مدى موثوقية البيانات المالية للشركة. يُعد دورة الأصول الثابتة من المجالات الأساسية نظرًا للدور الكبير الذي تلعبه الأصول الملموسة وغير الملموسة في الهيكل المالي للكيان.

يركز هذا العمل على مهمة تدقيق خارجي تتعلق بالأصول الثابتة، حيث يجمع بين الأساس النظري ودراسة حالة عملية. شملت التحليلات فهم بيئة الشركة، اختبار الحسابات المتعلقة بالأصول، والتحقق من الالتزام بالمعايير المحاسبية.

كشفت النتائج عن بعض التباينات وأدت إلى تقديم توصيات لتحسين الإجراءات الداخلية. أتاحت هذه المهمة فهمًا أعمق للتحديات المرتبطة بتدقيق دورة الأصول الثابتة.

**الكلمات المفتاحية :** التدقيق الخارجي، الأصول الثابتة، الأصول الملموسة، الأصول غير الملموسة، الدقة، الالتزام.

### General introduction

In today's fast-paced and complex economic environment, companies of all sizes face challenges that can threaten their survival. One of the most critical is effective decision-making, which relies on accurate, reliable, and timely information. Managers must analyze and select relevant data to support good governance and achieve strategic goals, with a focus on profitability, liquidity, and cash flow.

The 2008 global financial crisis exposed the risks of poor information management and weak control systems. It underscored the need for high-quality financial data and raised doubts about audit effectiveness. Since then, stakeholders increasingly demand audited financial statements to ensure accuracy before making investment or lending decisions.

Auditing has become an essential function, offering independent and objective evaluations of financial statements. Certified public accounting firms play a crucial role by reviewing records, assessing compliance with accounting standards, and issuing opinions on whether the financial statements present a true and fair view of the company's financial position.

A company's operations revolve around key cycles such as revenue, payroll, expenditure, and fixed assets. The fixed assets cycle, covering both tangible and intangible assets, is particularly significant due to the high value and long-term impact of these assets on financial stability and operations.

External auditors conduct various tests and assess internal controls related to fixed assets to ensure the accuracy and reliability of reported information. Their work provides essential assurance to stakeholders and enhances financial transparency.

This study aims to present the detailed steps taken by auditors to form a responsible and sincere opinion on fixed asset items included in an entity's financial statements. The choice of this topic stems from a desire to deepen our understanding of the accounting treatment of fixed assets and to explore the audit methodologies applied by firms, particularly Ernst & Young, in the audit of this critical cycle.

In this sense, we have formulated the following problematic: «**What is the audit approach to be followed by Ernst & Young (EY) for the fixed assets cycle?** ».

To explore our research topic in greater depth, we have identified several secondary questions that naturally arise from it:

- What is an audit, and what are its main types and participants?
- What are the requirements that auditors must comply with during the audit of fixed assets?
- How do external auditors assess the reliability of information related to tangible and intangible assets?
- How does EY specifically conduct the audit of the fixed assets cycle to ensure accuracy and compliance?

These questions may have many answers, and we think that these assumptions or hypotheses are among them:

- External audit follows a structured process, with specific procedures adapted to the audit of fixed assets.
- The audit of fixed assets requires compliance with specific standards and audit assertions such as existence, valuation, and rights and obligations.
- The effectiveness of the audit process relies on both the quality of internal controls implemented by the entity and the audit procedures used to address risks.

To answer the research questions, we adopted a descriptive and analytical approach that combines theoretical study with practical investigation. We began with a thorough literature review, consulting books, academic theses, articles, legal texts, and online sources to build a solid theoretical framework on auditing, especially related to fixed assets.

Next, we observed audit missions carried out within the firm Ernst & Young, focusing on the fixed assets cycle. We gathered insights from auditors and staff of the audited company through interviews, which helped us understand the real application of audit procedures in practice.

Finally, we analyzed audited documents related to fixed assets to evaluate how audit principles are applied in a real business context. This combination of methods allowed us to explore both the theory and practical aspects of auditing fixed assets, providing a clear understanding of the audit process within a leading international firm.

To effectively address our research problem, this study is structured into two comprehensive chapters: a theoretical chapter and a practical chapter.

The first chapter lays the foundation by presenting the conceptual and regulatory framework of auditing. It begins with an extensive literature review that covers the key definitions, objectives, and fundamental principles of auditing, with particular emphasis on statutory audits. Special focus is placed on fixed assets both tangible and intangible including their classification, accounting treatment, and their strategic significance within the financial statements. The chapter also highlights the inherent risks associated with fixed assets, which justify the need for careful audit attention. Furthermore, professional auditing standards are examined in detail, and the chapter outlines the specific stages of the audit process related to fixed assets, ranging from initial planning and risk assessment to the execution of audit procedures and the formulation of the final audit opinion.

The second chapter shifts focus to a practical case study based on an actual audit engagement conducted within the international audit firm Ernst & Young. This chapter starts with a brief presentation of the audit firm itself and the audited entity to provide context. It then provides a thorough description of the audit procedures implemented during the fixed assets cycle. This includes understanding the nature and operations of the audited entity, evaluating its internal control environment, and conducting substantive testing to verify key assertions such as the existence, valuation, ownership, and accurate presentation of fixed assets in the financial statements. The chapter also presents and discusses the key findings of the audit, identifies any deficiencies or areas for improvement, and offers practical recommendations aimed at enhancing the reliability and compliance of fixed assets reporting.

This research adopts a descriptive and analytical methodology that combines theoretical knowledge with empirical fieldwork. This dual approach enables a robust comparison between established audit standards and their actual application in practice. Data collection involved detailed document analysis and interviews with audit professionals and company staff, which enriched the study by providing real-world insights and highlighting practical challenges faced during the audit of fixed assets.

# **Chapter I: The theoretical approach to auditing and fixed assets**

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### Chapter introduction:

In this first chapter, we explore the foundational concepts of auditing, with a particular focus on fixed assets, which play a critical role in financial reporting and organizational governance. We begin by providing a comprehensive overview of auditing, examining its definition, objectives, and various types, including internal, external, and statutory audits. The historical evolution of auditing is also discussed to highlight its transformation from a simple verification tool to a cornerstone of financial transparency and accountability.

Next, we delve into the specifics of statutory audits, emphasizing their purpose and benefits. We analyze the risks associated with statutory audits, such as inherent risks, control risks, and detection risks, and discuss how auditors manage these challenges through materiality thresholds and rigorous procedures.

The chapter then shifts to fixed assets, a vital component of many organizations' balance sheets. We define fixed assets, outline their recognition criteria, and classify them into tangible, intangible, and financial categories. The importance of auditing fixed assets is underscored, given their material value and the potential for misstatements that could significantly affect financial statements.

By the end of this chapter, Key audit procedures for fixed assets are examined, including the evaluation of internal controls, substantive testing, and reconciliation processes. We also highlight common risks such as improper capitalization, incomplete recording, and inaccurate depreciation calculations.

### Section 01: General Framework of Auditing: Emphasis on Statutory Audit.

This section aims to provide a general overview of auditing, with a particular focus on statutory audit.

#### 1. Introduction to audit.

This part will focus on auditing in general, such as its definition, objectives, and types...ect

##### 1.1 Historical approach to auditing:

The word audit comes from the Latin word *audire*, which means «to listen». The first form of audit in France is the statutory auditor, established by the law of July 24, 1867. The statutory auditor then had the role of verifying a company's accounts to ensure that they had been prepared according to commonly accepted accounting principles, and that there were no omissions likely to distort the true and fair view of the company's economic reality presented by the accounts.

Gradually, the term audit has undergone an extension, due to the image of rigor it conveys, the risks it manages to identify, and the complexity of the management and control parameters it must master. All these benefits associated with «audit» have greatly contributed to its development and widespread adoption<sup>1</sup>.

Thus, audit has evolved from a purely legal obligation to a key tool for ensuring transparency, accountability, and sound governance. While statutory audit remains essential, auditing now plays a broader role in supporting organizational integrity and performance.

##### 1.2 Definition of audit:

In academic and professional circles, various definitions are regularly invoked to describe the concept of audit. Among these, we choose to focus on the clearest and most relevant definitions within the scope of our work.

The audit is also defined as: *«Audit is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events, to determine the*

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<sup>1</sup> Elisabeth Bertin, Christophe godowski, Rédha Khelassi, Manuel de comptabilité et d'audit, Berti Editions, Alger 2013, P.526.

*degree of correspondence between those assertions and established criteria, and to communicate the results to interested users »<sup>1</sup>.*

The term audit can also be defined as *«An auditor or examiner is responsible for verifying the financial and accounting statements of an industrial or commercial enterprise and ensuring the regularity and accuracy of the company's accounts and financial results »<sup>2</sup>.*

Another definition of audit: *«Procedure consisting of ensuring the completeness, sincerity and regularity of a company's accounts, in order to vouch for them to the various interested partners of the firm and more generally, to assess the quality and rigor of its management »<sup>3</sup>.*

From the previous definitions, we can conclude that they all converge to:

- The audit is a structured and systematic process.
- It verifies the accuracy, regularity, and sincerity of financial statements.
- The auditor provides independent assurance to stakeholders.
- The audit assesses the quality of management and internal controls.

### **1.3 Objectives of audit :**

Originally focused on detecting fraud, the main goal of an audit has shifted over time. Today, it primarily aims to ensure the accuracy, consistency, and reliability of a company's financial information. Therefore, we can summarize the objective of the audit in the following points<sup>4</sup>:

- Protect and safeguard the company's assets
- Apply company procedures and instructions
- Identify and eliminate redundant tasks and work, as well as operational errors that lead to unnecessary expenses
- Ensure that the principles of regularity in accounting and financial matters (integrity, clarity, transparency) are applied by the services

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<sup>1</sup> SMIELIAUSKAS, (W.J) et BEWLEY, (K) : Audit, une approche internationale, édition chenelière, Canada, 2013, P.07.

<sup>2</sup> Mokhtar BELAIOUD, Pratique de l'Audit, Berti Editions, Alger, 2005, P.07.

<sup>3</sup> T. RANANJASON RALASA, M. ROSIER, G. SABY, Comptabilité et audit, Edition Groupes Eyroll, Paris, 2015, P.181.

<sup>4</sup> KHELASSI Reda, *Audit interne, audit opérationnel*, édition Houma, Alger, 2007, P.24.

- Identify expenses unrelated to the desired outcome, and budgets that have become unnecessary so that they cannot be renewed
- Verify the status of personnel as well as the distribution of the workforce
- Identify services and functions that could be performed at a lower cost for the company.

### 1.4 Types of audit :

We can classify the different types of audits based on various criteria. In our study, we will categorize them depending on the party involved the scope of investigation and finally the field.

#### 1.4.1 Depending on the party involved:

Two types are identified in this context, and we will outline the key differences between them:

##### a) Internal audit:

Internal audit is a key part of governance, offering an independent assessment of an organization's operations. Conducted by an internal employee, it evaluates risk management, controls, and governance. By ensuring compliance with policies, it identifies weaknesses and recommends improvements, contributing to operational efficiency and a culture of accountability<sup>1</sup>.

##### b) External audit:

External audit is the examination of a company's financial statements to verify their accuracy, compliance with accounting standards, and to ensure they provide a true and fair view of the company's situation. We can distinguish three types of external audit:

- **Statutory audit:** Is an independent profession responsible for ensuring the quality and transparency of financial information. Its main role is to verify the accounts, ensuring they accurately reflect the company's true financial position in compliance with accounting standards<sup>2</sup>.
- **Contractual audit:** Is based on an agreement between the auditor and the audited entity, defining the nature and terms of the mission. It is requested by a company seeking the

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<sup>1</sup> BERTIN.E, Audit interne, enjeux et pratiques à l'international, Editions Eyrolles, 2007, P.21.

<sup>2</sup> LE THEULE.M, LEFRANCQ.S, COLLAIN.B, DSCG 4 Comptabilité et audit 2017-2018, Edition Vuibert, P.575.

opinion of a recognized auditor for their expertise or when a third party, such as a bank, requires a specific audit<sup>1</sup>.

- **Government audit:** A systematic process of objectively obtaining and evaluating evidence to determine whether government operations are conducted economically, efficiently, and effectively in accordance with applicable laws and regulations<sup>2</sup>.

**c) The difference between internal and external audit:**

The following table shows the difference between the two types of audit:

**Table 1: Comparison between internal and external audit.**

|                             | Internal audit                                                                                                 | External audit                                                                                                                                |
|-----------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Status                      | Company employees                                                                                              | External staff (legally independent)                                                                                                          |
| Scope of application        | The entire functions of the company                                                                            | It includes everything that contributes to the preparation of the financial statements, and the determination of the results.                 |
| Method                      | Systematic and Methodical Approach to the Evaluation and Improvement of Processes                              | Method based on Reconciliation, Inventory, and Analysis                                                                                       |
| Objectives                  | Highlight the dysfunctions, provide recommendations, and ensure compliance with the application of procedures. | Certify the regularity, accuracy, and true and fair view of the accounts, results, and financial statements of the company.                   |
| beneficiaries               | The internal auditor works on behalf of the company to ensure its continuous improvement.                      | All those who require the certification of the accounts, results, and financial statements (Shareholders, Clients, Suppliers, Bankers, etc.). |
| Issuance of the Conclusions | Internal to the company                                                                                        | Internal and External to the company                                                                                                          |

**Source :** BOUMEDIENE (Mohammed Rachid), Thèse de Doctorat sur « Qualité de l'Audit Légal à la lumière des Mécanismes Interne de Gouvernance d'Entreprises », Université de Tlemcen, 2014, P.18.

<sup>1</sup> AOUDJIT.R, Rapport d'expertise comptable N°6 : L'audit. 2002, P.06.

<sup>2</sup> INTOSAI, <https://www.intosai.org>, Visited on 05/04/2025 at 14:30.

### 1.4.2 Depending on the scope of the investigation:

#### a) Comprehensive audit:

This audit examines all activities, functions, and processes of the company without restriction of scope<sup>1</sup>.

#### b) Partial audit:

Unlike the comprehensive audit, this one is limited either to a specific section (inventory, investments, taxes, etc.), or to a particular department (human resources, accounting, purchasing, sales, etc.). This is a limited audit within its scope of investigation<sup>2</sup>.

### 1.4.3 Depending on the field:

The audit encompasses all the areas necessary to form the auditor's opinion. Thus, according to the specific needs of the company, he can specialize in areas such as:

#### a) Social audit:

It aims for a systematic evaluation of a company's social impact in relation to certain standards and expectations<sup>3</sup>.

#### b) IT audit:

It is a practice aimed at evaluating the use, execution, the efficiency and adequacy of the components of the computer system or the system information, with the aim of guiding the company's decisions regarding technology<sup>4</sup>.

#### c) Tax audit:

It is an examination by tax authorities of a taxpayer's financial records to verify that income, deductions, and taxes are reported accurately and comply with tax laws.

In addition, we can summarize the audit types in this figure:

---

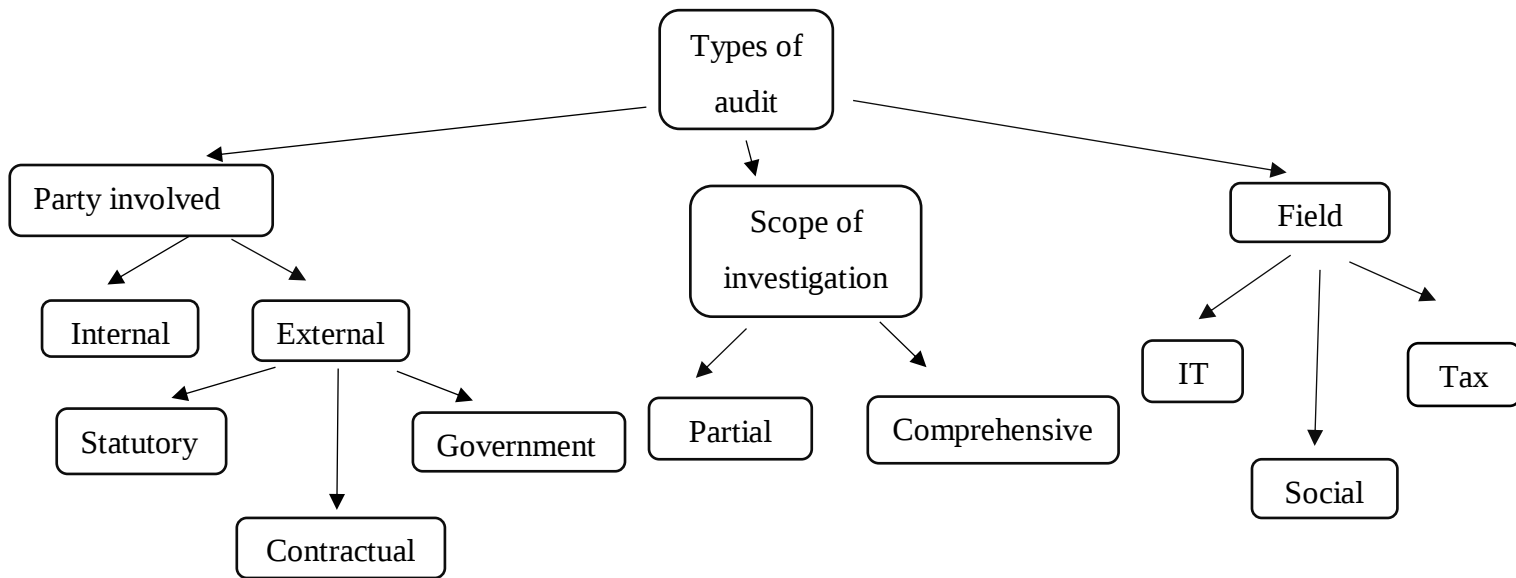
<sup>1</sup> BATUDE.D, L'audit comptable et financier, Edition Nathan, Paris, 1997, P.56.

<sup>2</sup> Idem.

<sup>3</sup> PERETTI.J, IGALENS J, Audit social : Meilleures pratiques, méthodes, outils Ed.2, Edition Eyrolles, 2016, P.14.

<sup>4</sup> IT Audit Course, Lumières University of Bujumbura, p.04.

Figure 1: Summary of audit types:



Source: Developed by the student based on the previous definitions.

### 1.5 Audit Assertions:

Assertions are criteria used to assess risks that could affect the accuracy and honesty of financial accounts. The six main assertions are<sup>1</sup>:

- **Completeness:** All transactions, events, assets, and liabilities have been properly recorded in the correct accounting period, and all necessary disclosures are included in the notes to the financial statements.
- **Existence and Occurrence:** The assets and liabilities, as well as the transactions and events that have been recorded in the accounts or mentioned in the annex, are real, belong to the entity, and relate to the correct accounting period.
- **Accuracy:** Assets and liabilities as well as transactions and events that have been recorded in the accounts or mentioned in the annex have been correctly recorded in the appropriate accounting entries.
- **Valuation:** Assets and liabilities are recorded at their fair value in the financial statements. Any potential revaluation differences are properly recognized.
- **Rights and Obligations:** The entity's financial statements reflect both its obligations (liabilities) and its rights over the assets it holds or controls.

<sup>1</sup> Internal Documentation of KPMG: Accounting Audit Firm, AD (Assistant Beginner) Training.

- **Presentation:** The aggregates of the balance sheet and the income statement, as well as the information in the annex, are correctly presented and described, clearly expressed, and for the appropriate amounts in the relevant sections.

### 2. Generalities on statutory audit:

This part will focus specifically on statutory audit, outlining its definition, objectives, purpose, and related aspects.

#### 2.1 Definition of statutory audit:

The statutory audit appears as the oldest and most well known form of audit to the public, formerly called «accounting review» in French before the term «audit» was preferred, entrusted by law to the statutory auditor with the objective of certifying financial statements and validating the relevance of accounting and financial information. In this regard, it is important to define statutory audit, its objectives, its risks, and the approach of the mission. Thus, we address the statutory audit in Algeria within its legal framework.

In addition, numerous organizations defined statutory audit so we mention:

According to IFAC standards : *«The purpose of an audit is to enhance the degree of confidence of presumed users of financial statements. This is achieved by the auditor expressing an opinion that the financial statements are prepared, in all their significant aspects, in accordance with an applicable accounting framework. For most general-purpose accounting frameworks, this opinion pertains to the fact that the financial statements are presented sincerely, in all their significant aspects, or give a true and fair view in accordance with this framework »*<sup>1</sup>.

The national company of statutory auditors (CNCC) has also defined statutory audit as: *« An audit of the accounts is intended to allow the auditor to express an opinion on whether the accounts are prepared, in all material respects, in accordance with the applicable accounting standards »*<sup>2</sup>.

*«A critical, methodical and documented process performed by a competent and independent professional to gather objective information to determine the extent to which the*

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<sup>1</sup> Editions Francis Lefebvre sous la direction de SARDET (Pierre), TORIO-VALENTIN (Isabelle) et MERLE (Philippe) : *Mémento Pratique : Audit et commissariat aux comptes*, Editions Francis Lefebvre, 2014, P.516-517.

<sup>2</sup> Fosse, (V), Rananjason Rala, (T), et Rosier, (M.C) : *comptabilité et audit*, édition Eyrolles, Paris, 2012. P.183.

*elements of the target system meet the requirements of the relevant domain standard or the audit criteria »<sup>1</sup>.*

So we can conclude from these definitions:

- Audit is an independent examination of financial information.
- The purpose of this examination is to express an opinion on the financial statements.
- It applies to all entities, whether profit or non-profit (e.g., companies, NGOs).
- It is required regardless of the size of the entity (small or large).
- It also applies regardless of legal form (sole proprietorship, partnership, or company).

### 2.2 Objectives of statutory audit :

According to the conceptual framework of the audit missions of the IAASB (taken up by the standard Isa200), the objective of an audit mission of the financial statements is to allow the auditor to express an opinion according to which the financial statements have been established, in all their significant aspects, in accordance with an identified accounting repository<sup>2</sup>. Audit of financial or other information, established according to generally recognized principles, pursues the same objective. To express an opinion, the listener brings together the evidence necessary to achieve conclusions on which his opinion is based.

The auditor's opinion strengthens the credibility of the financial statements, providing high assurance, but not absolute. Absolute assurance in audit cannot exist, due to many factors, such as the use of judgment, the use of the surveys technique, the limits inherent in any accounting system and internal control and the fact that most probative information available to the listener lead, by nature, more to deductions than to certainties<sup>3</sup>.

Thus, the auditor expresses an opinion on:

- **Regularity:** Compliance of the accounts with applicable laws, regulations, and generally accepted accounting principles. This includes legal texts, case law, and professional standards.
- **Sincerity:** The good faith application of accounting rules and procedures, based on the preparers' understanding of the entity's reality. It involves proper valuation of accounting items and a reasonable assessment of risks and impairments.

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<sup>1</sup> Bertin Elisabeth, Godowski Christophe, Khellassi Rédha : Manuel Comptabilité et audit, Édition Berti, Alger 2013, P.526.

<sup>2</sup> International Auditing Standards CNCC-IRE CSOEC, June 2002.

<sup>3</sup> R. Obert et M. Pierre Mairesse, Comptabilité et Audit, Paris Ed DUNOD, 2007, P.403.

- **True and fair view (faithful representation):** Selecting the most appropriate methods of presentation and calculation to reflect the company's actual situation and to provide clear and sufficient information, especially in the notes to the financial statements.

### 2.3 The Purpose of statutory audits:

The primary purpose of statutory audits is to minimize legal risks and prevent legal disputes that could result in substantial financial loss and reputational damage. Regular statutory audits help businesses identify and address compliance gaps before they escalate into costly legal problems.

Moreover, statutory audits serve as a proactive measure for companies to demonstrate their commitment to ethical business practices and regulatory compliance. By conducting these audits regularly, organizations display their dedication to upholding legal standards and fostering a culture of accountability within the company<sup>1</sup>.

### 2.4 Key benefits of statutory audits:

We can mention the following key benefits<sup>2</sup>:

- **Risk mitigation:** Statutory audits help identify risks and liabilities, improve governance, and prevent fraud by reviewing legal operations and staying current with laws.
- **Contractual obligations:** Statutory audits support daily operations by helping organizations manage contracts, identify gaps or violations, and avoid future legal disputes.
- **Employee related risks reduction:** Statutory audits go beyond compliance by reducing employee-related risks through the review of workplace policies, helping organizations spot and fix potential issues early.
- **Regulatory compliance:** Statutory audits help companies align with current legal standards, industry regulations, and enhance corporate social responsibility (CSR) and sustainability to meet stakeholder expectations.

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<sup>1</sup> <https://www.dhweberman.com/post/the-importance-of-regular-legal-audits-for-your-business-9d0ba> , visited on 08/04/2025 at 17:48.

<sup>2</sup> <https://www.linkedin.com/pulse/importance-legal-audits-businesses-7-key-benefits-links-gains-yctnf> , visited on 08/04/2025 at 18:46.

- **Competitive edge:** Statutory audits help companies align with current legal standards, enhancing their reputation, competitive edge, and long-term success. They also promote responsibility, accountability, and transparency, boosting credibility and trust.
- **Business performance improvement:** Statutory audits are crucial for boosting business performance by identifying legal issues and streamlining operations. They highlight obstacles and uncover opportunities, helping businesses maximize their potential.
- **Intellectual property protection:** A statutory audit helps organizations identify gaps in intellectual property protection and take steps to strengthen their portfolio, ensuring the protection of valuable assets.

### 2.5 The risks related to statutory audit:

In the context of a statutory audit, risks refer to the potential factors or situations that could hinder the achievement of audit objectives or compromise the reliability of the auditor's findings. These risks may stem from errors, fraud, or deficiencies in internal control, and they can affect both the quality of the audit and the auditor's legal obligations. Understanding and managing these risks is essential to ensure a rigorous and compliant audit process.

The risk of audit is broken down into three components<sup>1</sup>:

- Inherent risk ;
- Control risk ;
- Risk of failing to detect material misstatement or Non-Detection risk.

#### 2.5.1 Inherent risk:

The inherent risk is defined as: « *is the risk of a significant error occurs taking into account the characters of the company, its activities and the nature of its accounts and its work* »<sup>2</sup>.

We can analyze these risks as follows<sup>3</sup>:

- Risks related to the activity.
- Risks related to the capital structure.

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<sup>1</sup> Le JEUNE.G et EMMERICH.J P, Audit et commissariat aux comptes, édition GUAMINO, Paris, 2007, P102.

<sup>2</sup> OBERT, (R) ET MAIRESSE, (M.P) :Op.cit, P.443.

<sup>3</sup> Idem.

- Risks related to the financial structure.
- Risks related to the organization.
- Risks related to the significance of certain balance sheet items.
- Risks related to certain assets or categories of operations.

This risk exists independently of the audit of the financial statements and is inherent to the entity.

### 2.5.2 Control risk:

The risk related to control is the risk that the internal control system does not ensure the prevention or correction of errors. This control-related risk must be assessed in the phase of internal control assessment. A good understanding of the company's internal control indeed allows the auditor<sup>1</sup>:

- To identify the types of errors made possible by the system's shortcomings;
- To measure the risk of occurrence of these errors.

**Note :** we also have the risk of material misstatement (RMM) which is the risk that the financial statements contain errors or fraud that are significant enough to influence the decisions of users of those statements<sup>2</sup>.

This risk consists of two main components, which are inherent risk and control risk.

### 2.5.3 Risk of failing to detect material misstatement or Non-Detection risk :

The risk of non-detection refers to the possibility that the audit procedures performed by the auditor fail to uncover material misstatements. This risk is closely linked to the robustness of the internal control system and the accuracy of the financial statements prepared by the entity<sup>3</sup>.

However, the auditor's approach to assessing and integrating this risk within the overall audit strategy plays a key role in mitigating it.

In accordance with the International Standards on Auditing (ISA), the auditor designs and performs audit procedures to evaluate the risk of material misstatement and seeks to reduce the risk of non-detection to an acceptably low level.

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<sup>1</sup> Ibid. P.444.

<sup>2</sup> <https://shs.cairn.info/la-boite-a-outils-de-l-auditeur-financier-2e-ed--9782100811533-page-60?lang=fr> ; visited on 13/04/2025 at 00:17.

<sup>3</sup> OBERT, (R) ET MAIRESSE, (M.P) :Op.cit, P.444.

The total audit process can be measured by this equation<sup>1</sup> :

$$\text{Audit Risk (AR)} = \text{Inherent Risk (IR)} \times \text{Control Risk (CR)} \times \text{non-Detection Risk (DR)}$$

The following table established by the IAASB shows the relation between the three types of risk audit:

**Table 2: the relation between inherent risk, control risk and non-detection risk.**

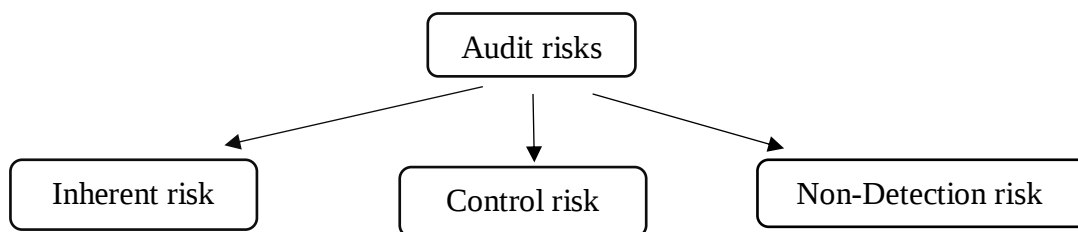
|                                            |        | Evaluation of internal control risk |        |         |
|--------------------------------------------|--------|-------------------------------------|--------|---------|
|                                            |        | High                                | Medium | Low     |
| Evaluation of inherent risk by the auditor | High   | Minimum                             | low    | Medium  |
|                                            | Medium | Low                                 | Medium | High    |
|                                            | Low    | Medium                              | High   | Maximum |

**Source :** OBERT, (R) et MAIRESSE, (M.P) : comptabilité et audit, DUNOD, Paris, 2009, P.444.

This table makes it possible to estimate an inversely proportionate link between the auditor's risk of non-detection and the inherent and control risks. There is very little chance of non-detection when both inherent risk and control risk are at their lowest. When both of these hazards are higher, the likelihood of non-detection rises.

In addition, we can summarize the previously mentioned risks in this figure:

**Figure 2: Different types of audit risks.**



**Source :** VALIN(Gérard) : controlor et auditor, édition DUNOD, Paris 2006, P. 168.

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<sup>1</sup> Idem.

### 2.6 Materiality<sup>1</sup>:

The auditor determines precise materiality thresholds in order to minimize audit risk and strategically plan the audit process. This approach is in alignment with the guidelines set forth in ISA 320, which provides a framework for assessing materiality and ensuring that audit procedures are both efficient and effective in addressing the risk of material misstatement.

#### 2.6.1 Definition of materiality:

Errors or omissions are deemed material if, either individually or collectively, they have the potential to influence the decisions of users of the financial statements. The determination of materiality is primarily based on the auditor's professional judgment.

#### 2.6.2 Materiality thresholds:

We can distinguish four types of thresholds, which are:

- **Overall Materiality (OM) and also called Planning Materiality (PM):** Overall materiality represents the threshold used by the auditor to form an opinion on the financial statements as a whole. It is determined at the level of the complete set of financial statements. The auditor sets this level to identify the maximum amount of misstatements that, while not individually material, could still affect the users' economic decisions if accumulated. OM is generally calculated by applying a percentage to an appropriate benchmark, such as profit before tax, total assets, or revenues, depending on the nature of the entity and the users' needs.
- **Tolerable Error (TE) also referred to as Performance Materiality (PM):** Performance materiality is set below the overall materiality threshold. Its purpose is to provide a buffer or safety margin to reduce the risk that undetected misstatements or the aggregation of individually insignificant misstatements could become material in total. It reflects the auditor's judgment about the risk of undetected errors and the likelihood of misstatements accumulating across various account balances or transactions.
- **Summary of Audit Differences (SAD):** This is the minimum threshold above which all detected misstatements must be reported to management. Even if these differences are individually immaterial, they must be documented and explained, as they can be relevant in evaluating the overall impact on the financial statements or the integrity of internal controls

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<sup>1</sup> EY Threshold Calculation Template.

- **Identification Threshold (IT):** The CRA (Combined Risk Assessment) corresponds to the Risk of Material Misstatement (RMM) previously mentioned. Once the CRA has been assessed, auditors establish the Identification Threshold (IT), which refers to the minimum value by item (or account) above which individual accounting entries are examined more closely. This threshold is determined using a percentage of the Performance Materiality (PM) or Tolerable Error (TE), as defined by the engagement lead. The selected percentage typically falls within a predefined range (for instance, between 75% and 100%) depending on the level of professional judgment and the perceived risk associated with the item. The Identification Threshold helps focus audit efforts on transactions or balances most likely to contain material misstatements, ensuring a more efficient and risk-based approach to testing.

### 2.7 Process of statutory audit:

The statutory auditor follows a structured methodology composed of several stages and techniques applied throughout the process. A deep understanding of the audited entity, including its history, structure, and specific needs, may sometimes allow the auditor to adapt the approach by omitting a step or designing a more efficient method tailored to the situation. Nevertheless, in most common scenarios, the auditor proceeds through three main phases: an initial preparatory phase focused on understanding the company and its functioning, a second phase of on site observation and analysis, and a final phase of conclusion, which results in the issuance of a report outlining the findings and recommendations. These phases are generally carried out through these principal stages:

#### 2.7.1 The acceptance of the mission :

Before accepting an engagement, the auditor must first assess whether they are capable of carrying it out, particularly in terms of independence, competence, available time, and necessary human resources. The acceptance of the engagement should be formalized through the signing of an engagement letter, which serves as a contract outlining the rights and obligations of both parties. The terms and conditions of this contract (including the fees, duration of the engagement, information to be provided to the auditor, and the objectives of the mission) must be clearly defined.

##### ➤ Mission acceptance conditions :

We can mention the points below:

- **The absence incompatibilities :**

Before accepting an audit engagement, the auditor must ensure the absence of any legal or professional incompatibilities that could impair their independence or objectivity. In accordance with Article 679 of the Commercial Code<sup>1</sup>, Law No. 91-08 of April 27, 1991, and Executive Decree No. 93-136 of April 17, 1996<sup>2</sup>, certain situations make individuals ineligible to serve as statutory auditors. These include:

- ✓ Family ties with company directors up to the fourth degree.
- ✓ Receiving any form of remuneration from the company (outside the audit role), or from entities holding or held by the company at a 10% capital stake.
- ✓ Prior roles as company directors or board members within the past five years.
- ✓ Acting as the company's tax advisor or legal expert.
- ✓ Holding the status of merchant or employee under subordination.
- ✓ Criminal convictions of a serious nature.
- ✓ Simultaneously holding both legal and contractual audit missions in the same company.

Any failure to comply with these restrictions may result in the auditor being held legally and professionally liable.

- **Assessment of independence:**

The accounting and financial audit consists of an independent verification of the information provided by the managers concerning the financial situation of their company on a specific date, in order to offer investors a reliable and objective basis to guide their decisions.

*«The independence of the auditor has always been emphasized, with the aim of maintaining the credibility of the audit process and foster the trust of potential users in the certified financial statements»<sup>3</sup>.*

Indeed, the statutory auditor must remain independent to ensure that their opinion is impartial and complies with the professional standards established by law.

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<sup>1</sup> Article 679 of the Commercial Code, Legislative Decree No. 93-08 of April 25, 1993.

<sup>2</sup> Executive Decree No. 93-136 of April 15, 1996, establishing the Code of Ethics for the Profession of Chartered Accountant, Statutory Auditor, and Certified Accountant

<sup>3</sup> PRAT© et HAURET(D) : Contrôle externe, modalités et enjeux, édition LEVOISIER, Paris 2003, P.120.

As such, the statutory auditor is defined as: «*a neutral and independent body tasked with verifying that the accounting information issued by the company is reliable*»<sup>1</sup>.

The statutory auditor must form an impartial opinion, requiring full independence from the company. They must avoid any influence that could affect their judgment and be able to recognize and manage any threats to their objectivity.

- **Assessment of the necessary competence :**

Before accepting an engagement, the statutory auditor must ensure they have the necessary expertise and resources to audit the financial statements. This includes evaluating the audit team's capabilities and understanding the company's structure, sector, governance, and internal controls.

- **Engagement letter :**

An engagement letter refers to a legal document that defines the relationship between a business providing professional services (accounting, consulting, legal, etc.) and their clients. It sets the terms of the agreement between two parties and includes details such as the scope, fees, and responsibilities, among others<sup>2</sup>.

The engagement letter must be prepared in the first financial year before audit work begins. It enhances audit effectiveness and limits the auditor's liability. Once accepted, the auditor plans the audit to ensure its efficient execution.

### 2.7.2 Orientation and Planning of the Engagement:

In accordance with ISA 300: «*The auditor shall plan the audit so that it will be performed in an effective manner*»<sup>3</sup>.

The auditor must select the most appropriate audit approach based on the nature of the entity to be audited. To achieve this, the auditor begins with a preliminary phase that enables them to:

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<sup>1</sup> Mémoire GARAUD (E.), Jurisclasseur commercial, Commissaires aux comptes, 2002, n°1, P.03.

<sup>2</sup> <https://corporatefinanceinstitute.com/resources/valuation/engagement-letter/>, visited on 08/05/2025 at 18:00.

<sup>3</sup> IFAC Standard ISA 300, «Planning an Audit of Financial Statements», June 2012.

### ➤ **Mission plan :**

*«The auditor must develop and document an audit program that specifies the nature, timing, and extent of audit procedures necessary to implement the audit plan»<sup>1</sup>.*

The audit engagement plan may encompass:

- Entity Presentation
- Mission Content (Nature of the Engagement)
- Risk Assessment
- Materiality Threshold Determination

### ➤ **Obtaining an understanding of the entity and its environment :**

This is a crucial step in a statutory audit. Regardless of the activity or the auditor's powers, an effective audit requires a preparatory phase to gain a solid understanding of the company, its operations, and environment. This helps identify risks and guide the audit accordingly.

*«The auditor must have sufficient knowledge of the entity's activities to identify and understand the events, transactions, and practices of the entity that, in the auditor's judgment, may have a significant impact on the financial statements, their examination, or the audit report »<sup>2</sup>.*

After evaluating the company's environment and accepting the audit engagement, the statutory auditor gathers detailed information about the company such as: its activities, structure, legal context, and history. They also review staff roles, operational methods, technology, and management systems. This helps the auditor identify key risks, whether from fraud or error, and focus on critical areas.

### ➤ **Identification of significant systems :**

The purpose of this step is to identify key areas the auditor should focus on to form a reliable conclusion. The auditor prioritizes accounts and operations that carry the highest risks. To do so, a materiality threshold is set an amount above which any error or omission could affect the accuracy and fairness of the financial statements.

As previously discussed, the materiality threshold can also be defined as follows: *«the limit below which an error made in good faith by the company has no impact on the true and*

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<sup>1</sup> Overall audit plan, tiré d'Encyclopédie de comptabilité, contrôle de gestion et audit- Ed Economica, P.871.

<sup>2</sup> IFAC Standard ISA 300, «Planning an Audit of Financial Statements», June 2012

*fair view of the annual financial statements, bearing in mind that the true and fair view is not limited to mere compliance with the balance sheet; it also depends on the importance that the reader of the financial statements places on obtaining the information»<sup>1</sup>.*

The ISA 320 standard<sup>2</sup> highlights the critical relationship between materiality and audit risk in determining the materiality threshold. This threshold is based on financial metrics such as net income, equity, assets, or revenue. An inverse relationship exists: higher materiality reduces audit risk, and vice versa. This threshold allows auditors to focus on significant items, streamlining the evidence-gathering process.

### 2.7.3 Evaluation of Internal Control:

The statutory auditor is responsible for assessing the internal control system, focusing on significant systems or risks identified in the audit plan. This evaluation requires the auditor to exercise judgment regarding the entity's internal procedures. The auditor must conduct a series of thorough tests to ensure that these controls are applied consistently and effectively.

#### ➤ Description of procedures :

There are several tools available to document the internal control procedures implemented, including:

- **Annotations of the company's existing procedure manuals.**
- **Descriptive notes (narrative form):** a literary description of procedures, simple to use but does not provide an overview of the system.
- **Information flow diagrams (flowcharts):** more complex to implement but offer a comprehensive view of all the company's operations and systems.

#### ➤ Compliance Testing :

The objective of compliance testing is to confirm that the description of procedures has been accurately understood and corresponds to the procedures actually applied within the requirements of a specification, technical standard or a contract. These tests serve to

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<sup>1</sup> ALAIN (Mikol) : audit et commissariat aux comptes, édition n°12 E- ETHEQUE, Paris, 2014, P.109.

<sup>2</sup> IFAC Standard ISA 320, «Materiality in planning and performing an audit», June 2012.

verify, on one hand, that the controlled procedure indeed exists, and on the other hand, to detect any procedures that the auditor may not have been aware of before<sup>1</sup>.

### ➤ **Tests of Permanence:**

These tests aim to verify that the procedures constituting the strengths of the accounting system are effectively and consistently applied. It is therefore necessary to check the implementation of the procedures and controls established by the company.

### ➤ **Conclusion on the Evaluation of Internal Control:**

This is the final phase of evaluating internal controls. After assessing the consistency of procedures and identifying strengths and weaknesses, the auditor must interpret the results and determine between two hypotheses, which are:

- **Hypothesis 1: Internal control is well designed and effectively applied:** In this case, the risk of material misstatement is significantly reduced, which will decrease the extent of the auditor's procedures.
- **Hypothesis 2: Internal control is well designed but poorly applied:** In this scenario, the risk of material misstatement is higher, therefore, the auditor will need to implement additional procedures to mitigate significant risks.

Based on this assessment, the purpose of evaluating internal control is twofold:

- Reliability of procedures leads the auditor to perform fewer sampling tests during the direct examination of accounts. Conversely, the existence of less reliable procedures compels the auditor to conduct exhaustive validation tests.
- The potential inefficiency of procedures leads the statutory auditor to recommend cost-effective improvements aimed at eliminating any avoidable sources of risk.

#### **2.7.4 Direct Examination of Accounts:**

In this phase, the statutory auditor compares the annual financial statements with relevant, reliable supporting documents as evidence. The auditor exercises professional judgment to determine the appropriate number of controls to perform, as there are no specific audit standards

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<sup>1</sup> [https://en.wikipedia.org/wiki/Conformance\\_testing](https://en.wikipedia.org/wiki/Conformance_testing), visited on 14/05/2025 at 00:24.

dictating the number of procedures based on the quality of internal controls or the materiality threshold.

### ➤ **Documents Made Available to the Statutory Auditor for Verification:**

The documents specified in Article 716 of Ordinance No. 75/59, which must be made available to the statutory auditor, include:

- The balance sheet and all regulatory and standardized annexes;
- The physical inventory statement of stocks and investments;
- The management report for the previous year

The primary goal of the audit is to obtain reasonable assurance that the financial statements are free from material misstatements. To do so, the auditor must assess the consistency and plausibility of the accounts based on their understanding of the entity and its environment. Throughout the audit, the auditor gathers reliable evidence to confirm that the financial statements accurately reflect the entity's financial position, using a variety of techniques and tools as needed.

### **2.7.5 End-of-Mission Procedures and Report Preparation:**

This phase involves finalizing the audit work before the statutory auditor expresses their opinion in a report. In forming this opinion, the auditor must consider all relevant audit evidence, regardless of whether it corroborates or contradicts the assertions in the financial statements.

### ➤ **Overall Examination of the Company's Accounts:**

This examination aims to verify that the figures are consistent with the understanding of the annual accounts, the industry sector, and the economic context.

It also provides an opportunity to ensure that the annexes comply with legal requirements and include all significant information regarding the company's assets, financial position, and results.

### ➤ Subsequent Events:

If an event is related to conditions that existed at the reporting date, the financial statements must be adjusted to reflect the impact of the event. However, if the event pertains to conditions that arose after the reporting date, the financial statements do not need to be adjusted, but the event should be disclosed in the notes to inform users of its potential impact.

### ➤ Audit Reports:

The audit report serves as the communication medium documenting the audit mission's results. It must be clear, concise, and highlights:

- The main conclusions of the audit and the measures to be taken to address the identified deficiencies.
- Sufficient details on the weaknesses of the systems used and clear recommendations for necessary actions.
- A summary of the key findings, conclusions, and formulated recommendations.

The report must also describe the follow-up method used by the statutory auditor after the audit is completed to verify whether corrective measures have been effectively implemented.

According to Article 28 of Law No. 91/08 dated April 27, 1991<sup>1</sup>, the statutory auditor is required to prepare two types of reports:

### ✓ General Report :

*«The statutory auditor's general report is a summary document concerning their engagement to certify the annual financial statements, in which they report on the fulfillment of their mission»<sup>2</sup>*

This report is divided into three parts:

- The first part concerns the opinion on the annual financial statements.
- The second part concerns the justification of assessments.

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<sup>1</sup> Article 28 of Law No. 91-11, dated 27 April 1991.

<sup>2</sup> LEJEUNE (Gérard), EMMERICHE (Jean pierre) : audit et commissariat aux comptes, édition GUALINO, Paris 2007, P. 149.

- The third part concerns specific verifications and information.

✓ **Special Report :**

The special report covers regulated agreements between the company and its stakeholders, including directors and shareholders. It may also address executive compensation, both monetary and in-kind, as well as shareholdings and subsidiaries. At the end of the mission, the statutory auditor synthesizes their findings and finalizes their opinion, ensuring a thorough assessment of the identified risks' impact.

### Section 02: General Concepts and Audit Procedures for Fixed Assets:

This section aims to clarify the fundamental concepts related to fixed assets, present their various categories, and outline the key aspects related to the audit of this category of assets.

#### 1. Generalities on fixed assets.

This part will provide an overview of fixed assets and their various classifications.

##### 1.1 The definition of a fixed asset:

A fixed asset refers to a resource with a useful life exceeding one year. These assets contribute directly or indirectly to the generation of economic benefits and play a key role in the company's value creation. The acquisition of such assets enhances the overall value of the company's equity. To qualify as a fixed asset, the item must meet the definition of an asset: it must be controlled by the company and expected to generate future economic benefits for the entity.

##### 1.2 The conditions for recognizing a fixed asset in the company's balance sheet:

- **Identifiable:** It must be possible to distinguish the asset and separate it from other elements of the company's assets.
- **Has a positive economic value:** The company must be able to use the asset for its operations and benefit from the income it generates (i.e., have control over it).
- **Must provide future economic benefits:** The use of the asset should generate future cash flows for the company.
- **Its cost must be reliably measurable:** The value of the asset must be measurable with sufficient reliability.<sup>1</sup>

##### 1.3 Classification of Fixed Assets:

Fixed assets can be classified into three main categories: tangible fixed assets, intangible fixed assets, and financial fixed assets. This classification is essential for understanding the nature and treatment of each asset type within the company's financial statements<sup>2</sup>.

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<sup>1</sup> SIEGWART, (J.L) et CASSIO (L) : Comptabilité financière, édition Nathan, Paris, 2010, p.150

<sup>2</sup> LEJEUNE (Gérard), EMMERICH (Jean-Pierre): *Audit et commissariat aux comptes*, Édition Gualino, Paris 2007, p. 149.

### 1.3.1 Tangible fixed assets:

#### a) Definition of tangible fixed assets:

IAS 16, which relates to property, plant and equipment, provides the following definition: « *Property, plant and equipment are tangible assets that are held by an entity for use in the production or supply of goods or services (e.g., an industrial facility), for rental to others (e.g., a rental building), or for administrative purposes (e.g., a computer); and are expected to be used during more than one reporting period* » <sup>1</sup>.

According to the SCF, a tangible fixed asset is a physical asset held by an entity for the purpose of production, service provision, rental, or internal administrative use, and whose useful life is expected to extend beyond the current financial year<sup>2</sup>.

Thus, these two definitions, provided by IAS 16 and the SCF, emphasize the same fundamental characteristics of tangible fixed assets: they are physical in nature, intended for long-term use in the company's operations, and expected to generate future economic benefits. Despite minor differences in wording, both frameworks converge on the essential criteria for asset recognition.

#### b) The difference between tangible fixed assets and inventory:

The difference between the two is shown through<sup>3</sup>:

- **Period of time:** Fixed assets are acquired for long-term use and retained for over a year, while inventory is intended for short-term turnover, often within a year, due to risks like spoilage or obsolescence. Keeping inventory as long as fixed assets is generally unprofitable.
- **Depreciation/amortization:** Depreciation applies only to fixed assets, as they are held long-term, while inventory, being short-term, is not depreciated. Businesses must annually depreciate tangible assets and amortize intangibles.
- **Objectives:** Fixed assets are used to operate the business, whereas inventory consists of goods intended for sale and the materials used to produce them. Their purposes differ in supporting operations versus generating revenue.

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<sup>1</sup> MAILLET (C) et LE MANH (A), « Normes comptables internationales IAS/IFRS », 3 Editions, Edition Foucher, Paris 2005, P.55.

<sup>2</sup> Official Journal of the Algerian Republic, No. 19, 2009, P.49.

<sup>3</sup> <https://coastalkapital.com/inventory-vs-fixed-assets-whats-the-difference/> , visited on 10/05/2025 at 14:49.

- **Risk involved:** Fixed assets carry higher risk due to their long-term retention and higher value, making losses from damage or mismanagement more significant. Inventory involves lower risk as it turns over quickly, minimizing losses from spoilage or obsolescence.

**c) The distinction between a tangible fixed asset and an expense:**

Fixed assets are assets used by the entity for a period exceeding one operating cycle. However, certain assets are classified as expenses despite their useful life when:

- Their value is less than 30 000 DZD.
- It is difficult to determine whether the item should be considered an expense or a fixed asset

**Note:** Non-material (insignificant) assets may not be recorded on the balance sheet, in such cases, they are recognized as expenses in the income statement for the period.

**d) Accounts of tangible fixed assets:**

**Table 3: Accounts of tangible fixed assets.**

| N° Acc | Account name                   | Components                                                                                                                                                                                                                                                                                                                                   |
|--------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 211    | Land                           | Bare land, developed (serviced) land, deposits (quarries), built-up land                                                                                                                                                                                                                                                                     |
| 212    | Layout and development of land | Expenditures made for the development of land                                                                                                                                                                                                                                                                                                |
| 213    | Construction works             | Buildings, installations, layout, and development of buildings. Within construction, certain elements have different uses and must be accounted for in separate sub-accounts: the building's structure in account 2131 (walls, floors, etc.), and other fittings and installations in account 2135 (heating systems, telephone lines, etc.). |

|     |                                                          |                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 215 | Technical installations, machinery, and industrial tools | Directly linked to the activity (commercial, industrial, artisanal, agricultural). Two main sub-accounts are distinguished: 2154 industrial equipment (a set of equipment used for transforming, shaping raw materials, providing services, or producing goods), and 2155 industrial tools (tools, instruments, molds that are attached to existing equipment to specialize in a specific task). |
| 218 | Other tangible fixed assets                              | 2181 General installations, fittings, and miscellaneous installations, 2182 Transportation equipment (vehicles owned by the company), 2183 Office and IT equipment (computers, photocopiers, fax machines), 2184 Furniture (desks, cabinets, lockers).                                                                                                                                           |

**Source :** MAESO ROBERT, «Comptabilité financière-opération courant en 29 fiches », 8 Editions, Dunod, Paris, 2007, P.73 and P.74.

And according to the chart of Accounts of the Financial Accounting System we also have in addition to the previously mentioned accounts:

**Table 4: The chart of accounts under the Financial Accounting System provides for the following subcategories**

| N° Acc | Account name                                     |
|--------|--------------------------------------------------|
| 22     | Assets under concession                          |
| 232    | Tangible fixed assets in progress                |
| 238    | Advances and deposits paid on fixed asset orders |
| 28     | Depreciation of fixed assets                     |
| 29     | Impairment of fixed assets                       |

**Source:** Methodological note on the first application of the Financial Accounting System (SCF), tangible fixed assets, 2010, P.03.

**e) Accounting for tangible fixed assets:**

➤ Case of contribution of a fixed asset:

|    |    |                                                |     |     |
|----|----|------------------------------------------------|-----|-----|
| 21 |    | tangible fixed asset                           | XXX |     |
|    | 10 | Financial capital                              |     | XXX |
|    | Or | or                                             |     |     |
|    | 45 | Partner - Capital Transactions                 |     | XXX |
|    |    | Accounting of the contribution of fixed assets |     |     |

➤ Case of acquisition of a fixed asset:

|       |     |                                                 |     |     |
|-------|-----|-------------------------------------------------|-----|-----|
| 21    |     | Tangible fixed asset                            | XXX |     |
| 44562 |     | VAT on fixed assets                             | XXX |     |
|       | 404 | Supplier of fixed assets                        |     | XXX |
|       | Or  | Or                                              |     |     |
|       | 512 | Bank                                            |     | XXX |
|       |     | Accounting for the acquisition of a fixed asset |     |     |

➤ Case of production of a fixed asset:

|       |       |                                                               |     |     |
|-------|-------|---------------------------------------------------------------|-----|-----|
| 21    |       | Tangible fixed asset                                          | XXX |     |
| 44562 |       | VAT on fixed assets                                           | XXX |     |
|       | 73    | Capitalized production                                        |     | XXX |
|       | 44567 | Collected VAT                                                 |     | XXX |
|       |       | Accounting for the capitalization of a self-constructed asset |     |     |

### 1.3.2 Intangible fixed assets:

#### a) Definition of intangible fixed assets:

IAS 38 defines an intangible asset as a non-monetary asset without physical substance that is identifiable, representing a resource controlled by the entity because of past events and from which future economic benefits are expected to flow to the entity<sup>1</sup>.

According to the SCF, an intangible fixed asset is an identifiable, non-monetary, and immaterial asset that is controlled and used by the entity in the course of its ordinary activities. Examples include acquired goodwill, trademarks, software, operating licenses, franchises, and development costs<sup>2</sup>.

#### b) Accounts of intangible fixed assets:

**Table 5: Accounts of intangible fixed assets**

| N° Acc | Account name                        | Components                                                                                                                                                                                                                                                                                                                                  |
|--------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 203    | Research and development costs      | Research costs cannot be capitalized. Development costs of a project incurred by the entity for its own account may be capitalized if they meet the following conditions: technical feasibility of the project, reliable assessment of expenses, presence of future economic benefits, and the ability to use or sell the intangible asset. |
| 204    | Computer software and related items | Debit the acquisition cost of licenses related to the use of software against the corresponding third-party accounts or financial accounts.                                                                                                                                                                                                 |

<sup>1</sup> MAILLET (C) et LE MANH (A), Op. Cit. Paris, 2005, P.49.

<sup>2</sup> Official Journal of the Algerian Republic, No. 19, 2009, P.08.

|     |                                                               |                                                                                                                                                                                                                                                |
|-----|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 205 | Concessions and similar rights, patents, licenses, trademarks | Expenses incurred to obtain the benefit that provides protection of certain rights to the holder of a concession, the inventor, the author, or the beneficiary of the right to exploit these elements.                                         |
| 207 | Goodwill                                                      | It records the goodwill arising from a business combination in the case of acquisition, merger, or consolidation. Its balance is either debited or credited, depending on the situation. Regardless, it must appear in the non-current assets. |
| 208 | Other intangible fixed assets                                 | It represents the value of the intangible elements of the business goodwill (customer base, clientele, goodwill, leasehold rights).                                                                                                            |

**Source :** MAESO ROBERT «Comptabilité financière-opération courant en 29 fiches, Op.cit, P.72 and P.73.

### c) Accounting for intangible fixed assets:

#### ➤ Case of acquisition of an intangible asset:

|       |     |                                    |     |     |
|-------|-----|------------------------------------|-----|-----|
| 2     |     | Intangible fixed asset             | XXX |     |
| 44562 |     | VAT on fixed assets                | XXX |     |
|       | 404 | Supplier of fixed assets           |     | XXX |
|       | Or  | Or                                 |     |     |
|       | 512 | Bank                               |     | XXX |
|       |     | Acquisition of an intangible asset |     |     |

#### ➤ Case of acquisition as part of a business combination:

|     |     |                         |     |     |
|-----|-----|-------------------------|-----|-----|
| 2   |     | Goodwill                | XXX |     |
| 207 |     | Difference              | XXX |     |
|     | 512 | Bank                    |     | XXX |
|     |     | Acquisition of goodwill |     |     |

#### ➤ Case of an internally generated intangible asset:

|     |     |                                   |     |     |
|-----|-----|-----------------------------------|-----|-----|
| 203 |     | Research and development expenses | XXX |     |
|     | 721 | Capitalized production            |     | XXX |
|     |     | Research costs incurred           |     |     |

At the time of registration:

|     |     |                                               |     |     |
|-----|-----|-----------------------------------------------|-----|-----|
| 205 |     | Concessions and similar rights... software... | XXX |     |
|     | 721 | Capitalized production                        |     | XXX |
|     |     | Commissioning of a developed software         |     |     |

### 1.3.3 Financial fixed assets:

#### a) Definition of financial fixed assets:

According to the SCF, financial fixed assets are:<sup>1</sup>

- A receivable that is due to be settled in a period longer than one year.

<sup>1</sup> The Financial Accounting System, ENAG Edition, Algeria, 2009, P.155.

- A security or similar investment that the entity has decided to hold for more than one financial year.

According to IAS 32, a financial asset can be:<sup>1</sup>

- Cash ;
- A contractual right to receive cash or another financial asset;
- A contractual right to exchange financial assets or financial liabilities with another entity under potentially favorable conditions;
- An equity instrument of another entity.

### b) The SCF classification of financial assets :

The SCF classification of financial assets is presented in the following table:

**Table 6: The classification of financial assets.**

| <b>Financial Assets According to the SCF</b>                                    | <b>Classification</b>         | <b>Initial valuation</b>                                  | <b>Closing Valuation</b>                                     |
|---------------------------------------------------------------------------------|-------------------------------|-----------------------------------------------------------|--------------------------------------------------------------|
| Non-consolidated equity securities<br>(If the intention is for subsequent sale) | Available-for-sale securities | At acquisition cost (including bank fees, brokerage fees) | At fair value with an impact on equity, plus impairment test |
| Securities held for portfolio activity                                          | Available-for-sale securities | At acquisition cost (including bank fees, brokerage fees) | At fair value with an impact on equity, plus impairment test |
| Non-current securities                                                          | Held-to-maturity securities   | At acquisition cost (including bank fees, brokerage fees) | At amortized cost, plus impairment test                      |
| Non-disposal consolidated equity securities                                     | -                             | At acquisition cost (including bank                       | At acquisition cost, plus impairment test                    |

<sup>1</sup> LEFEBVRE, (Francis) : Mémento expert IFRS 2012, France, 2012, P.1013.

|                       |                                   |                                                           |                                                      |
|-----------------------|-----------------------------------|-----------------------------------------------------------|------------------------------------------------------|
|                       |                                   | fees, brokerage fees)                                     |                                                      |
| Loans and receivables | Loans and receivables             | At acquisition cost (including bank fees, brokerage fees) | At amortized cost, plus impairment test              |
| Marketable securities | Financial assets held for trading | At acquisition cost (including bank fees, brokerage fees) | At fair value with an impact on the income statement |

**Source:** Methodological note on the first application of the Financial Accounting System (SCF), methodological note on financial assets and liabilities, 2010, P.04

The main sub-categories of the Financial Accounting System (Système Comptable Financier) regarding financial assets are listed below:

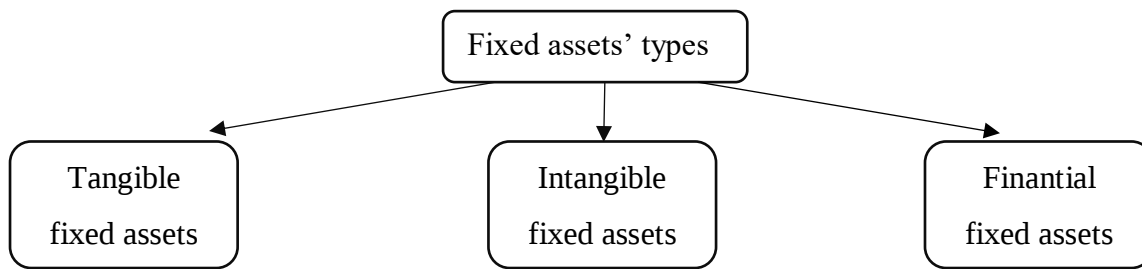
**Table 7: The main categories of the financial assets.**

|     |                                                                 |
|-----|-----------------------------------------------------------------|
| 271 | Fixed securities other than those related to portfolio activity |
| 272 | Debt securities (bonds, notes)                                  |
| 273 | Investment securities of the portfolio activity                 |
| 274 | Loans and receivables under finance lease agreements            |
| 275 | Deposits and guarantees paid                                    |
| 276 | Other non-current receivables                                   |

**Source :** Note méthodologique de première application du système comptable financier « SCF », note méthodologique actifs et passifs financiers, 2010, P.5.

Moreover, we can summarize the fixed assets types in the following figure:

Figure 3: Fixed assets categories.



**Source:** Developed by the student based on the previous definitions.

## 2. Auditing fixed assets:

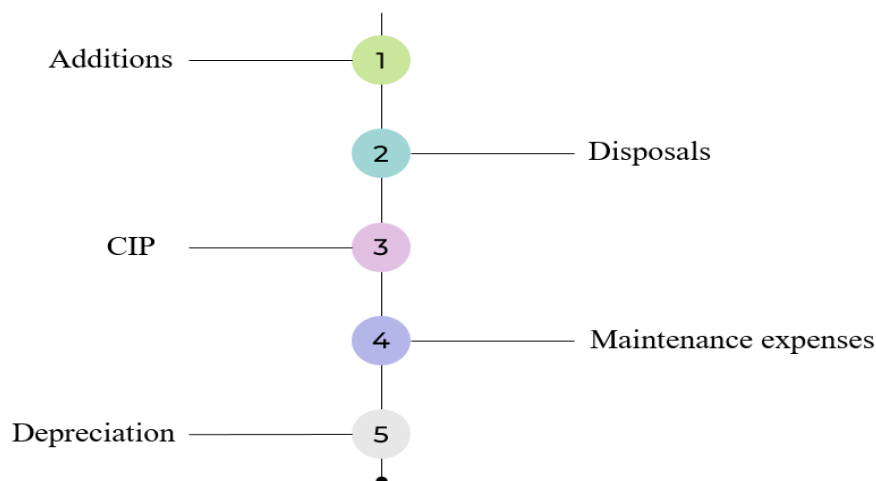
This part will discuss the subcategories of fixed assets as well as key aspects related to the audit of fixed assets.

### 2.1. Sub-cycles of the Fixed Assets Cycle:

Based on our case study that will be treated in the second chapter the cycle of fixed assets includes 5 sub-cycles that can be presented in the following figure:

Figure 4: The sub-cycles of the fixed assets cycle.

#### Sub-Cycles of the fixed assets cycle :



**Source:** Developed by the student using EY's internal documentation.

### 2.1.1 The sub-section of Addition :

#### a) Definition of addition :

The addition of a fixed asset refers to the purchase or the acquisition of an asset intended to be used by a company over the long term. And its calculation formula is<sup>1</sup>:

Addition cost = Purchase price excl. VAT (net of discounts, rebates, allowances, and cash discounts)+Incidental operating costs excl. VAT+ Dismantling, removal, and site restoration costs.

#### b) Description of the addition sub-section process:

- **Evaluation and Decision:** Department submit acquisition or production requests to the investment analysis team, which reviews profitability and budget compliance. Once approved, the request is forwarded to the procurement department.
- **Receipt and Registration:** Upon delivery, the asset is recorded in the Fixed Assets Register (FI File), including key details like description, commissioning date, acquisition value, and depreciation rate.
- **Recording Production Costs:** Production, HR, and administrative teams report all related costs (raw materials, labor, and overhead) to accounting for assets under construction.
- **Accounting Entries:** The accounting department records all journal entries related to acquisitions, capitalized expenses, and internally produced assets.

### 2.1.2 The sub-section of disposals:

#### a) Definition of a disposal:

This simply involves selling an asset that has been used by your company. The disposal of a fixed asset therefore leads to removing the asset from the balance sheet. It no longer forms part of the company's assets. This operation results in a capital gain or capital loss. Specific tax conditions may apply<sup>2</sup>.

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<sup>1</sup> <https://www.lesgeeksdeshiffres.com/post/comment-enregistrer-l-acquisition-d-une-immobilisation-en-comptabilite> , visited on 12/05/2025 at 15:05.

<sup>2</sup> <https://www.dougs.fr/blog/cession-immobilisation-exoneration/>, visited on 12/05/2025 at 16:12.

### b) Description of the sub-section disposals process:

- **Decision and Preparation:** Management evaluates assets and identifies those to be sold or scrapped due to legal obligations or obsolescence. A formal disposal report is prepared. For sale a sales process is initiated and for scrapping a safe and compliant disposal procedure is followed
- **Accounting Entries:** The accounting team records journal entries for disposals (sale or scrap) at net book value. In case of a sale, gains or losses are also recorded.

### 2.1.3 The sub-section of CIP:

#### a) Definition of CIP :

A CIP is a fixed asset that is not completed at the end of the accounting period and is therefore not yet in service. Unfinished works are thus recorded in a work in progress account at the period-end, either for the costs incurred (if the works are carried out by third parties) or at production cost (if the works are carried out by the company itself).

Since the work in progress is not put into service at the period-end, it cannot be depreciated<sup>1</sup>.

**Note:** the process of this sub-section follows the same approach as the one used in the additions sub-section.

### 2.1.4 The sub-section of Maintenance expenses :

#### a) Definition of maintenance expenses:

Maintenance expenses are costs incurred to keep assets in good working condition. They include general upkeep, like running antivirus software, and repairs, such as fixing a car or machinery. These costs are separate from the asset's purchase price and are necessary to ensure continued functionality<sup>2</sup>.

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<sup>1</sup> <https://www.dougs.fr/blog/immobilisations-et-amortissements/> , visited on 12/05/2025 at 16:20.

<sup>2</sup> <https://www.investopedia.com/terms/m/maintenance-expenses.asp>, visited on 12/05/2025 at 18:06.

### 2.1.5 The sub-section of depreciation:

#### a) Definition of depreciation :

Depreciation can be defined as the recognition of the consumption of the expected economic benefits of a tangible or intangible fixed asset. It constitutes a calculated expense that does not involve any cash outflow. This expense allows for the creation of a reserve to renew the amortized asset at the end of its useful life. Amortization thus represents a source of self-financing for the company<sup>1</sup>.

#### b) Description of the sub-section depreciation:

- **Depreciation Calculation:** For each recorded asset, depreciation and accumulated depreciation are calculated based on book value, useful life, and the chosen method.
- **Revaluation and Impairment Testing:** At year-end, impairment tests are conducted to identify any loss in asset value. If needed, assets are revalued at fair value with expert input.
- **Accounting Entries:** The accounting department records all entries related to depreciation, revaluations, and impairment losses in the journal.

#### c) Role of depreciation :

Here are the main roles of depreciation in final accounts<sup>2</sup>:

- Allocates asset cost over its useful life;
- Reduces net income by recording depreciation as an expense;
- Reflects accurate asset value on the balance sheet (net book value);
- Helps in fair presentation of financial position;
- Reduces taxable income (tax-deductible expense);
- Supports informed decision-making for stakeholders.

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<sup>1</sup> BENAIBOUCHE MOHAND (C), « La comptabilité générale aux normes du nouveau système comptable financier (SCF) », 2 édition, office des publications universitaires, Algérie, année 2012, P.191.

<sup>2</sup> <https://www.tutorchase.com/answers/ib/business-management/what-is-the-role-of-depreciation-in-final-accounts>, visited on 11/05/2025 at 14:49.

**d) Accounting of depreciation :**

➤ The accounting of depreciation is as follows:

|      |     |                                                         |     |     |
|------|-----|---------------------------------------------------------|-----|-----|
| 6811 |     | Depreciation, provisions, and impairment losses expense | XXX |     |
|      | 281 | Depreciation of fixed assets                            |     | XXX |
|      |     | Depreciation of fixed assets                            |     |     |

**e) Depreciable and non-depreciable fixed assets:**

**Table 8: table of depreciable and non-depreciable fixed assets.**

| Type of fixed assets                                             | depreciable |    |
|------------------------------------------------------------------|-------------|----|
|                                                                  | Yes         | No |
| 20 Intangible assets                                             |             |    |
| 203 Research and development asset (5 years)                     | X           |    |
| 205 Patents, trademarks, licenses (indefinite useful life)       | X           |    |
| 208 Goodwill (indefinite useful life)                            | X           |    |
| 21 Tangible assets                                               |             |    |
| 211 Land (indefinite useful life)                                |             | X  |
| 212 Land improvements and fittings (15 to 30 years)              | X           |    |
| 213 Constructions (5 to 20 years)                                | X           |    |
| 215 Technical installations, equipment, and tools (4 to 5 years) | X           |    |
| 218 Transportation equipment (4 to 5 years)                      | X           |    |
| 218 Other tangible fixed assets (5 to 20 years)                  | X           |    |

Source: [Www.procomptable.com](http://www.procomptable.com), visited on 11/05/2025 at 15:30.

### 2.2 Importance of Fixed Assets Auditing:

Fixed assets auditing is a thorough review of an organization's assets to verify their existence, value, and compliance with accounting standards, playing a key role in financial accuracy and operational efficiency. Key reasons why fixed assets audits are important<sup>1</sup>:

- Financial Accuracy ;
- Regulatory Compliance ;
- Risk Management ;
- Enhanced Operational Efficiency.

### 2.3 Objectives of fixed assets auditing:

We can mention the following points<sup>2</sup>:

- All fixed assets, along with the related expenses and revenues, are recorded (Completeness).
- All fixed assets, as well as the related expenses and revenues, are real and belong to the company.
- All fixed assets and the corresponding expenses and income are correctly valued. Duties are properly segregated. Moreover:

The amounts recorded under fixed assets reflect the integrity of the assets owned and used by the company, including the full costs incurred for their acquisition or creation.

The amounts shown under depreciation expense and accumulated depreciation reflect the total accumulated depreciation in accordance with generally accepted accounting principles, applied consistently.

### 2.4 Fixed assets audit procedure:

There are multiple procedures to follow such as:

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<sup>1</sup><https://pkcindia.com/blogs/effective-fixed-assets-auditing-ensuring-accuracy-and-asset-management/> ,visited on 11/05/2025 at 15:41.

<sup>2</sup> DIALLO, (H): Audit of Fixed Assets, Master's Thesis, March 2000, CESAG, p.29.

### 2.4.1 Understanding of Operations:

The auditor should develop a general understanding of the fixed assets cycle to effectively analyze the transactions carried out during the financial period.

#### **a) Comprehensive Insight into the Fixed Assets Cycle:**

The overall understanding encompasses the entity's operations, external context, internal structure, and applied accounting policies. These elements are typically organized in a permanent file by cycle, categorized under the relevant cycle being audited<sup>1</sup>:

##### **➤ Analysis of Operational Resources:**

The auditor identifies the main material resources necessary for the entity's operations, along with their key characteristics. This typically includes buildings and equipment. For buildings, the auditor examines various aspects such as their geographical locations, their functions, their relative importance and value, the legal status of occupancy (e.g., whether the entity is a tenant or owner), the physical condition of the properties, any guarantees or encumbrances attached to them (particularly mortgages), and the associated maintenance costs. Regarding equipment, the auditor assesses the type and nature of the assets, their acquisition cost, insurance value, technological complexity, expected useful life, risk of obsolescence, legal ownership status (such as ownership, rental, or finance lease), as well as any security interests (such as pledges or liens) and necessary maintenance expenses.

##### **➤ Evaluation of the External Context:**

The auditor examines the key characteristics of the fixed assets and assesses the significance of the related financial flows. They also identify any risks and challenges these operations may pose to the entity, along with the organizational constraints they may involve.

##### **➤ Examination of Internal Structure and Controls:**

The auditor focuses on the organizational structure in place, particularly the various departments involved in the asset cycle, their specific responsibilities, and how they fit within the overall structure of the entity. These typically include departments initiating investment

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<sup>1</sup> LEFEBVRE Francis (2014), *Mémento Pratique, Audit Et Commissariat Aux Comptes*, Edition Francis Lefebvre, France, P.650.

needs, investment and reception services, the accounting department, units handling supplier payments, maintenance teams for fixed assets, and legal and tax services, especially for the acquisition of intangible assets such as trademarks and patents.

### ➤ **Review of Accounting Treatment and Policies:**

The auditor is notably aware of the main terms related to the application of the Asset Regulation, as well as the defined depreciation methods and rates applicable to the various categories of fixed assets. This includes an understanding of the treatment adopted for major repairs, research and development expenses, spare parts, security, and branding expenses. The auditor also takes into account the methods used to distinguish between charges and fixed assets. By acknowledging these accounting methods, the auditor is better positioned to identify any changes in accounting practices that may have occurred in the past or that may arise in the future.

### **b) Risks Related to PPE:**

At this stage, the auditor identifies potential risks that could arise during the audit of fixed assets.

### ➤ **Inherent risk :**

The auditor must gain an understanding of the client and its environment to assess inherent risks, including fraud risks, related to property, plant, and equipment (PPE). This involves understanding the internal controls over PPE, such as reviewing and preparing capital budgets, among other procedures. Additionally, the auditor is responsible for evaluating the risks of material misstatement and designing control tests and substantive procedures that address the following areas<sup>1</sup>:

- Verify the existence of PPE. This includes assets that may have been disposed of, transferred, or abandoned but not derecognized. The auditor should examine title deeds, agreements, or other ownership documentation.
- Ensure the completeness of recorded PPE. This includes expenditures that should have been recognized as PPE but have not been, such as capitalized

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<sup>1</sup> Guidance Note on Audit of Property, Plant and Equipment, The chartered of accountant, KPMG India, march 2011, P.139.

finance costs or failure to account for assets held under finance leases or hire purchase agreements.

- Verify the proper cutoff of transactions impacting PPE.
- Confirm that the client holds the rights to the recorded PPE.
- Assess the proper valuation or allocation of PPE and ensure the accuracy of related transactions.
- Verify the classification of PPE is correct. This includes incorrect distinctions between land and buildings or between long-term and short-term leaseholds. Classification has a significant impact on applying accounting policies. According to the relevant accounting standards, entities must follow the component approach, where applicable.
- Ensure depreciation is accurately calculated, considering factors such as mechanical errors, improper application of accounting policies, incorrect estimation of useful life, residual value, or asset classification.
- If a valuation model is used, ensure that the carrying amount or cost reflects fair value. Discrepancies may arise due to outdated valuations, incorrect assumptions, or unqualified personnel performing valuations.

Ensure tangible assets acquired in business combinations are initially recognized at their fair value on the acquisition date and that they exist.

- Ensure that the impairment value is correctly recognized or reversed.
- Confirm that the presentation and disclosure of PPE are accurate and appropriate.

### ➤ **Fraud Risks and Errors :**

There are several potential misstatements in property, plant, and equipment (PPE) that may arise due to fraud or error. These include<sup>1</sup>:

- Purchasing an asset at an inflated price, particularly from a related party.
- Incorrectly writing off an asset as obsolete, missing, donated, scrapped, or destroyed.
- Misclassifying repair and maintenance expenses as PPE or vice versa.
- Capitalizing costs that are not normally attributable to the acquisition or construction of PPE.

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<sup>1</sup> Idem.

- Recording the purchase of an asset that the entity has not actually received.
- Removing an asset that the entity has paid for or using an entity-owned asset for the benefit of an individual rather than the entity.
- Such frauds and errors may result from deficiencies in internal control, such as:
  - ✓ Insufficient management oversight of employees with access to cash or assets that are susceptible to misappropriation.
  - ✓ PPE items that are small, easily marketable, or lack clear identification of ownership.
  - ✓ Failure to perform timely and complete asset verifications and reconciliations.
  - ✓ Weak or absent physical security measures for safeguarding PPE.
  - ✓ Misuse of company assets by employees.
  - ✓ Personal use of company assets, for example, pledging them as collateral for personal or related party loans.
  - ✓ Deliberate sale of assets at below fair market value.

To address these risks, the auditor should perform risk assessment procedures designed to identify and evaluate risks of material misstatement. These procedures include:

- ✓ Conducting inquiries with management and relevant personnel to understand control processes, business objectives, strategies, and any incentives that may influence behavior.
- ✓ Performing analytical procedures, such as ratio analysis, to detect unusual trends or inconsistencies.
- ✓ Observing and inspecting the entity's premises and plant facilities to identify any signs of asset misuse or misstatement.

### **2.4.2 Internal control and evaluation of internal control associated to PPE:**

The auditor must assess the company's internal controls over fixed assets to understand how PPE transactions are managed and to evaluate the reliability of the accounting system.

### a) Determination and realization of the investments:

To address this, it is important to determine the following<sup>1</sup>:

- **Objective:** Internal control should ensure that fixed assets acquired are essential to the company's operations and align with management's profitability goals and budgetary policies.
- **Potential risk:** Poor investment decisions may lead to acquiring unnecessary or unprofitable assets, requiring depreciation or impairment.
- **Internal control Measures:** Key controls include investment budget monitoring, pre-acquisition profitability studies, and defined authorization levels for capital expenditures (e.g., purchase requisitions and orders).
- **Audit implications:** The acquisition of unprofitable assets can affect asset valuation and may indicate a risk of misstatement.

### b) PPE tracking and protection:

To address this, it is important to determine the following<sup>2</sup>:

- **Objectives:** Internal control should ensure fixed asset movements are recorded, assets are secured and maintained, and physical identification matches accounting records.
- **Risks:** Weak controls may lead to asset misstatements due to inventory loss, poor equipment performance, theft, or damage.
- **Control measures:** Mitigation includes continuous and periodic inventories, maintenance procedures, insurance coverage, and clear authorization for disposals.
- **Audit assertions:** These issues affect existence (assets recorded but missing) and valuation (undepreciated wear, damage, or obsolescence)

### c) Registration of PPE:

To address this, it is important to determine the following<sup>3</sup>:

- **Objectives:** Ensure fixed assets are accurately recorded and properly valued in the accounts.

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<sup>1</sup> LEFERVE: Audit et commissariat aux comptes 2015/2016 : Guide de l'auditeur et de l'audité, Édition français LEFERVE, Paris, 2014, P.653.

<sup>2</sup> Ibid, P.655.

<sup>3</sup> Idem.

- **Risks:** Errors may arise from unrecorded invoices, misclassification of expenses as assets (or vice versa), or using incorrect depreciation methods and rates.
- **Control measures:** Key controls include distinguishing maintenance costs from capital expenses, validating depreciation methods and rates, and reconciling physical asset movements with accounting records.
- **Audit assertions:** These risks affect completeness (missing or misclassified assets), accuracy (improperly capitalized expenses), and valuation (incorrect depreciation).

### 2.4.3 Substantive checks on the fixed assets cycle :

At this stage, the auditor evaluates key assertions relevant to the fixed assets cycle. Substantive procedures will focus on<sup>1</sup>:

- Assertions affected by the internal control review, the weaker the control, the more extensive the substantive tests. If controls are insufficient, the auditor must reflect this in their opinion.
- Assertions requiring direct audit evidence, such as presentation and disclosures in the financial statements. Audit procedures typically cover: completeness of recorded assets, regularity of entries, existence of balances and valuation of assets.

Additional procedures often address tax-related aspects of fixed assets.

#### a) Completeness of the recordings :

For capital asset accounting, the auditor may examine operating expenses (particularly maintenance costs) to ensure they are not incorrectly capitalized. Physical verification of selected fixed assets may also be performed, such as during inventory visits or asset counts, to confirm their existence and reconcile them with the fixed asset records<sup>2</sup>.

#### b) Regularity of the recordings :

The regularity of transactions related to fixed assets recorded on the balance sheet can be verified<sup>3</sup>:

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<sup>1</sup> Ibid, P.660.

<sup>2</sup> LEFEBVRE Francis (2014), Mémento Pratique, Audit Et Commissariat Aux Comptes, Edition Francis Lefebvre, France, 2014, p.661.

<sup>3</sup> Ibid, p662.

- By testing major acquisitions of the year to assess the nature of the expenditure, legal ownership, compliance of depreciation methods and rates with the entity's accounting policies, and the correct start date for depreciation;
- By reviewing supporting documents (e.g. notarized deeds, scrapping reports, sales invoices) for significant asset disposals during the year.

### **c) Existence of sales :**

To validate balances, the auditor can reconcile the fixed assets register with the accounts and confirm the physical existence of key assets. This may include<sup>1</sup>:

- Confirming land ownership with mortgage offices;
- Obtaining statements of privileges and pledges for off-balance sheet commitments.

The registry response ensures leased equipment is excluded from capital assets, and the auditor may verify advance and down payment account justifications.

### **d) Balance evaluation :**

The valuation of gross cash account balances is done through acquisition-based controls. For depreciation, the auditor<sup>2</sup>:

- Reviews the entity's principles to ensure consistency with prior years;
- Audits a sample of depreciation rates and methods for prior assets;
- Verifies depreciation expense calculations for key assets acquired in the current year;
- Checks the calculation of derogatory depreciation.

The auditor also focuses on assets in progress, ensuring they are not depreciated. Lastly, through discussions with management, the auditor ensures no assets require additional depreciation due to obsolescence, wear, or other deterioration.

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<sup>1</sup> Ibid, p663.

<sup>2</sup> Idem.

### 2.4.4 Other controls:

As part of substantive controls on tangible and intangible assets, the auditor may also<sup>1</sup>:

- Examine the application of depreciation methods and rates in accordance with tax regulations;
- Review the calculation and tax treatment of capital gains or losses on disposals;
- Verify the VAT treatment on disposals;
- Crosscheck capital outflows with exceptional income and expenses.

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<sup>1</sup> Idem.

### Chapter conclusion:

At the end of this chapter, the reader has acquired a solid understanding of the fundamental principles of auditing and the specific importance of fixed assets within the audit process. We clarified what auditing entails, its key objectives, and the different types of audits particularly emphasizing the role of statutory audit as a legally mandated, independent assessment of financial statements. The chapter also provided insight into the main risks auditors must manage, including inherent, control, and detection risks, and explained how these risks are addressed through established procedures such as materiality assessments.

Furthermore, we explored the nature and classification of fixed assets tangible, intangible, and financial and demonstrated why their audit is essential due to their long-term impact on the financial position of an organization. The audit procedures specific to fixed assets were examined in detail, including internal control evaluation, substantive testing, and physical verification. We also identified common risks such as incorrect capitalization, omissions, and inaccurate depreciation, all of which can significantly distort financial reporting if not properly audited.

By covering both general auditing concepts and the particularities of auditing fixed assets, this chapter lays the theoretical foundation necessary to approach the practical aspects of external auditing in the chapters that follow. The reader is now better equipped to understand how these principles are applied in real-world audit engagements.

## **Chapter II: The practical aspects of external auditing of fixed assets:**

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### Chapter introduction:

This chapter presents the audit firm Ernst & Young (EY) and focuses on a real case study of an external audit carried out by EY. The core of the analysis will revolve around the audit of the fixed assets cycle, which represents a key component of financial reporting and internal control in many organizations.

First, we will introduce EY, one of the largest and most reputable professional services firms in the world. This section offers an overview of the firm, including its history, organizational structure, and global presence.

In the second part, we will examine the practical audit work performed by EY on the fixed assets cycle of the selected company. This will include the audit approach adopted, the identification and assessment of audit risks related to fixed assets, and the procedures applied during the planning and execution phases. Through this case study, we will illustrate how EY evaluates the existence, valuation, and presentation of fixed assets, and how it ensures the reliability of related financial information.

This chapter aims to provide practical perspective on external auditing, using the fixed assets cycle as a focal point. By analyzing a concrete case handled by EY, readers will gain insight into the real world application of audit standards and methodologies within a professional environment.

### Section 01: Presentation of the audit firm and its methodology:

As part of the preparation of our final year thesis, we carried out a practical internship in audit at the firm Ernst & Young. In this section, we will present the firm and the audit approach it adopts for our case study.

#### 1. Overview of Ernst & Young :

##### 1.1 Presentation of the firm :

Ernst & Young (EY) is one of the world's leading audit and professional services firms. It is part of the prestigious Big Four (the four largest audit firms globally) and ranks as the third largest network in terms of global revenue, following PricewaterhouseCoopers (PwC) and Deloitte<sup>1</sup>.

Commonly referred to by its initials EY (also sometimes E&Y, pronounced [ee-wai]), the firm's mission is to support its clients in addressing complex and evolving challenges. These clients range from publicly listed companies and mid-sized businesses to innovative startups, public sector organizations, and investment funds.

In a business environment increasingly shaped by globalization, complex regulatory frameworks, demands for financial performance, and risk management requirements, EY offers a unique combination of multi-disciplinary expertise and strong industry-specific knowledge. This integrated approach enables the firm to deliver tailored, high-quality solutions.

EY serves as the auditor for many of the world's most prominent companies, including several on the Fortune 1000 list. Notable clients include Google, Intel, Hewlett-Packard, Coca-Cola, Verizon, AOL Time Warner, Walmart, Amazon, 3M, Oracle, and McDonald's.

##### 1.1.1 History of the firm :

Ernst & Young (EY) has a long history shaped by mergers. It traces its roots to 1849 with the founding of Harding & Pullein in the UK and the early career of Frederick Whinney, whose firm became Whinney, Smith & Whinney in 1894. In the U.S., Ernst & Ernst was founded in 1903, and Arthur Young & Company in 1906.

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<sup>1</sup> <https://www.memoireonline.com/>, visited on 14/05/2025 at 23:15.

In 1979, Whinney, Smith & Whinney merged with Ernst & Ernst and Turquands Barton Mayhew to form Ernst & Whinney, then the fourth-largest audit firm. A major merger in 1989 with Arthur Young created Ernst & Young, marking a key step in the industry's consolidation into the Big Four.

During the 1980s and 1990s, EY expanded into consulting but later separated its consulting arm to address SEC concerns about conflicts of interest and becoming the first of the Big Five (which then included Deloitte, PwC, KPMG, and Arthur Andersen) to do so, promoting greater audit independence and transparency.

### 1.1.2 EY group :

Ernst & Young is one of the world's leading audit firms, ranking third globally after PwC and Deloitte. EY operates through a globally integrated network across five main regions: the Americas, EMEIA (including Algeria), Asia-Pacific, Japan, and Oceania.

In 2014, EY reported global revenues exceeding USD 27.4 billion, and as of March 4, 2015, the firm employed approximately 190 000 professionals worldwide. EY maintains a presence in over 140 countries, reinforcing its position as a key player in the international professional services industry.<sup>1</sup>

We can present its profile in the following table:

**Table 9: EY Group Profile.**

|               |                                                   |
|---------------|---------------------------------------------------|
| Founding date | 1989                                              |
| Founder       | Arthur Young                                      |
| Legal form    | PLC                                               |
| Slogan        | Building a Better Working World                   |
| Head office   | London, United Kingdom                            |
| Website       | <a href="http://www.ey.com">http://www.ey.com</a> |

**Source:** Internal document of the firm.

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<sup>1</sup> Internal documentation of EY.

### 1.1.3 EY Algeria :

Ernst & Young has been present in Algeria since 2008 through its local subsidiary. The firm is built on the recruitment of Algerian professionals at all levels, offering a wide range of audit and consulting services. Its strong local presence and expertise have earned it a solid reputation in the Algerian market.

In a context of growing outsourcing, complex regulations, and strong competition, Algerian companies benefit from EY's multidisciplinary knowledge. The firm supports a diverse client base, including startups, SMEs, and large industrial and commercial enterprises.

#### **a) Organization of the firm in Algeria:**

Ernst & Young operates with departments that function independently while closely coordinating with administrative and financial services. The standard workweek is 40 hours. The office has around 40 employees, recruited based on international network standards, and all receive ongoing training through programs in Africa and France.

The office is located at Oriental Business Park, Les Pins Maritime, Bab Ezzouar, Algiers.

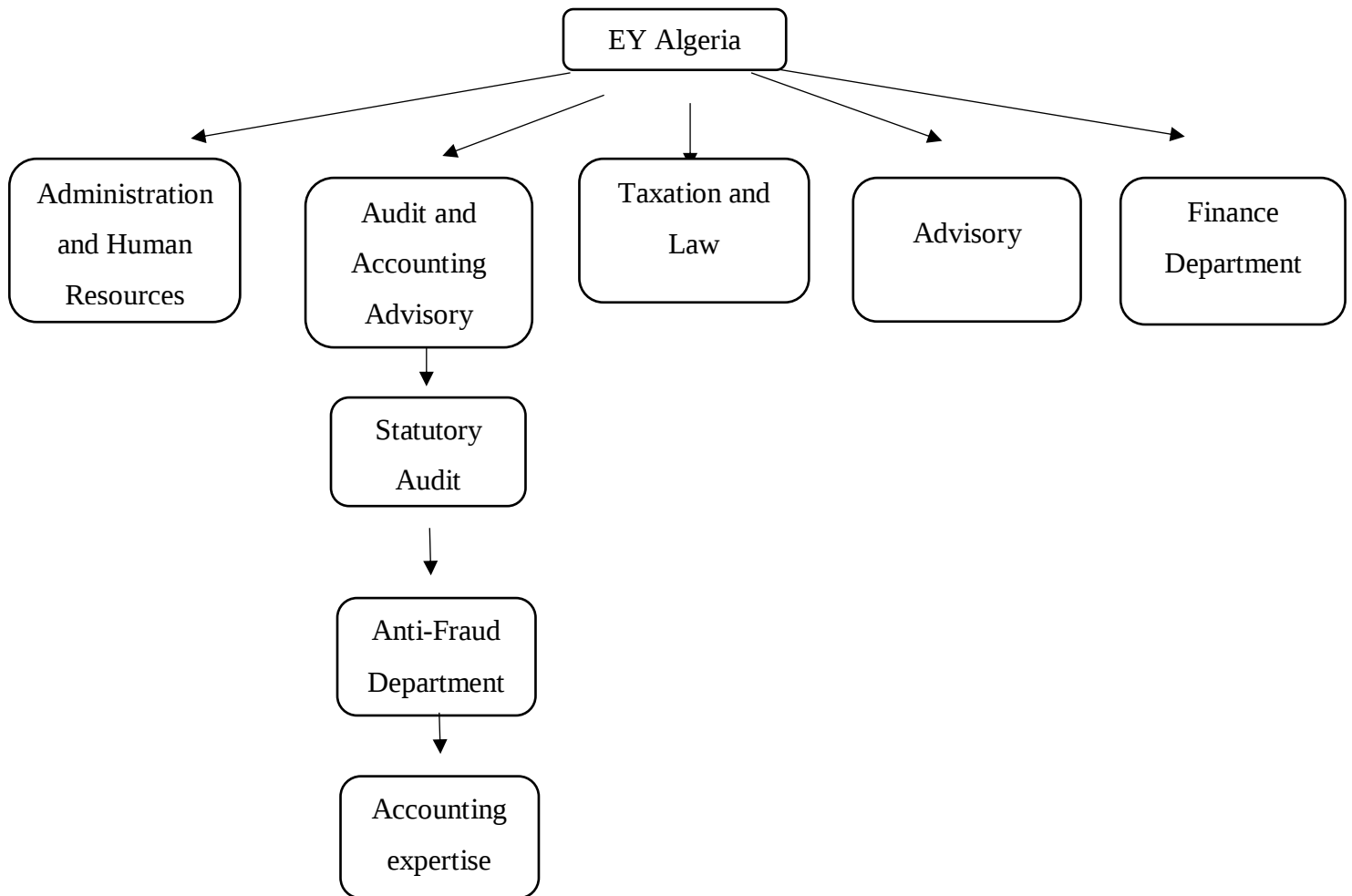
The firm is divided into six main areas of expertise:

- Administrative and Financial Department;
- Advisory Department;
- Fiscal services Department (FSO : Fiscal Services Operations);
- Audit Department;
- ACP Department (Accounting, Controlling, and Payroll);
- Tax and Fraud Department.

#### **b) Organizational chart of the firm :**

The organization of EY Algeria can be summarized in the following chart:

Figure 5: organizational chart of the firm.



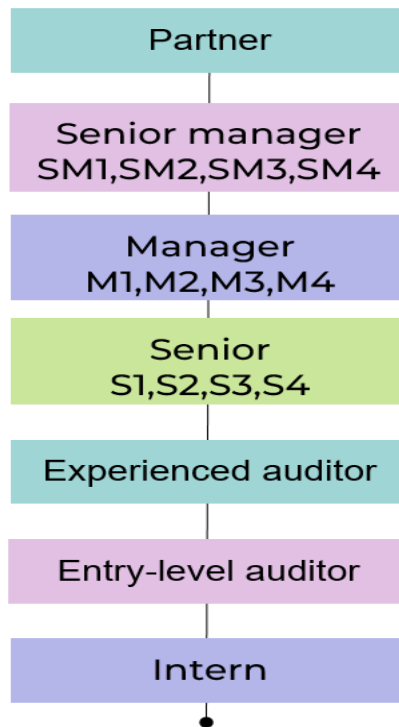
**Source:** Developed by the student based on EY's internal documentation.

The firm has a common organizational policy across all areas of intervention, structured within a hierarchical chain consisting of four major service lines.

**c) Hierarchical progression of the firm :**

The firm is hierarchically organized as follows:

Figure 6: Hierarchical progression within EY Algeria.



**Source:** Developed by the student based on the audit department internal documentation.

The audit department is responsible for conducting both statutory and contractual audit engagements, functions that require experience and specialization. As such, the firm organizes its audit service into several hierarchical levels, each with clearly defined roles:

- **Engagement manager:** This individual validates the work performed by all members of the audit team, with a particular focus on the senior auditor in charge of the assignment.
- **Senior auditor:** Responsible for supervising the work of junior auditors under their direction, the senior ensures group cohesion, the proper execution of the engagement, and adherence to deadlines.
- **Experienced auditor:** Acting as the senior's right hand, this person handles the more complex and sensitive tasks of the engagement.
- **Entry-level auditor:** Entry-level auditor supports the experienced auditor by assisting in their work and performing the tasks typically assigned to entry-level auditors.
- **Audit intern:** The firm has a specific recruitment policy requiring all new auditors to complete a practical internship of at least three months to become familiar with the

profession and EY's methodology. For this reason, the firm continuously recruits interns throughout the year, assigning them to ongoing engagements during their internship period.<sup>1</sup>

### 1.2 Sector of activity :

The firm operates across a wide range of industry sectors and covers various segments:

- Hydrocarbons and Energy ;
- Pharmaceutical Industry ;
- Hospitality and Leisure ;
- Automotive Industry ;
- Construction and Infrastructure.

### 1.3 EY's tools and techniques :

In order to align with the objective of this research, it seemed important to us to present, in a general manner, the techniques and tools used by the firm in the context of its statutory audit engagements:

- **Lead:** a macro developed in Excel by the firm, used to carry out all audit work, such as threshold calculations, consistency tests, and analytical review.
- **EY Random:** the tool used for random sampling selection.
- **EY GAM:** an online EY audit methodology guide.

## 2. The statutory audit approach at Ernst & Young:

The statutory auditor's approach follows a specific methodology that may vary slightly from one audit firm to another. However, the main objectives and key components of the audit mission remain largely the same.

This section will outline and describe the methodology applied by EY, covering the entire audit process from the evaluation of internal control to the audit of financial statements.

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<sup>1</sup> Internal documentation of EY, p. 20.

### 2.1 Evaluation of internal control :

This audit phase includes several steps:

#### 2.1.1 Understanding the entity :

Understanding the company is the first step in both the interim and final audit missions, serving as the foundation from which the audit begins. The objective is to acquire a general understanding of the company's environment and gather the necessary and relevant information that forms the Permanent Audit File (PAF). This file helps identify inherent risks that could have a significant impact on the company's financial statements and threaten its continuity. The PAF typically includes:

- The legal status of the audited entity (Articles of Association, Trade Register, minutes of shareholders' meetings, minutes from Board of Directors' meetings, etc.).
- Its organizational structure (general and detailed organizational charts, internal procedures, and other established rules).
- Its economic and financial situation (the last three balance sheets and trial balances, statutory auditors' reports, internal and external audit reports, management reports, budgets, and development plans, etc.).

#### 2.1.2 Internal control within the entity :

It represents the second step of the interim audit, following the initial understanding of the audited entity. This phase focuses on internal control in order to assess the effectiveness of existing procedures. It allows the auditor to adjust their audit strategy by limiting the number of transactions, documents, and journal entries to be analyzed, and helps in evaluating the main risks the company is facing.

The control-based approach is itself divided into several sub-steps:

##### a) Description of transaction cycles :

The auditor meets with the management of the entity to understand the procedures in place for each transaction cycle. The auditor may encounter two scenarios :

- A written procedures manual exists, which saves time, as the auditor simply needs to analyze it and verify its application in practice.
- In the absence of a written procedures manual, the auditors conduct interviews with the relevant personnel to gather as much useful information as possible. This information is then used to prepare a narrative description (memo), which should be accompanied by samples of key documents that facilitate understanding of the procedure.

The auditor also uses other tools in addition to interviews, such as the internal control questionnaire, which allows the auditor to assess the internal control system of the entity. There are two main types of questionnaires: closed-ended and open-ended. Closed-ended questionnaires are designed so that negative answers highlight weaknesses in the internal control system, while positive answers indicate its strengths. On the other hand, open-ended questionnaires allow for unlimited responses, requiring respondents to describe, analyze, and evaluate the procedures in detail. In general, auditors tend to favor closed-ended questions because they are easier to analyze and provide a quicker overview of the system's effectiveness.

### **b) Identification of WCGW :**

A «What Could Go Wrong» refers to a risk within an entity's processes whereby, due to an error or fraud, the financial statements may contain material misstatements.

### **c) Identification of relevant controls :**

A control is considered relevant if it is designed to prevent, detect, or correct material misstatements that could affect the financial statements. It may also be associated with a significant risk of fraud or error.

### **d) TOC or «Test of Control» :**

A Test of Control (TOC) is an audit procedure aimed at assessing the operating effectiveness of a control that is, verifying whether it prevents, detects, or corrects material misstatements at the level of financial statement assertions.

TOCs are performed on randomly selected samples from each process (cycle), and these samples are evaluated for their compliance with the procedures manual (whether written or narrative).

**Note:** If the tests of control have been ineffective for three consecutive years, the auditor must shift to a substantive procedure approach. This involves determining materiality thresholds using a lower range, not linked to the control environment.

### **e) Design and Implementation (D&I) testing:**

These are tests performed on the design of control procedures, using various tools and methods such as: questioning (questionnaires), observation, reperforming procedures, requesting and inspecting related documents (walkthrough), all aimed at evaluating whether the control is well-designed to prevent, detect, and correct material misstatements. In addition, tests of control application are carried out to ensure that the control exists, is implemented, and is effectively used by the entity.

## **2.2 Audit risk assessment :**

To assess audit risk, the auditor evaluates both inherent risk and control risk:

### **2.2.1 Assessment of inherent risk :**

The engagement manager applies professional judgment to assess these risks for the relevant assertions, taking into account the likelihood of factors that may influence their evaluation<sup>1</sup>.

To determine whether inherent risk is high or low, the auditor must consider:

- Whether the identified inherent risk factors lead them to believe that, in the absence of relevant controls, there is a higher probability that a material misstatement may occur.
- If the auditor believes the probability is higher, they assess the inherent risk related to the relevant assertions as higher.

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<sup>1</sup> EY Atlas.

- If the auditor identifies inherent risk factors that lead them to believe it is less likely that a material misstatement will occur, assuming no relevant controls are in place, they assess the inherent risk as low.

### 2.2.2 Assessment of control risk :

The auditor assesses control risk in two possible ways<sup>1</sup>: «Rely on Controls» and «Not Rely on Controls».

This assessment is made for each relevant assertion, significant account, and disclosure by evaluating both the design effectiveness and operating effectiveness of individual controls. Auditors also take into account any changes from prior periods that might indicate the need to revise their control risk assessment.

If no such changes are identified, they proceed under the assumption that the risk assessments from previous periods remain applicable to the current period. Generally, auditors do not reassess control risk unless there are exceptional circumstances, such as when internal controls were not in place during the audit period.

#### ➤ **Rely on Controls :**

During the interim phase, auditors perform tests of controls and may conclude that the entity's internal control system is functioning effectively. However, if during the execution of substantive procedures the engagement team identifies misstatements that indicate the controls did not operate as expected throughout the reliance period, they must reassess their conclusion and treat the controls as ineffective, thus classifying control risk as high.

#### ➤ **Not Rely on Controls :**

Auditors classify control risk as «no reliance on controls» when the controls are not properly designed, not effectively implemented, or are unlikely to function effectively during the audit period, leading to a decision not to test them. This may also result from control test results or other evidence indicating that the controls were not implemented or are ineffective.

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<sup>1</sup> Idem

Furthermore, this classification applies when testing the controls would be inefficient or impractical.

### **2.2.3 Combined Risk Assessment (CRA) :**

After identifying both the inherent risks and the risks associated with controls, the engagement managers combine these two types of risks to arrive at what is referred to as the Combined Risk Assessment (CRA). The lead audit partner approves the CRA for each relevant assertion related to every significant account and disclosure. The diagram (See Appendix 1) illustrates, for each CRA level, how the combination of control testing and substantive procedures provides the audit evidence required to form reasonable conclusions that support the auditor's opinion.

### **2.2.4 Determination of Planning Materiality, Tolerable Error, Adjustment Threshold, and Identification Threshold:**

Which are key audit benchmarks that can be explained as follows:

#### **a) Determination of Planning Materiality :**

Planning Materiality (PM) is an initial assessment of the amount considered significant for the financial statements and is generally based on 5% of profit before tax for publicly listed entities and those in regulated industries. When managers select a basis other than profit before tax or EBIT, they apply professional judgment to determine the appropriate percentage to use (See Appendix 2), taking into account factors such as the expectations of the financial statement users, whether the entity operates a viable business with good long-term prospects, and whether the entity operates in a relatively stable business environment.

In certain circumstances, if auditors identify specific accounts or information that are misstated by amounts below the PM threshold but could reasonably influence the decisions of financial statement users, instead of revising the PM, they develop audit policies focused on significant accounts and disclosures to optimize audit outcomes.

### **b) Determination of the Tolerable Error (TE):**

The tolerable error (TE) is the audit team's guideline, it helps them identify significant accounts as well as key transactions. TE is set based on the planning materiality (PM).

TE is set at 50% of PM if:

- The auditor is performing an initial audit of the entity;
- The entity is closely monitored;
- The auditor's knowledge of the audited entity and prior professional experience indicate that there is a risk of misstatements.

TE can be set at 75% of PM when the history of corrected and uncorrected misstatements for the prior period does not exceed 25% of PM. If auditors have previously determined that the control environment promotes the prevention or detection and correction of significant misstatements, they may assume the same for the current period if nothing adverse is found during preliminary procedures. If evidence is found later during the audit process, auditors should reconsider the impact on the audit strategy, although they may still set TE at 75%.

### **c) Determination of the nominal amount of the SAD:**

The SAD (Threshold for Posting Adjustments) is a threshold that determines whether discrepancies identified during investigations and tests are significant. It is established based on the planning materiality (PM).

The SAD is set at 5% of PM. Amounts below the SAD are generally considered clearly insignificant according to standard judgment, nature, or circumstances. When auditors find misstatements below the theoretical SAD amount, they may challenge the reduction of the SAD threshold so that these misstatements are included within the SAD and appropriately evaluated.

### **d) Determination of the Identification Threshold (IT):**

After determining the level of the Combined Risk Assessment (CRA), the auditors proceed to establish the Identification Threshold (IT), which is specific to accounting entries (per item). This threshold is set as a percentage of the tolerable error (TE), based on the judgment exercised by the engagement manager, either within a low range or a high range.

**Table 10: Summary of the Calculation of Audit Thresholds.**

| Control Risk                         | Rely on controls               |        | Not Rely on controls |        |
|--------------------------------------|--------------------------------|--------|----------------------|--------|
| Inherent Risk                        | Lower                          | Higher | Lower                | Higher |
| CRA                                  | Minimal                        | Low    | Moderate             | High   |
|                                      | IT= Percentage of Total Assets |        |                      |        |
| Comptes de l'actif /Asset accounts   | 75-100%                        | 50-75% | 25-50%               | 10-25% |
| Comptes du passif/Liability accounts | 25-50%                         | 15-25% | 10-15%               | 5-10%  |

**Source :** Internal documentation of EY.

### 2.3 Audit procedures for financial accounts:

Before anything else, the client sends the necessary documents to ensure the smooth progress of the engagement. The first documents received are :

- The general trial balance as of 31/12/2024 and 31/12/2023, after the statutory auditor's review.
- The general ledger (GL) as of 31/12/2024.

Following this, we carry out a set of preliminary procedures, which are intended to ensure compliance with accounting principles, such as:

#### ➤ Opening balance rollover check:

This procedure aims to ensure the integrity and consistency of the opening balance sheet in accordance with the principle of balance sheet intangibility. It involves verifying that the company has reopened its accounts on 01/01/2024 exactly as they were closed. To do so, we perform the following reconciliations:

- Compare the closing balances from the previous year's trial balance (after the statutory auditor's review) with the opening balances of the current year.
- Reconcile the closing balance of the prior year's trial balance with the figures reported in the statutory auditor's report for the same year.

This ensures that no unauthorized adjustments have been made between the closing and opening of the financial years.

➤ **Reconciliation Between Trial Balance and General Ledger:**

At this stage, we reconcile the account balances between the trial balance and the general ledger as of 31/12/2024.

**Note:** In case of any discrepancies, we carry out further investigations in coordination with the entity's financial officer.

The trial balance is divided into sections called leads, with each lead corresponding to a specific area of the accounts, for example: accounts payable lead, other receivables lead, fixed assets lead, etc. These leads are generated by software that automatically segments the trial balance for audit purposes.

Once the preliminary checks are completed, we proceed with the account audit. Depending on the cycle being audited, we request supporting documentation such as account analysis, fixed asset listings, subsidiary ledgers and more.

Each audit cycle is then reviewed individually, following specific steps designed to address the relevant audit risks.

As soon as the client submits the requested documents, a sample of accounting entries is selected based on predefined and validated thresholds. This sample is then sent to the client so they can prepare the necessary supporting documents (invoices, delivery notes, receipt forms, proof of service, etc.).

Once all items have been reviewed, any significant discrepancies (i.e., those exceeding the materiality threshold) are identified and communicated to the client. The client is then expected to adjust their trial balance accordingly before the final account validation and the issuance of the statutory auditor's report.

### Section 02: Audit of the fixed assets cycle:

The work I carried out during this assignment aimed to help me understand the various aspects of statutory audit as performed by the EY audit team. I had the opportunity to work on a particularly important audit area: the fixed assets cycle of the company ALPHA. All the tasks assigned to me were supervised by the senior in charge of the engagement, which allowed me to take on real responsibilities while benefiting from proper guidance. This experience was highly enriching, as it enabled me to deepen my technical knowledge of auditing and gain a clearer, more practical understanding of the profession.

It is important to highlight that this information is based on the discussions and observations made within the EY audit team, specifically in the context of the audit of the fixed assets cycle of the entity ALPHA.

#### 1. Presentation of the audited entity :

For confidentiality reasons, we were not allowed to mention the name of the company or its subsidiaries. Therefore, we will refer to the company where we completed our internship as ALPHA.

After analyzing the company's financial structure, we noted that the fixed assets represented a significant portion of the total assets, which justified focusing the audit work on the asset cycle which made us choose it for the case study.

##### 1.1 Alpha's business activity :

Alpha is a pharmaceutical manufacturing company based in Algeria, and is an international company.

The company's primary business activity involves the production of various pharmaceutical dosage forms, including tablets, capsules, and powders. These products cater to multiple therapeutic areas such as cardiology, anti-infectives, and allergology.

##### 1.2 Alpha's legal form :

Alpha is a Joint Stock Company (JSC) established in 1994 outside Algeria, it has a share capital of 1.21 billion Algerian dinars.

### 1.3 Alpha's missions :

Alpha's mission is to provide high-quality pharmaceutical products that improve the health and well-being of individuals worldwide. The company is committed to delivering innovative solutions that meet the needs of healthcare professionals and patients, aiming to become a global leader in the pharmaceutical industry.

### 1.4 Alpha's objectives :

We can mention the following objectives:

- Growth in Key Markets ;
- Optimization of Therapeutic Portfolio ;
- Seizing Regional Tender Opportunities ;
- Operational Efficiency and Governance ;
- Talent Development and Retention.

### 1.5 Alpha's suppliers and clients :

Alpha collaborates with a broad and diverse network of suppliers and clients spanning the Middle East, Africa, and Central Asia. This extensive network enables the company to maintain a robust supply chain that ensures the consistent availability of high-quality raw materials and pharmaceutical ingredients.

On the client side, Alpha serves a wide spectrum of customers ranging from hospitals, clinics, and pharmacies to government healthcare programs and private distributors. By working closely with regional distributors and healthcare providers, Alpha effectively distributes its pharmaceutical products across multiple countries, adapting to local regulatory requirements and market needs.

## 2. Audit of the fixed assets cycle of the ALPHA entity :

The analysis of the Fixed Assets Cycle is essential, as the main risks are linked to the proper capitalization of eligible expenditures, the completeness of asset recognition, and the accurate timing of asset recording. Errors may occur through the capitalization of non-eligible costs, omission of assets that should be recorded, or failure to allocate assets to the correct financial period. For example, an asset acquired and used during the fiscal year may be excluded

from the fixed asset register, or certain expenditures may be incorrectly treated as expenses instead of being capitalized.

The audit engagement conducted by EY is structured into two phases: an interim phase, typically carried out between October and December, during which preliminary procedures and internal control evaluations are performed, and the final phase, which takes place in February, after the year-end physical inventory conducted in December. The entity usually has until 30<sup>th</sup> of April to close its financial statements but this year of 2025, the deadline has been extended to the end of May. In this section, we present the audit of the Fixed Assets Cycle for the entity ALPHA, following the methodology applied by Ernst & Young.

### **2.1 Interim phase: internal control assessment:**

This phase consists of reviewing the entire fixed assets cycle to identify the key risks associated with the internal control procedures in place and to assess their effectiveness.

- **Objectives :**

- Identify existing internal controls and associated risks.
- Understand the IT environment related to asset management.
- Document walkthrough procedures.

- **Methodology:**

To document this process, interviews were conducted on 17<sup>th</sup> of November 2024 with relevant personnel such as the accounting manager, fixed asset coordinator, and operations manager.

#### **2.1.1 Fixed assets typology :**

The fixed assets acquired by the entity ALPHA are categorized into:

##### **a) Tangible fixed assets :**

Entity ALPHA's Technical Department handles acquisitions of tangible fixed assets such as:

- Land and buildings;
- Machinery and technical installations;
- Furniture, IT equipment, and other office-related assets.

### **b) Intangible fixed assets :**

Handled by the IT and Legal departments:

- Software licenses;
- ERP systems;
- Legal fees related to patents or trademarks.

### **c) Assets under Construction:**

These relate to ongoing projects or infrastructure expansion. These investments are monitored through project tracking sheets validated by the Finance Department.

## **2.1.2 Supplier Selection and Creation Process:**

### **• Initiation :**

The procurement of fixed assets begins with a needs assessment conducted annually by department heads. The request includes technical specifications, estimated budget, and justification for the investment.

### **• Supplier selection process :**

- Market research is conducted or existing suppliers are considered;
- At least three quotations are obtained;
- A comparative analysis is performed to select the supplier offering the best quality/price ratio;
- Upon selection, the supplier submits administrative documents (business registration, tax ID, etc.) for system registration.

### **• WCGW (What Could Go Wrong):**

Selection of an inadequate supplier.

- **Identified controls:**

Approval of supplier based on comparative evaluation of quote.

- **IT systems used:** The entity uses an Asset Management System (AMS) for the registration, tracking, and depreciation of fixed assets, while an Accounting ERP system such as SUN is employed to record asset acquisitions and related financial transactions.

### 2.1.3 Fixed assets acquisition process :

- **Initiation :**

Each department submits a formal investment request detailing:

- Nature and description of the asset ;
- Estimated budget ;
- Justification for acquisition.

This request must be validated by the Department Head, the Finance Director, and the General Manager.

- **Recording :**

Supplier and order information is entered into the system:

- System A (e.g., FIXASSET) is used for asset management and registration.
- System B (e.g., SUN or ERP) is used for accounting treatment.

- **Processing:**

A Purchase Order (PO) is issued by the asset manager and signed by the GM.

Upon delivery:

- Physical verification is performed by the Technical Department;
- Quality and quantity checks are signed off;
- A Goods Receipt Note (GRN) is generated;
- The supplier invoice is then processed for approval and booking.

- **WCGW:**

Possible issues include delivery discrepancies and incorrect invoice entries.

- **Controls identified:**

Identified controls include dual-signature validation (GRN and invoice approval) and system alerts for discrepancies between the invoice and the purchase order.

### **2.1.4 Asset capitalization and accounting :**

Once validated :

- The asset is entered into the fixed assets register
- A unique asset code is generated
- Depreciation method and useful life are assigned based on accounting policy
- An accountant records the entry (debit fixed assets / credit accounts payable)

- **WCGW :**

What could go wrong includes the capitalization of non-eligible expenses and misstatement in asset classification.

- **Controls identified :**

Controls identified include the review of supporting documentation before capitalization and the segregation of duties between the requester, approver, and recorder.

### **2.1.5 Payment of Suppliers :**

We have two cases :

- **Local Suppliers :**

Payments are processed via bank transfer, contingent upon a final review of the approved invoice package, and require joint authorization from both the finance director and the general manager.

- **Foreign Suppliers :**

Payments are made via bank transfers or letters of credit depending on contract terms.

### **2.1.6 Conclusion on Internal Control Assessment :**

Our review of the Fixed Assets Cycle within Entity ALPHA highlighted the following issues:

- Segregation of duties between asset requester, approver, and recorder is not clearly established.
- Weak traceability in asset capitalization justifications.
- Comparative analyses of supplier offers are not documented or retained.

Following the internal control evaluation, we concluded that the inherent risk of the entity is low, as our audit approach was primarily substantive consequently, we have adopted a « not rely on control» strategy.

### 2.2 Determination of thresholds for entity ALPHA:

According to EY's methodology, the determination of thresholds involves the following steps:

#### 2.2.1 Determination of Planning Materiality (PM):

Based on our understanding of the nature and scale of ALPHA's operations, and considering the financial metric most closely monitored by management, we have chosen to use Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) as the basis for calculating the Planning Materiality (PM). The table below presents the resulting PM amount:

**Table 11: Determination of PM:**

| Label                                       | Amount in DZD    |
|---------------------------------------------|------------------|
| EBITDA au 31/12/2024                        | 1 286 195 909,20 |
| PM based on the lower range (5% of EBITDA)  | 64 309 795,50    |
| PM based on the upper range (10% of EBITDA) | 128 619 591,00   |
| Planning Meteriality PM (8% of EBITDA)      | 102 895 672,74   |

**Source :** internal documentation of EY.

- **Interpretation of PM :**

Given that we have opted for a medium range between 5% and 10% of EBITDA, we estimate that any error in the financial statements, whether taken individually or identified on an aggregated basis, equal to or greater than 102 895 672,74 DZD would be sufficient to refuse to certify the financial statements if no corrective action is taken. The level of the range is determined based on criteria according to EY's methodology: the number of shareholders, external financing, etc.

### 2.2.2 Determination of Tolerable Error (TE):

Since this is a first-time audit, we recommend using the lower end of the range for the calculation base of the tolerable error, namely 50%.

**Table 12: Determination of TE:**

| Label                                  | Amount in DZD  |
|----------------------------------------|----------------|
| Planning Materiality PM (8% of EBITDA) | 102 895 672,74 |
| Tolerable Error (50% of PM)            | 51 447 836,37  |

**Source :** Internal documentation of EY

- **Interpretation of TE :**

We will consider an account to be significant and subject to investigation if its balance is equal to or greater than 51 447 836,37 DZD.

### 2.2.3 Determination of Summary of Audit Differences (SAD):

Given that we have set the Tolerable Error (TE) at 50% of the Planning Materiality (PM), the nominal amount to be allocated to the summary of audit differences corresponds to 5% of the PM.

**Table 13: Determination of SAD:**

| Label                                               | Amount in DZD  |
|-----------------------------------------------------|----------------|
| Planning Materiality PM (8% of EBITDA)              | 102 895 672,74 |
| Nominal amount: 5% of the Planning Materiality (PM) | 5 144 783,64   |

**Source :** Internal documentation of EY.

- **Interpretation of the nominal amount:**

We estimate that if the total amount of errors identified in an account exceeds 5 144 783,64 DZD, corrective actions must be undertaken by the company.

### 2.2.4 Assessment of control risk and determination of the CRA:

After evaluating the entity's internal control process, the senior in charge of the engagement should assess the control risk as a « Not Rely on Controls » risk.

Once we have determined the two risks (Inherent Risk = Lower) and (Control Risk = Not rely on controls), we conclude that the Combined Risk Assessment (CRA) to be used subsequently is CRA = Moderate.

### 2.2.5 Determination of identification threshold :

Table 10 helped us define the percentage of the Identification Threshold, which varies according to:

- The level of the CRA;
- Assets or liabilities on the balance sheet;
- Upper bound or Lower bound.

And according to the senior auditor's decision this is the identification threshold applied:

**Table 14: determination of IT:**

| Label                                | Amount in DZD |
|--------------------------------------|---------------|
| Tolerable Error (50% of PM)          | 51 447 836,37 |
| identification threshold (25% of TE) | 12 861 959,09 |

Source : internal documentation of EY.

## 2.3 Final Phase: Audit of the Financial Statements:

During the audit phase and to address the various audit risks, we divided our work according to the following procedures:

### 2.3.1 Preparation of an analytical review of fixed assets:

- **Objective :**

The analytical review of fixed assets aims to identify unusual variations or inconsistencies in asset balances, detect potential misstatements, and assess the reasonableness of depreciation and asset movements. It also serves as a lead schedule, helping to guide further audit procedures and address key audit risks.

- **Work done :**

- Extracted fixed asset balances for 2023 and 2024 from the general ledger and generated the lead schedules using EY's audit software.
- Performed a year-on-year variance analysis to identify and explain any significant movements.

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- Obtained and reviewed three fixed asset lead schedules related to the fixed asset cycle ,which are :

**Table 15: lead of tangible assets:**

| Account | Account Name                                          | Amount in 31/12/2023 | Amount in 31/12/2024 | Var            | Var% |
|---------|-------------------------------------------------------|----------------------|----------------------|----------------|------|
| 213000  | BUILDINGS                                             | 98 755 756,57        | 125 187 519,00       | 26 431 762,43  | 27%  |
| 213100  | Administrative and commercial buildings               | 66 880 527,23        | 66 880 527,23        | 0,00           | 0%   |
| 215000  | INSTALLATIONS COMPLEXES                               | 1 194 343 591,20     | 1 211 732 612,69     | 17 389 021,49  | 1%   |
| 218100  | Equipment and tools                                   | 0,00                 | 10 159 724,00        | 10 159 724,00  | -    |
| 218130  | Passenger vehicles owned by the company               | 0,00                 | 7 312 500,00         | 7 312 500,00   | -    |
| 218230  | Telephony                                             | 0,00                 | 240 006,00           | 240 006,00     | -    |
| 218400  | Office furniture                                      | 1 114 282,55         | 3 649 283,00         | 2 535 000,45   | 228% |
| 218510  | Office equipment                                      | 3 226 228,83         | 14 773 804,00        | 11 547 575,17  | 358% |
| 218800  | Social facilities                                     | 0,00                 | 21 938,00            | 21 938,00      | -    |
| 281300  | AMORT.BUILDINGS                                       | -4 079 646,16        | -16 084 567,00       | -12 004 920,84 | 294% |
| 281310  | Amort.Administrative and commercial buildings         | -2 711 376,88        | -9 218 681,00        | -6 507 304,12  | 240% |
| 281500  | AMORT INSTALLATIONS COMPLEXES                         | -48 330 928,20       | -48 330 928,20       | 0,00           | 0%   |
| 281810  | Amort.Equipment and tools                             | 0,00                 | -1 592 159,00        | -1 592 159,00  | -    |
| 281813  | Amort.Passenger vehicles owned by the company         | 0,00                 | -487 500,00          | -487 500,00    | -    |
| 281823  | Amort.Telephony                                       | 0,00                 | -17 813,00           | -17 813,00     | -    |
| 281840  | Amort.Office furniture                                | -89 981,54           | -806 344,00          | -716 362,46    | 796% |
| 281851  | Amort.Office equipment                                | -360 915,83          | -2 780 212,00        | -2 419 296,18  | 670% |
| 281880  | Amort.Social facilities                               | 0,00                 | -457,00              | -457,00        | -    |
| 232000  | Tangible fixed assets in progress                     | 0,00                 | 26 514 429,00        | 26 514 429,00  | -    |
| 238000  | Advances and down payments made on fixed asset orders | 0,00                 | 48 021 444,10        | 48 021 444,10  | -    |

**Source :** Internal documentation of EY.

- **Interpretation :**

In 2024, the company made major investments in fixed assets, mainly in complex installations, equipment, office furniture, and assets in progress. Depreciation rose sharply, especially on buildings and equipment, reflecting asset use. This indicates a strategy focused on growth and modernization.

**Table 16: lead of intangible fixed assets:**

| Account | Account Name                                                         | Amount in<br>31/12/2023 | Amount in<br>31/12/2024 | Var           | Var%  |
|---------|----------------------------------------------------------------------|-------------------------|-------------------------|---------------|-------|
| 204000  | Softwares                                                            | 26 746 751,40           | 29 189 276,25           | 2 442 524,85  | 9%    |
| 205000  | Concessions and similar rights, patents, licenses, trademarks        | 1 575 000,00            | 1 575 000,00            | 0,00          | 0%    |
| 280400  | AMORT.Softwares                                                      | -278 612,00             | -3 621 956,25           | -3 343 344,26 | 1200% |
| 280500  | Amort .Concessions and similar rights, patents, licenses, trademarks | -227 343,75             | -621 093,75             | -393 750,00   | 173%  |

**Source :** internal documentation of EY.

- **Interpretation :**

In 2024, intangible assets grew modestly, mainly in software. However, amortization increased sharply especially for software indicating active use of previously acquired intangibles. This suggests limited new investment but greater utilization of existing assets.

**Table 17: Lead of the account 68:**

| Account | Account Name                                    | Amount in<br>31/12/2023 | Amount in<br>31/12/2024 | Var           | Var% |
|---------|-------------------------------------------------|-------------------------|-------------------------|---------------|------|
| 681000  | Depreciation expense                            | 56 002 939,74           | 144 710 959,76          | 88 708 020,02 | 158% |
| 685000  | Depreciation, provisions, and impairment losses | 16 171 628,59           | 88 993 759,11           | 72 822 130,52 | 450% |

**Source :** internal documentation of EY.

- **Interpretation :**

In 2024, depreciation and provision expenses surged, depreciation alone rose by 158%, while total charges (including impairments) grew by 450%. This reflects the impact of significant asset acquisitions and possibly a more conservative asset valuation approach.

### 2.3.2 Reconciliation between the fixed asset listing and the balances reported in the trial balance (BG):

- **Objective :**

The reconciliation ensures that all assets are recorded (completeness), accurately valued (accuracy), and properly presented in the financial statements (presentation & disclosure).

- **Work done :**

- Reconciled the gross book values, net book values, and accumulated depreciation between the general ledger (trial balance) and the fixed asset listing.
- Verified the consistency of depreciation expenses recorded in the general ledger with the movements presented in the lead schedule.
- Ensured that all balances tie across the lead, trial balance, and asset register with no unexplained differences.

**Table 18: Fixed assets reconciliation table between the trial balance and the fixed assets listing.**

| Account | Account Name                                                  | FL at 31/12/2024 | TB at 31/12/2024 | Difference   |
|---------|---------------------------------------------------------------|------------------|------------------|--------------|
| 204000  | Softwares                                                     | 29 189 276,40    | 29 189 276,40    | 0,00         |
| 205000  | Concessions and similar rights, patents, licenses, trademarks | 1 575 000,00     | 1 575 000,00     | 0,00         |
| 213000  | BUILDINGS                                                     | 125 187 519,00   | 125 187 519,00   | 0,00         |
| 213100  | Administrative and commercial buildings                       | 66 880 527,00    | 66 880 527,00    | 0,00         |
| 215000  | INSTALLATIONS COMPLEXES                                       | 1 217 267 792,00 | 1 211 732 612,69 | 5 535 179,31 |
| 218100  | Equipment and tools                                           | 10 159 724,00    | 10 159 724,00    | 0,00         |
| 218130  | Passenger vehicles owned by the company                       | 7 312 500,00     | 7 312 500,00     | 0,00         |
| 218230  | Telephony                                                     | 240 006,00       | 240 006,00       | 0,00         |
| 218400  | Office furniture                                              | 3 649 283,00     | 3 649 283,00     | 0,00         |
| 218510  | Office equipment                                              | 14 773 804,00    | 14 773 804,00    | 0,00         |
| 218800  | Social facilities                                             | 21 938,00        | 21 938,00        | 0,00         |

**Source :** internal documentation of EY.

- **Interpretation :**

This table reconciles fixed asset balances between the Fixed Asset Listing (FL) and the Trial Balance (TB) as of 31/12/2024. All accounts match except for 215000 under the name of INSTALLATIONS COMPLEXES, which shows a significant difference of 5 535 179,31 DZD, exceeding the SAD threshold. Further investigation revealed that three assets acquired in 2023 were sold and removed from the TB but not excluded from the FL, indicating that the listing is outdated and needs correction.

- **Conclusion :**

In conclusion, the difference was due to unrecorded disposals, showing that the fixed asset listing was not updated.

**Table 19: Depreciation reconciliation table between the trial balance and the fixed assets listing.**

| Account | Account Name                                                         | FL at 31/12/2024 | TB at 31/12/2024 | Difference   |
|---------|----------------------------------------------------------------------|------------------|------------------|--------------|
| 280400  | AMORT.Softwares                                                      | -3 621 955,92    | -3 621 955,92    | 0,00         |
| 280500  | Amort .Concessions and similar rights, patents, licenses, trademarks | -621 093,75      | -621 093,75      | 0,00         |
| 281300  | AMORT.BUILDINGS                                                      | -16 084 567,00   | -16 084 567,00   | 0,00         |
| 281310  | Amort.Administrative and commercial buildings                        | -9 218 681,00    | -9 218 681,00    | 0,00         |
| 281500  | AMORT<br>INSTALLATIONS<br>COMPLEXES                                  | -166 308 947,00  | -167 371 398,93  | 1 062 451,93 |
| 281810  | Amort.Equipment and tools                                            | -1 592 159,00    | -1 592 159,00    | 0,00         |
| 281813  | Amort.Passenger vehicles owned by the company                        | -487 500,00      | -487 500,00      | 0,00         |
| 281823  | Amort.Telephony                                                      | -17 813,00       | -17 813,00       | 0,00         |
| 281840  | Amort.Office furniture                                               | -806 344,00      | -806 344,00      | 0,00         |
| 281851  | Amort.Office equipment                                               | -2 780 212,00    | -2 780 212,00    | 0,00         |
| 281880  | Amort.Social facilities                                              | -457,00          | -457,00          | 0,00         |

**Source :** Internal documentation of EY.

- **Interpretation :**

This reconciliation table shows that all accumulated depreciation balances match between the trial balance and the fixed assets listing, except for account 281500. A difference of 1 062 451,93 DZD was identified, caused by assets that were sold but not removed from the listing. As a result, depreciation was overstated on those disposed assets.

- **Conclusion :**

The difference is due to sold assets not being removed on time, causing depreciation to be overstated. This highlights a need for better asset tracking.

**Table 20: Reconciliation table of account 68.**

| Account | Account Name                                    | FL at 31/12/2024 | TB at 31/12/2024 | Difference |
|---------|-------------------------------------------------|------------------|------------------|------------|
| 681000  | Depreciation expense                            | 145 460 925,82   | 144 710 959,76   | 749 966,06 |
| 685000  | Depreciation, provisions, and impairment losses | 88 993 759,11    | 88 993 759,11    | 0,00       |

**Source :** Internal documentation of EY.

- **Interpretation :**

This table shows that depreciation expense and provisions recorded in the fixed assets listing (FL) and the trial balance (TB) match closely as of 31/12/2024. The difference in depreciation expense is due to sold assets not being removed on time, causing an overstatement.

- **Conclusion :**

The depreciation and provision expenses are reconciled, with the small difference explained by assets sold but not removed on time from the FL. Overall, the records are accurate and the closing is satisfactory.

### 2.3.3 statement of changes :

- **Objective :**

The objective of statement of changes is to ensure all assets are recorded (completeness), accurately valued (accuracy), and properly presented and disclosed in the financial statements (presentation & disclosure).

- **Work done :**

- Obtained the fixed assets and depreciation schedules from the client and verified that the figures reconcile with the general ledger
- Cross-checked additions, disposals, and depreciation charges for the year with supporting documentation and accounting records.as follows:

**Table 21: Fixed Assets Movement Table.**

| Fixed asset classes                                           | GL account | 12/31/2023<br>Beginning<br>balance | Additions     | Disposals | 12/31/2024<br>Ending<br>balance | 12/31/2024<br>Balance as per<br>subledger | Unexplained<br>difference |
|---------------------------------------------------------------|------------|------------------------------------|---------------|-----------|---------------------------------|-------------------------------------------|---------------------------|
| Softwares                                                     | 204000     | 26 746 751,40                      | 2 442 524,85  | 0,00      | 29 189 276,25                   | 29 189 276,25                             | 0,00                      |
| Concessions and similar rights, patents, licenses, trademarks | 205000     | 1 575 000,00                       | 0,00          | 0,00      | 1 575 000,00                    | 1 575 000,00                              | 0,00                      |
| BUILDINGS                                                     | 213000     | 98 755 756,57                      | 26 431 762,43 | 0,00      | 125 187 519,00                  | 125 187 519,00                            | 0,00                      |
| Administrative and commercial buildings                       | 213100     | 66 880 527,23                      | 0,00          | 0,00      | 66 880 527,23                   | 66 880 527,23                             | 0,00                      |
| INSTALLATIONS COMPLEXES                                       | 215000     | 1 194 343 591,20                   | 22 924 200,80 | 0,00      | 1 217 267 792,00                | 1 211 732 612,69                          | 5 535 179,31              |
| Equipment and tools                                           | 218100     | 0,00                               | 10 159 724,00 | 0,00      | 10 159 724,00                   | 10 159 724,00                             | 0,00                      |
| Passenger vehicles owned by the company                       | 218130     | 0,00                               | 7 312 500,00  | 0,00      | 7 312 500,00                    | 7 312 500,00                              | 0,00                      |
| Telephony                                                     | 218230     | 0,00                               | 240 006,30    | 0,00      | 240 006,30                      | 240 006,00                                | 0,30                      |
| Office furniture                                              | 218400     | 1 114 282,55                       | 2 535 000,45  | 0,00      | 3 649 283,00                    | 3 649 283,00                              | 0,00                      |
| Office equipment                                              | 218510     | 3 226 228,83                       | 11 547 575,17 | 0,00      | 14 773 804,00                   | 14 773 804,00                             | 0,00                      |
| Social facilities                                             | 218800     | 0,00                               | 21 938,00     | 0,00      | 21 938,00                       | 21 938,00                                 | 0,00                      |

**Source :** Internal documentation of EY .

- **Interpretation :**

The fixed assets movement schedule shows full reconciliation between the general ledger and the subledger for all asset classes except Installations complexes, which presents a significant difference of 5 535 179,31 DZD. This variance results from disposals recorded in the subledger but not updated asset listing of disposals, leading to an overstatement of the GL balance. This indicates a control weakness in the disposal process. Apart from this, additions

are properly recorded, and balances are accurate, supporting the overall reliability of fixed asset records.

- **Conclusion :**

The reconciliation is generally accurate, with one material difference in Installations complexes due to unrecorded disposals. Overall, fixed asset records are reliable, pending this correction.

**Table 22: Depreciation Movement Table.**

| Accumulated depreciation                                             | GL account | 12/31/2023<br>Beginning balance | Depreciation expense | Disposals | 12/31/2024<br>Ending balance | 12/31/2024<br>Balance as per subledger | Unexplained difference |
|----------------------------------------------------------------------|------------|---------------------------------|----------------------|-----------|------------------------------|----------------------------------------|------------------------|
| AMORT.BUILDINGS                                                      | 281300     | -4 079 646,16                   | 12 004 920,85        | 0,00      | -16 084 567,01               | -16 084 567,00                         | 0,00                   |
| Amort.Administrative and commercial buildings                        | 281310     | -2 711 376,88                   | 6 507 304,12         | 0,00      | -9 218 681,00                | -9 218 681,00                          | 0,00                   |
| AMORT INSTALLATIONS COMPLEXES                                        | 281500     | -48 330 928,20                  | 117 978 018,79       | 0,00      | -166 308 946,99              | -167 371 398,93                        | 1 062 451,94           |
| Amort.Equipment and tools                                            | 281810     | 0,00                            | 1 592 159,00         | 0,00      | -1 592 159,00                | -1 592 159,00                          | 0,00                   |
| Amort.Passenger vehicles owned by the company                        | 281813     | 0,00                            | 487 500,00           | 0,00      | -487 500,00                  | -487 500,00                            | 0,00                   |
| Amort.Telephony                                                      | 281823     | 0,00                            | 17 813,00            | 0,00      | -17 813,00                   | -17 813,00                             | 0,00                   |
| Amort.Office furniture                                               | 281840     | -89 981,54                      | 716 362,79           | 0,00      | -806 344,33                  | -806 344,00                            | -0,33                  |
| Amort.Office equipment                                               | 281851     | -360 915,83                     | 2 419 296,05         | 0,00      | -2 780 211,87                | -2 780 212,00                          | 0,13                   |
| Amort.Social facilities                                              | 281880     | 0,00                            | 457,00               | 0,00      | -457,00                      | -457,00                                | 0,00                   |
| AMORT.Softwares                                                      | 280400     | -278 612,00                     | 3 343 343,93         | 0,00      | -3 621 955,92                | -3 621 955,92                          | 0,00                   |
| Amort .Concessions and similar rights, patents, licenses, trademarks | 280500     | -227 343,75                     | 393 750,00           | 0,00      | -621 093,75                  | -621 093,75                            | 0,00                   |

**Source :** Internal documentation of EY.

- **Interpretation :**

The depreciation movement table shows a consistent and accurate update of accumulated depreciation for the year 2024. Depreciation expenses were properly recorded across all asset classes, with no disposals during the period. All balances between the general ledger and the sub ledger are fully reconciled, except for a minor difference of 1 062 451,94 DZD in the Installations complexes category. This discrepancy may relate to the same disposal issue identified in the asset cost reconciliation, indicating a need to align depreciation adjustments accordingly. Overall, the records are reliable, and the depreciation policy appears to be correctly applied.

- **Conclusion :**

Depreciation is accurate overall, with a minor discrepancy needing review.

### 2.3.4 Additions testing :

- **Objective :**

This section focuses on reviewing asset acquisitions made during the audited period up to 31/12/2024. The goal is to ensure that all purchases have been properly recorded, correctly valued based on supporting invoices, appropriately classified as capital assets rather than expenses, and accurately allocated to the correct accounting period. This helps confirm the reliability and integrity of the fixed asset accounting.

- **Work done :**

- Obtain the detailed list of 2024 acquisitions.
- Check if the total exceeds the TE, which is 51 447 836,37 DZD, in order to choose the selection method, which depends on the population size.
- Select the items to test .as follows:

**Table 23: Extraction of the fixed assets acquisition listing.**

| CODE      | Asset account | Asset account name | Account Name                                            | acquisition date | Acquisition amount | Depreciation account |
|-----------|---------------|--------------------|---------------------------------------------------------|------------------|--------------------|----------------------|
| 117000124 | 204000        | Softwares          | EMPOWER 3 WORKSTATION AVEC LICENCE NECES                | 25/12/24         | 2 442 525,00       | 280400               |
| 117000090 | 213000        | Buildings          | REVETEMENT EN RESINE ET PEINTURE EPOXY                  | 13/02/24         | 6 748 800,00       | 281300               |
| 117000084 | 213000        | Buildings          | INSTALLATION ELECTRIQUE/AMENAGEMENT BLOC                | 02/01/24         | 5 729 850,00       | 281300               |
| 117000091 | 213000        | Buildings          | AMENAGEMENT BUREAU CDD 1ER ETAGE                        | 07/03/24         | 4 188 000,00       | 281300               |
| 117000094 | 213000        | Buildings          | AMENAGEMENT BUREAU CDD                                  | 07/03/24         | 3 052 800,00       | 281300               |
| 117000100 | 213000        | Buildings          | GRILLAGE/RIDEAU                                         | 22/05/24         | 1 689 300,00       | 281300               |
| 117000083 | 213000        | Buildings          | SEPARATION GRILLAGE                                     | 03/06/24         | 1 189 200,00       | 281300               |
| 117000098 | 213000        | Buildings          | F/P PANNEAUX SANDWICH - CDD                             | 25/02/24         | 949 800,00         | 281300               |
| 117000080 | 213000        | Buildings          | REALISATION UN LABO POUR ECHANTILLONS                   | 22/07/24         | 747 450,00         | 281300               |
| 117000096 | 213000        | Buildings          | TRAVAUX DE PEINTURE AU CDD                              | 07/03/24         | 400 156,20         | 281300               |
| 117000106 | 213000        | Buildings          | F/P GRILLAGE POUR ZONE CONTROLER                        | 24/04/24         | 370 890,00         | 281300               |
| 117000130 | 213000        | Buildings          | INSTALLATION DETECTEURS DE FUMEE ET INDICATEUR D'ACTION | 18/11/24         | 351 750,00         | 281300               |
| 117000114 | 213000        | Buildings          | TRAVAUX DE PEINTURE AU CDD                              | 07/03/24         | 153 300,00         | 281300               |

**Source :** Internal documentation of EY.

**Table 24: Test on acquisitions:**

| Selection number | Selection type | Asset class | Asset account ID | Asset description                                             | Asset cost   | Depreciable cost (after considering residual value) | Date asset capitalized |
|------------------|----------------|-------------|------------------|---------------------------------------------------------------|--------------|-----------------------------------------------------|------------------------|
| 57               | Representative | 2           | 213000           | AMENAGEMENT BUREAU CDD<br>IER ETAGE                           | 4 188 000,00 | N/A                                                 | 07/03/24               |
| 76               | Representative | 2           | 218100           | EXTINCTEURS                                                   | 382 162,50   | N/A                                                 | 27/05/24               |
| 91               | Representative | 2           | 213000           | INSTALLATION DETECTEURS DE<br>FUMEE ET INDICATEUR<br>D'ACTION | 351 750,00   | N/A                                                 | 18/11/24               |

**Source :** Internal documentation of EY.

- **Interpretation :**

This table presents a test on acquisitions performed using EY's special testing tool which is EY random, as the total acquisition population for 2024 exceeded the TE. The tool selected only representative items, as there were no individually significant elements exceeding the IT. The selected assets were reviewed to ensure accurate classification, capitalization, and compliance with audit requirements. Therefore, the supporting documents were obtained, specifically invoices accompanied by delivery notes or a service certificate.

- **Conclusion :**

The supporting documents matched the tested items, confirming the accuracy and validity of the acquisitions. Therefore, the testing is satisfactory.

### 2.3.5 Disposals testing :

- **Objective :**

The objective of disposals testing is to perform the necessary procedures to ensure that asset disposals have been properly recorded and accounted for. This includes verifying their inclusion in the disposals file, reviewing supporting documents (e.g., payment proof), assessing whether the disposal price is reasonable given the asset's nature and age, and recalculating the gain or loss on disposal to confirm its accurate recognition and appropriate classification.

- Although according to the entity's documentation no disposals occurred as of 31/12/2024, our audit work identified a discrepancy in account 215000 (Installations

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complexes), indicating that disposals were, in fact, recorded in the general ledger but not reflected in the fixed asset listing. This inconsistency constitutes an anomaly, as it suggests that the asset register was not properly updated, undermining the completeness and accuracy of the fixed asset records.

### 2.3.6 CIP testing :

- **Objective :**

The objective of CIP (Construction in Progress) testing is to ensure that all capital expenditures are accurately recorded, classified, and transferred to fixed assets upon completion, with no misstatements or delays in capitalization.

- **Work done :**

- Retrieved the details of accounts 238000 and 232000 (CIP), and validated them with the lead.
- Checked whether the total balances exceeded the materiality threshold (TE).
- Selected the appropriate testing method.
- Chose a sample of items to test for proper recording and capitalization.as follows:

**Table 25: Extraction of CIP accounts details.**

| FOLIO | Line | PIECE | DATE     | REFERENCE    | Account name                                    | Journal Code | Account | Amount        |
|-------|------|-------|----------|--------------|-------------------------------------------------|--------------|---------|---------------|
| 13    | 48   | 98    | 20240225 | 014/E/24     | STE MAGHREB -<br>PROJET OPHTA                   | IMMOS        | 232000  | 4 853 250,00  |
| 10    | 1    | 91    | 20240423 | HONO 16/D/24 | HONORAIRES<br>ARCHITECTE -<br>PROJET OPHTA      | IMMOS        | 232000  | 225 000,00    |
| 7     | 41   | 53    | 20240523 | NOTE HONOR   | ARCHITECTE -<br>PROJET<br>OPHTALMO              | IMMOS        | 232000  | 1 087 500,00  |
| 1     | 8    | 00002 | 20240710 |              | REG TRF<br>9198727<br>AVANCE FRS<br>ETRANG BOSH | DEP-SGA      | 238000  | 36 527 349,83 |
| 1     | 123  | 00027 | 20241118 |              | IWK LIMITED                                     | DEP-SGA      | 238000  | 7 587 180,49  |

**Source :** Internal documentation of EY.

**Table 26: CIP testing.**

| Selection number | Selection type | Asset date (when originally recorded in subledger detail) | Asset account ID | Asset description                                                            | Asset cost    | Invoice amount | Ecart |
|------------------|----------------|-----------------------------------------------------------|------------------|------------------------------------------------------------------------------|---------------|----------------|-------|
| 1                | Key item       | 20240710                                                  | 238000           | REG TRF 9198727 AVANCE FRS ETRANG BOSH                                       | 36 527 349,83 | 36 527 349,83  | 0,00  |
| 2                | Representative | 20241222                                                  | 232000           | Relocation and installation works of compressed air compressor – OTA project | 1 536 750,00  | 1 536 750,00   | 0     |

**Source :** Internal documentation of EY.

- **Interpretation :**

This table presents a test on CIP acquisitions using EY's testing tool which is EY random, as the total 2024 CIP balance exceeded the TE. One key item was selected because it exceeded the IT, while a representative item was randomly selected to strengthen the testing. Both items were reviewed for accurate recording, classification, and capitalization. Supporting documentation, including supplier invoices, was obtained and matched with the recorded amounts, showing no differences.

- **Conclusion :**

The results of the testing were satisfactory, with no discrepancies noted and proper supporting documentation obtained.

### **2.3.7 Validation of maintenance expenses :**

- **Objective :**

The objective is to validate that maintenance expenses are properly recorded, supported by documentation, and not capitalized in error. This ensures accurate expense recognition and compliance with accounting policies.

- **Work done :**

- Extracted the general ledger details of accounts 615 as of 31/12/2024.
- Created a pivot table based on the type of 615.
- reconciled them with the lead
- Performed testing using EY's testing tool.

- Selected a sample of items to verify proper recording, classification, and to ensure no expenses were incorrectly capitalized as follows:

**Table 27: Maintenance Expenses Reconciliation Table.**

| Account    | Account name                                | Amount        |
|------------|---------------------------------------------|---------------|
| 615030     | Building maintenance and repair             | 15 620 578,73 |
| 615060     | Maintenance and repair of intangible assets | 26 755 067,28 |
| 615100     | Equipment maintenance                       | 18 763 930,30 |
| 615300     | Vehicle maintenance                         | 15 600,00     |
| Total      |                                             | 61 155 176,30 |
| Total TB   |                                             | 61 155 176,30 |
| Difference |                                             | 0,00          |

**Source:** Internal documentation of EY.

**Table 28: Testing of maintenance expenses.**

| Sample type    | Account | Account name                                                                  | Amount tested | Confirmed amount | Difference |
|----------------|---------|-------------------------------------------------------------------------------|---------------|------------------|------------|
| Key item       | 615060  | TMA Support Service for S4 HANA –<br>September/October/November/December 2023 | 6 721 200,00  | 6 721 200,00     | 0,00       |
| Representative | 615100  | Media roller filter                                                           | 20 286,75     | 20 286,75        | 0,00       |
| Representative | 615100  | Performance Qualification (PQ) of<br>your analytical balance                  | 7 500,00      | 7 500,00         | 0,00       |

**Source:** Internal documentation of EY.

- **Interpretation :**

This table presents a test on maintenance expenses using EY's testing tool which is EY random, as the total 2024 maintenance expenses exceeded the TE. One key item was selected because it exceeded IT, while two representative items were randomly selected to enhance the reliability of the testing. All three items were reviewed for proper recording, classification, and accuracy. Supporting documentation, including supplier invoices and confirmations, was

obtained and reconciled with the recorded amounts. No differences were identified between the tested and confirmed amounts.

- **Conclusion :**

The results of the testing were satisfactory, with no discrepancies noted between the recorded and confirmed amounts. All tested expenses were properly supported by relevant documentation and appropriately classified in the accounts.

### 2.3.8 Recalculation of depreciation and its reconciliation with accounting records:

- **Objective :**

The objective of this test is to estimate the depreciation expense for the period and compare it with the amount actually recorded in the accounts, while validating the following assertions: valuation, consistency, and completeness

- **Work done :**

- Reconciled the depreciation expense by comparing our calculations with the client's figures reported in the fixed asset register.
- Reconciled the accumulated depreciation from our calculations with the amounts recorded in the accounting records. As follows:

**Table 29: Extraction from the recalculation table**

| Account | Supplier                      | Date       | Amount        | Depreciation rate | Amortization period according to EY | Amortization period according to client | Amortization Period Difference |
|---------|-------------------------------|------------|---------------|-------------------|-------------------------------------|-----------------------------------------|--------------------------------|
| 204000  | CM CONSULTING                 | 01/12/2023 | 35 662 335,20 | 13%               | 4 457 791,90                        | 4 457 791,90                            | 0,00                           |
| 205000  | AG NLE PRODUIT PHARMACEUTIQUE | 27/03/2023 | 150 000,00    | 25%               | 37 500,00                           | 37 500,00                               | 0,00                           |
| 213100  | SANDOZ                        | 01/08/2023 | 16 729 702,70 | 10%               | 1 672 970,27                        | 1 672 970,27                            | 0,00                           |
| 218400  | KHELIFI TECHNOLOGIE           | 30/07/2023 | 495 000,00    | 20%               | 43 025,21                           | 43 025,21                               | 0,00                           |
| 218400  | EURL HOME OFFICE WOOD         | 04/10/2023 | 476 000,00    | 20%               | 95 200,00                           | 95 200,00                               | 0,00                           |

**Source:** Internal documentation of EY.

- **Interpretation:**

The table compares EY's amortization calculations with those provided by the client. While the figures appear aligned at first glance, we noticed differences in the amortization calculations caused by the PBC not being updated. The client's data did not reflect the latest amortization periods, which led to discrepancies between EY's calculations and the client's figures. Notably, the differences were found in account 215000.

- **Conclusion :**

This test revealed discrepancies masked by an outdated PBC, highlighting the need for updated and accurate client data to properly validate amortization figures.

### 2.3.9 Points to Report on Fixed Assets:

- **Outdated Fixed Assets Register:** The fixed assets file provided was not properly updated, leading to material discrepancies when compared with the general ledger accounts (account 215, Fixed Assets). This discrepancy may affect the accuracy of financial reporting and asset management.
- **Significant Differences in Depreciation:** The depreciation amounts recorded in the ledger differ significantly from the calculations derived from the fixed assets register and the depreciation schedules. This indicates potential errors in the depreciation process or incomplete recording of asset disposals and acquisitions.

As auditors, we can provide the following recommendations:

- **Update the Fixed Assets Register Regularly:** The Company ALPHA should ensure that the fixed assets register is continuously and promptly updated to reflect any acquisitions, disposals, or changes in asset status. This will allow a more accurate and real-time tracking of fixed assets.
- **Perform Regular Reconciliations:** Regular reconciliation between the fixed assets register and the general ledger (account 215) should be implemented to detect and correct discrepancies early.
- **Adjust Depreciation Calculations:** An adjustment should be made to the depreciation entries to reflect the accurate amounts based on the updated fixed assets register. This

adjustment will improve the accuracy of depreciation expense and the net book value of fixed assets.

- **Implement Internal Controls on Fixed Assets Management:** Strengthening internal controls over the recording, valuation, and depreciation of fixed assets will reduce the risk of errors and improve compliance with accounting standards.

Implementing these recommendations and adjusting the fixed assets records will significantly improve the accuracy and reliability of the company's financial statements. It will also provide management with better asset visibility, support informed decision-making, and ensure compliance with accounting and auditing standards.

### 2.4 Adjustment Steps for Unrecorded Asset Disposals:

The following steps were taken to adjust the listing and eliminate the discrepancy:

#### a) Identification of unrecorded disposals :

Based on the auditors' findings, ALPHA reviewed its accounting records to identify all assets that had been disposed of during the period but were still included in the listing file.

#### b) Verification using supporting documentation :

ALPHA cross-referenced the identified disposals with supporting documents (e.g., sales invoices, disposal authorizations, and physical write-off records) to confirm the validity of each transaction.

#### c) Preparation of a disposal adjustment list:

The entity compiled a detailed list of unrecorded disposals, including:

- Asset IDs ;
- Dates of disposal ;
- Disposal amount.

The updated disposal listing is presented in the following table:

**Table 30: Disposal listing:**

| CODE      | Account | Asset commercial description | Quantity | Account name                     | DATE_ACQ   | Acquisition amount | MODE_AMORT             | Disposal date | Disposal amount |
|-----------|---------|------------------------------|----------|----------------------------------|------------|--------------------|------------------------|---------------|-----------------|
| 114000037 | 215000  | INSTALLATIONS COMPLEXES      | 1        | DZ : Resin for main warehouse    | 01/08/2023 | 2 355 176,80       | Linéaire- Taux=10.00 % | 01/09/2024    | 1 500 000,00    |
| 114000043 | 215000  | INSTALLATIONS COMPLEXES      | 1        | DZ : Encartonneuse Horizontale   | 01/08/2023 | 1 964 481,32       | Linéaire- Taux=20.00 % | 01/09/2024    | 1 000 000,00    |
| 115000012 | 215000  | INSTALLATIONS COMPLEXES      | 1        | DZ : Hotte d'extraction chimique | 01/08/2023 | 1 215 521,19       | Linéaire- Taux=10.00 % | 01/09/2024    | 500 000,00      |

**Source:** Internal documentation of EY.

### d) Update of the fixed assets Listing:

ALPHA proceeded to update the fixed asset listing by:

- Removing the disposed assets from the fixed assets listing;
- Recording the correct disposal dates;
- Adjusting accumulated depreciation accordingly.

### e) Final Reconciliation :

- After ALPHA updated the fixed asset listing, the reconciliation tables are presented as follows:

**Table 31: Fixed assets reconciliation table between the trial balance and the updated fixed assets listing.**

| Account | Account Name                                                  | FL at 31/12/2024 | TB at 31/12/2024 | Difference |
|---------|---------------------------------------------------------------|------------------|------------------|------------|
| 204000  | Softwares                                                     | 29 189 276,40    | 29 189 276,40    | 0,00       |
| 205000  | Concessions and similar rights, patents, licenses, trademarks | 1 575 000,00     | 1 575 000,00     | 0,00       |
| 213000  | BUILDINGS                                                     | 125 187 519,00   | 125 187 519,00   | 0,00       |
| 213100  | Administrative and commercial buildings                       | 66 880 527,00    | 66 880 527,00    | 0,00       |
| 215000  | INSTALLATIONS COMPLEXES                                       | 1 211 732 612,69 | 1 211 732 612,69 | 0,00       |
| 218100  | Equipment and tools                                           | 10 159 724,00    | 10 159 724,00    | 0,00       |
| 218130  | Passenger vehicles owned by the company                       | 7 312 500,00     | 7 312 500,00     | 0,00       |
| 218230  | Telephony                                                     | 240 006,00       | 240 006,00       | 0,00       |
| 218400  | Office furniture                                              | 3 649 283,00     | 3 649 283,00     | 0,00       |
| 218510  | Office equipment                                              | 14 773 804,00    | 14 773 804,00    | 0,00       |
| 218800  | Social facilities                                             | 21 938,00        | 21 938,00        | 0,00       |

**Source:** Internal documentation of EY.

**Table 32: Depreciation reconciliation table between the trial balance and the updated fixed assets listing.**

| Account | Account Name                                                         | FL at 31/12/2024 | TB at 31/12/2024 | Difference |
|---------|----------------------------------------------------------------------|------------------|------------------|------------|
| 280400  | AMORT.Soft wares                                                     | -3 621 955,92    | -3 621 955,92    | 0,00       |
| 280500  | Amort .Concessions and similar rights, patents, licenses, trademarks | -621 093,75      | -621 093,75      | 0,00       |
| 281300  | AMORT.BUILDINGS                                                      | -16 084 567,00   | -16 084 567,00   | 0,00       |
| 281310  | Amort.Admini strative and commercial buildings                       | -9 218 681,00    | -9 218 681,00    | 0,00       |
| 281500  | AMORT INSTALLATI ONS COMPLEXES                                       | -167 371 398,93  | -167 371 398,93  | 0,00       |
| 281810  | Amort.Equip ment and tools                                           | -1 592 159,00    | -1 592 159,00    | 0,00       |
| 281813  | Amort.Passen ger vehicles owned by the company                       | -487 500,00      | -487 500,00      | 0,00       |
| 281823  | Amort.Teleph ony                                                     | -17 813,00       | -17 813,00       | 0,00       |
| 281840  | Amort.Office furniture                                               | -806 344,00      | -806 344,00      | 0,00       |
| 281851  | Amort.Office equipment                                               | -2 780 212,00    | -2 780 212,00    | 0,00       |
| 281880  | Amort.Social facilities                                              | -457,00          | -457,00          | 0,00       |

**Source:** Internal documentation of EY.

**Table 33: Reconciliation table of account 68.**

| Account | Account Name                                    | FL at 31/12/2024 | TB at 31/12/2024 | Difference |
|---------|-------------------------------------------------|------------------|------------------|------------|
| 681000  | Depreciation expense                            | 144 710 959,76   | 144 710 959,76   | 0,00       |
| 685000  | Depreciation, provisions, and impairment losses | 88 993 759,11    | 88 993 759,11    | 0,00       |

**Source:** Internal documentation of EY.

- After ALPHA updated the fixed asset listing, the movement tables are presented as follows:

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**Table 34: Updated fixed assets movement table.**

| Fixed asset classes                                | GL account | 12/31/2023<br>Beginning<br>balance | Additions     | Disposals    | 12/31/2024<br>Ending<br>balance | 12/31/2024<br>Balance as per<br>subledger | Unexplained<br>difference |
|----------------------------------------------------|------------|------------------------------------|---------------|--------------|---------------------------------|-------------------------------------------|---------------------------|
| Softwares                                          | 204000     | 26 746 751,40                      | 2 442 524,85  | 0,00         | 29 189 276,25                   | 29 189 276,25                             | 0,00                      |
| Concessions and similar rights, patents, licenses, | 205000     | 1 575 000,00                       | 0,00          | 0,00         | 1 575 000,00                    | 1 575 000,00                              | 0,00                      |
| BUILDINGS                                          | 213000     | 98 755 756,57                      | 26 431 762,43 | 0,00         | 125 187 519,00                  | 125 187 519,00                            | 0,00                      |
| Administrative and commercial buildings            | 213100     | 66 880 527,23                      | 0,00          | 0,00         | 66 880 527,23                   | 66 880 527,23                             | 0,00                      |
| INSTALLATIONS COMPLEXES                            | 215000     | 1 194 343 591,20                   | 22 924 200,80 | 5 535 179,31 | 1 211 732 612,69                | 1 211 732 612,69                          | 0,00                      |
| Equipment and tools                                | 218100     | 0,00                               | 10 159 724,00 | 0,00         | 10 159 724,00                   | 10 159 724,00                             | 0,00                      |
| Passenger vehicles owned by the company            | 218130     | 0,00                               | 7 312 500,00  | 0,00         | 7 312 500,00                    | 7 312 500,00                              | 0,00                      |
| Telephony                                          | 218230     | 0,00                               | 240 006,30    | 0,00         | 240 006,30                      | 240 006,00                                | 0,30                      |
| Office furniture                                   | 218400     | 1 114 282,55                       | 2 535 000,45  | 0,00         | 3 649 283,00                    | 3 649 283,00                              | 0,00                      |
| Office equipment                                   | 218510     | 3 226 228,83                       | 11 547 575,17 | 0,00         | 14 773 804,00                   | 14 773 804,00                             | 0,00                      |
| Social facilities                                  | 218800     | 0,00                               | 21 938,00     | 0,00         | 21 938,00                       | 21 938,00                                 | 0,00                      |

Source : Internal documentation of EY.

**Table 35: Depreciation assets movement table.**

| Accumulated depreciation                                             | GL account | 12/31/2023<br>Beginning<br>balance | Depreciation expense | Disposals    | 12/31/2024<br>Ending<br>balance | 12/31/2024<br>Balance as per<br>subledger | Unexplained<br>difference |
|----------------------------------------------------------------------|------------|------------------------------------|----------------------|--------------|---------------------------------|-------------------------------------------|---------------------------|
| AMORT.BUILDINGS                                                      | 281300     | -4 079 646,16                      | 12 004 920,85        | 0,00         | -16 084 567,01                  | -16 084 567,00                            | 0,00                      |
| Amort.Administrative and commercial buildings                        | 281310     | -2 711 376,88                      | 6 507 304,12         | 0,00         | -9 218 681,00                   | -9 218 681,00                             | 0,00                      |
| AMORT INSTALLATIONS COMPLEXES                                        | 281500     | -48 330 928,20                     | 117 978 018,79       | 1 062 451,94 | -167 371 398,93                 | -167 371 398,93                           | 0,00                      |
| Amort.Equipment and tools                                            | 281810     | 0,00                               | 1 592 159,00         | 0,00         | -1 592 159,00                   | -1 592 159,00                             | 0,00                      |
| Amort.Passenger vehicles owned by the company                        | 281813     | 0,00                               | 487 500,00           | 0,00         | -487 500,00                     | -487 500,00                               | 0,00                      |
| Amort.Telephony                                                      | 281823     | 0,00                               | 17 813,00            | 0,00         | -17 813,00                      | -17 813,00                                | 0,00                      |
| Amort.Office furniture                                               | 281840     | -89 981,54                         | 716 362,79           | 0,00         | -806 344,33                     | -806 344,00                               | -0,33                     |
| Amort.Office                                                         | 281851     | -360 915,83                        | 2 419 296,05         | 0,00         | -2 780 211,87                   | -2 780 212,00                             | 0,13                      |
| Amort.Social facilities                                              | 281880     | 0,00                               | 457,00               | 0,00         | -457,00                         | -457,00                                   | 0,00                      |
| AMORT.Softwares                                                      | 280400     | -278 612,00                        | 3 343 343,93         | 0,00         | -3 621 955,92                   | -3 621 955,92                             | 0,00                      |
| Amort .Concessions and similar rights, patents, licenses, trademarks | 280500     | -227 343,75                        | 393 750,00           | 0,00         | -621 093,75                     | -621 093,75                               | 0,00                      |

Source: Internal documentation of EY.

The discrepancy related to unrecorded disposals was resolved, and both records were aligned.

### Chapter conclusion:

EY's external audit approach to the fixed asset cycle within ALPHA focuses on understanding the entity's internal control environment, identifying key audit risks, and designing tailored procedures to address them. Particular attention was given to the reconciliation between the fixed asset register and the general ledger. The emergence of a significant discrepancy due to outdated disposals highlighted a weakness in asset monitoring. EY's methodology, combining risk-based planning, materiality assessment, and substantive testing, enabled the detection of this irregularity and supported ALPHA in correcting it. This approach not only ensured the reliability of financial reporting but also contributed to strengthening the company's internal control over fixed assets.

### General conclusion

The primary objective of this thesis was to examine the various stages involved in an external audit engagement focused on the fixed assets cycle, combining both theoretical insights and practical applications. The study aimed to understand the tools, methodologies, and reasoning applied by auditors to assess the regularity, reliability, and accuracy of financial information related to fixed assets.

Fixed assets, due to their significant value and long-term impact on an entity's financial health, occupy a central place in financial statements. Auditing them requires particular attention to verifying their existence, valuation, economic durability, and compliance with applicable accounting standards.

Our research led to a concrete case study conducted at the auditing firm Ernst & Young (EY), involving a real-world audit of the fixed assets cycle. We detailed each phase of the engagement, including the understanding of the entity, internal control assessment, substantive testing, and the final reporting phase, highlighting the procedures and tools used to ensure audit quality.

Through this research, we demonstrated that auditing fixed assets goes beyond basic accounting checks. It involves a thorough analysis of internal procedures, risk assessment, and the implementation of specific audit techniques such as control testing, consistency analysis, and physical verification. These steps help ensure that the fixed assets reported in the financial statements are real, appropriately valued, and faithfully presented.

We were able to confirm or refute the following hypotheses:

**Hypothesis 01:** «External audit follows a structured process, with specific procedures adapted to the audit of fixed assets ».

This hypothesis was confirmed. EY applies a rigorous methodology based on international auditing standards. The fixed assets cycle is audited through clearly defined stages: planning, understanding the environment, internal control assessment, substantive testing, and audit reporting.

**Hypothesis 02:** «The audit of fixed assets requires compliance with specific standards and audit assertions such as existence, valuation, and rights and obligations».

This was also confirmed. Audit assertions are central to the process. The auditor must verify that the assets exist, are correctly valued, belong to the entity, and are properly presented in accordance with financial reporting standards.

**Hypothesis 03:** «The effectiveness of the audit process relies on both the quality of internal controls implemented by the entity and the audit procedures used to address risks».

This hypothesis was validated. A sound internal control system reduces the risk of material misstatements and allows auditors to limit the extent of substantive procedures. Conversely, weak internal controls require more extensive audit testing.

As with any research, several limitations were encountered:

- Due to the broad nature of external auditing, we focused specifically on the fixed assets cycle for relevance and depth;
- Limited documentation on fixed assets audit practices in the Algerian context restricted certain comparative analyses;
- Time constraints and confidentiality barriers prevented a wider review of multiple audit cycles or entities.

In conclusion, this work enabled us to better understand the importance of the fixed assets cycle in external audit practices. It highlighted the value of auditing in promoting financial transparency and increasing the credibility of financial statements in the eyes of stakeholders.

We hope that this thesis will serve as a useful reference for students and researchers seeking to deepen their understanding of fixed asset auditing. By sharing our findings and analysis, we aim to encourage further research on this essential area, which remains critical in today's ever-evolving economic environment.

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## APPENDIXES

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## APPENDIXES

### Appendix 1: Evaluation of the RCM according to EY's methodology

| CRA      | Risk Assessment                                                                                                                                                                                                                                                                                                                           | Effect on the procedure                                                                                                                                                                                                                                                                                                      |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimal  | The inherent risk assessment indicates that the susceptibility of the significant account or disclosure to misstatements at the assertion level is lower, and we have sufficient evidence that controls are effective in preventing, detecting, or correcting material misstatements.                                                     | We require limited evidence from our substantive procedures, as we have obtained sufficient evidence that the controls are operating effectively to prevent, or to detect and correct, material misstatements. Accordingly, our substantive procedures are designed to confirm that no material misstatements have occurred. |
| Low      | The inherent risk assessment indicates that the predisposition of the significant account or disclosure to misstatements at the assertion level is higher. However, we have obtained sufficient evidence that the controls are effective in preventing, or detecting and correcting, material misstatements.                              | Designed to verify that the risks increasing the likelihood of misstatements (including significant risks) have not resulted in a material misstatement. Our testing will be more extensive than the minimum required by the RCM.                                                                                            |
| Moderate | The inherent risk assessment indicates that the susceptibility of the significant account or disclosure to misstatements at the assertion level is low, and we have no evidence that the controls operated effectively to prevent, detect, or correct material misstatements. Therefore, we cannot conclude that the controls will reduce | Designed to detect material misstatements that may not have been prevented, or detected and corrected, by controls.                                                                                                                                                                                                          |

## Appendixes

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                         |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
|      | the risk of material misstatements occurring for a relevant assertion.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                         |
| High | <p>The inherent risk assessment indicates that the predisposition of the significant account or disclosure to misstatements at the assertion level is higher, and we have no evidence that the controls are operating effectively to prevent, detect, or correct material misstatements. Therefore, we cannot conclude that the controls are effective in preventing, detecting, or correcting material misstatements. Consequently, we cannot conclude that the controls will prevent, detect, or correct material misstatements for each relevant assertion.</p> | <p>Detailed substantive procedures designed to detect whether material misstatements have occurred.</p> |

### Appendix 2: Calculation of the PM

| Measurement basis  | Percentage |
|--------------------|------------|
| Income before tax  | 5–10%      |
| EBIT               | 5–10%      |
| EBITDA             | 2–5%       |
| Gross margin       | 1–4%       |
| Operating expenses | ½–2%       |
| Capital            | 1–5%       |
| Assets             | ½–2%       |
| Revenus            | ½–2%       |
| Sales              | ½–2%       |