الجمهورية الجزائرية الديمقراطية الشعبية
Ministry of Higher Education and Scientific Research
وزارة التعليم العالي والبحث العلمي
People's Democratic Republic of Algeria

HIGHER SCHOOL OF MANAGEMENT AND DIGITAL ECONOMY

H.S.M.D.E

المدرسة العليا للتسيير والاقتصاد الرقمي

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

Major: **Audit and Management Control**

THEME:

The Impact of the Interim Audit Phase on The Quality of the Final Statutory Audit

Case study: EY Algeria

Submitted by:

Ms. MERROUCHE Salma

Supervised by:

Mr. MOKRANE Farid

Class (A) Assistant Lecturer

Academic year

2024-2025

الجمهورية الجزائرية الديمقراطية الشعبية
Ministry of Higher Education and Scientific Research
وزارة التعليم العالي والبحث العلمي
People's Democratic Republic of Algeria

HIGHER SCHOOL OF MANAGEMENT AND DIGITAL ECONOMY

H.S.M.D.E

المدرسة العليا للتسيير والاقتصاد الرقمي

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

Major: **Audit and Management Control**

THEME:

The Impact of the Interim Audit Phase on The Quality of the Final Statutory Audit

Case study: EY Algeria

Submitted by:

Ms. MERROUCHE Salma

Supervised by:

Mr. MOKRANE Farid

Class (A) Assistant Lecturer

Academic year

2024-2025

Table of Contents

Dedication

I dedicate this humble work to

the dearest person to my heart, my mother.

Acknowledgments

Alhamdulillah, all praise is due to God Almighty for His blessings and for allowing this journey to come to completion.

I would like to sincerely thank my thesis supervisor, Mr. MOKRANE Farid, for his guidance and support throughout this work. His valuable feedback and encouragement were a great help during every stage of this research.

My appreciation also goes to the Audit Team at EY Algeria. The three months spent working alongside them were a valuable learning experience, both professionally and personally. I am deeply grateful for the opportunity given to me to grow and for the professional experience I was able to gain.

I am equally thankful to the entire staff of the Higher School of Management and Digital Economy, and in particular to our director, Mr. HACHEMAOUI, for the positive and supportive environment he helped create over the past five years. These years have shaped not only my academic path but also my character, and for that, I am deeply appreciative.

A special thank you goes to my dear mother and father, whose unwavering support and prayers have been my foundation; to my precious sisters Amina and Dhikra, and my lovely aunts Nouhad and Lamia, for their constant support and presence.

I am also grateful to my dearest friends Imene, Rym, Roumaissa, Sana, Chiraz, Sara, Yousra, Ahlem and Hana for their kindness, motivation, and companionship along the way.

Finally, I would like to thank everyone who contributed to this thesis in any way. Your support has played a part in bringing this work to life.

List of figures

List of tables

List of abbreviations

AD	Auditeur Débutant (Junior Auditor)
AE	Auditeur Expérimenté (Experienced Auditor)
AGB	Gulf Bank Algeria
AICPA	American Institute of Certified Public Accountants
ARM	Audit Risk Model
BADR	Banque de l'Agriculture et du Développement Rural
BL	Bon de Livraison (Delivery Note / DN)
CAATs	Computer-Assisted Audit Tool(s)
CAC	Commissariat Aux Comptes (Statutory Auditor)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNC	Conseil National De Comptabilité (National Accounting Council)
CNCC	La Chambre Nationale des Commissaires aux Comptes (The National Chamber of Statutory Auditors)
COBIT	Control Objectives for Information and Related Technologies
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CRA	Combined Risk Assessment
DN	Delivery Note
DR	Detection Risk
EMEIA	Europe, Middle East, India and Africa
EPE	Entreprise Publique Étatique (Public Economic Enterprise)
EQR	Engagement Quality Review(er)s
ERB	État de rapprochement Bancaire (Bank Reconciliation)
ERM	Enterprise Risk Management
ERP	Entreprise Resource Planning
EY	Ernst & Young
GAAS	Generally Accepted Auditing Standards
GAM	Global Audit Methodology
HR	Human Resources

IAASB	International Auditing and Assurance Standards Board
ICEQs	Internal Control Evaluation Questionnaire(s)
ICQs	Internal Control Questionnaire(s)
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IR	Inherent Risk
ISA	International Standards on Auditing
ISO	International Organization for Standardization
ISQM	International Standard on Quality Management
IT	Information Technology
MO	Manufacturing Order
NAA	Normes Algériennes d'Audit
OF	Ordre de Fabrication (Manufacturing Order)
PBC	Provided By Client
PCA	Président du Conseil d'Administration
PCAOB	Public Company Accounting Oversight Board
PM	Planning Materiality
ROMM	Risk of Material Misstatements
SAD	Summary of Adjustments
SARL	Société à Responsabilité Limitée (Limited Liability Companies)
SCF	Système Comptable Financier
SCOTs	Significant Class Of Transaction(s)
SEC	Securities and Exchange Commission
SGA	Société Générale Algérie
SIC	System of Internal Control
SoQM	System of Quality Management
SOX	Sarbanes–Oxley Act
SPA	Société Par Action (Joint-Stock Company)
TE	Tolerable Error
TN	Transfer Note

TOC	Test Of Control
US	United States (Of America)
WCGW	What Could Go Wrong
WIP	Work-in-Progress

Abstract

In today's competitive and highly regulated business environment, organizations strive to achieve their goals while maintaining transparency, trust, and efficiency. To meet the expectations of investors, regulators, and other stakeholders, businesses must not only perform well financially but also demonstrate accountability and sound management practices. One of the key tools that support this is the statutory audit, which provides independent assurance about a company's financial health and internal operations.

This research focuses on a specific part of the audit process, the interim phase, which occurs before the final audit is conducted. The study explores how this early stage helps auditors gain a clearer understanding of the organization, identify areas of risk, and prepare more effectively for the final review. By examining both theoretical concepts and a practical case study, the research highlights how the interim phase contributes to the quality, accuracy, and efficiency of the final audit.

The findings suggest that early planning and analysis during the interim phase not only strengthen the final audit results but also support better decision-making for both auditors and company management.

Keywords: Statutory Audit, Audit Planning, interim phase, risk assessment, internal controls, Audit Quality.

الملخص

في ظل بيئة الأعمال التنافسية والخاضعة للتنظيم الصارم اليوم، تسعى المؤسسات إلى تحقيق أهدافها مع الحفاظ على الشفافية والثقة والكفاءة. ومن أجل تلبية توقعات المستثمرين والهيئات التنظيمية والجهات المعنية الأخرى، يجب على الشركات ألا تصبّ تركيزها فقط على تحقيق أداء مالي جيّد، بل عليها أيضًا إثبات التزامها بالمساءلة وتحمّل المسؤولية وتطبيق الممارسات الإدارية الرشيدة. ومن بين الأدوات الرئيسية التي تدعم هذا التوجه هو التدقيق القانوني، الذي يقدّم ضمانًا مستقلًا بشأن الوضع المالي للشركة وعملياتها الداخلية.

تركّز هذه الدراسة على جزء محدد من عملية التدقيق، وهو المرحلة التمهيدية، التي تسبق تنفيذ التدقيق النهائي. وتتناول الدراسة الطرق والوسائل التي تساعد بها هذه المرحلةُ المبكرةُ المدققينَ في التوصّل إلى فهم أفضل وأعمق للمؤسسة، وتحديد مناطق الخطر والاستعداد بشكل أكثر فعالية للمراجعة النهائية. ومن خلال الجمع بين المفاهيم النظرية ودراسة حالة عملية ما، تسلط هذه الدراسة الضوء على مساهمةِ المرحلة التمهيدية في جودة ودقة وكفاءة التدقيق النهائي. كما تشير النتائج إلى أن التخطيط المبكر والتحليل خلال المرحلة التمهيدية لا يعززان فقط نتائج التدقيق النهائي، بل يدعمان أيضًا اتخاذ قرارات أفضل سواءً من قِبل المدققين أو إدارة الشركة.

الكلمات المفتاحية: التدقيق القانوني، تخطيط التدقيق، المرحلة التمهيدية، تقييم المخاطر، الرقابة الداخلية، جودة التدقيق.

General Introduction

Accounting is often called the language of business. To truly understand a company's health, you need to look at its financial records, especially the financial statements that businesses must legally disclose with stakeholders. As the business world grows more complex and technology driven, accounting practices and corporate governance frameworks have adapted in response. These changes are not just about transparency but also reflect a deeper need for reliable methods of recording, analyzing, and communicating financial data.

Since financial information drives critical business decisions, stakeholders must be able to trust it. Yet the classic Principal-Agent dilemma casts doubt on the credibility of the governance practices of those in charge. High-profile scandals like Enron and WorldCom have only heightened these concerns, making investors more wary of the risk of fraudulent reporting. These circumstances have pushed businesses to rely on auditing as a safeguard, where auditors reinforce trust by providing an independent, structured review of financial records.

The audit process is methodical. Auditors must identify risks that could undermine financial statements, plan their approach accordingly, and ultimately deliver a professional opinion backed by solid evidence.

This research dives into how auditors approach their work, specifically, how they assess risks before diving into the details of an engagement to ensure delivering a quality Audit. The goal is not just to examine numbers and documents during the busy season but to step back and see the bigger picture. Why do auditors prioritize certain accounts over others? How does their preliminary work shape the accuracy of their final judgment?

Given that risk assessment happens mainly during the interim phase, our problem statement is:

"**How does the interim audit phase impact the quality of the final statutory audit?"**

From this, we break down three supporting questions:

- How can we define a statutory Audit?
- How do auditors assess overall audit risk during the interim phase to ensure quality audit?
- What defines a high-quality audit? Can it be measured?

To address these questions, we propose the following hypotheses:

H1: A statutory audit is a legally required review of the accuracy of a company's financial statements to ensure compliance with applicable laws and regulations.

H2: During the interim phase, auditors familiarize themselves with the client's business through interviews and inspections.

H3: High quality audit detects the most errors in financial statements and it can be measured.

Literature Review:

- Christensen, Newton, and Wilkins (2020), in their study *"Archival Evidence on the Audit Process: Determinants and Consequences of Interim Effort"* explore how the timing of audit work influences audit outcomes, particularly audit quality. Using proprietary data from a global accounting firm, the authors find that greater effort during the interim period enhances the audit process in several ways. Notably, it reduces the likelihood of current-period material weaknesses, suggesting that early detection and remediation of internal control deficiencies are more effective when efforts are distributed before year-end. While no consistent link was found between interim effort and overall reduction in misstatements, the study reveals that audit quality improves when both managers and partners are actively involved in the interim phase. Furthermore, interim effort is associated with more timely client disclosures, fewer total audit hours, and increased audit fees all indicators of both operational efficiency and perceived value by clients.
- Lin and Yen (2023), in their article *"The Impact of Interim Audits on the Timeliness and Effectiveness of Final Audits: Evidence from Chinese Listed Firms"* published in the Asian Journal of Accounting Research, examine how interim audit efforts affect both audit quality and efficiency. Using data from Chinese listed firms and regression analysis, they conclude that interim audits significantly shorten the audit report lag and reduce the likelihood of financial restatements. This challenges the traditional belief that audit efficiency and quality are mutually exclusive. Instead, the study shows that distributing audit work throughout the fiscal year enhances the outcomes of final audits by reducing time pressure, improving auditor-client communication, and bolstering the reliability of financial reporting.

These studies highlight the strategic value of the interim phase and its relevance to audit quality. By focusing on this often-overlooked phase, our research sheds light on how auditors anticipate risks, evaluate internal controls, and shape their final opinion. This not only underscores the importance of

planning and early intervention but also offers practical insights into improving audit efficiency, accuracy, and credibility.

Methodological Approach:

This thesis blends theory and practice. We start with a literature review, drawing from academic articles, professional standards, and auditing textbooks. Then, we examine real world applications, focusing on how Ernst & Young (EY), one of the Big Four, implements interim procedures in statutory audits.

Thesis Structure:

This thesis is organized into two main chapters:

- **Chapter One** lays the theoretical foundation necessary to understand statutory auditing and audit quality. It introduces key concepts in auditing, focusing particularly on the statutory audit as a legally mandated examination of financial statements. The chapter explores the interim phase in detail, emphasizing its role in planning, risk assessment, and preliminary testing. It then discusses the standards and frameworks used to define and evaluate audit quality. This chapter sets the conceptual and regulatory groundwork for the practical analysis that follows.

- **Chapter Two** presents the practical dimension of the research. It begins with a brief presentation of EY, followed by a case study analyzing how interim procedures are implemented in a statutory audit conducted by EY. The chapter concludes by evaluating how the interim phase Impacts the quality and outcomes of the final audit phase.

Chapter I:

The Fundamentals of Statutory Auditing, The interim Audit Phase and Audit Quality

Introduction

A considerable amount of financial information is produced by companies around the world on a daily basis. This data is then processed into financial statements, which are meant to reflect the reality of a company's business activities. These statements become the main source of information used by different stakeholders when making important business decisions.

To ensure that this information is reliable, auditing comes into play. It provides reasonable assurance that the financial statements give a true and fair view of the company's situation. Because of this, stakeholders pay close attention to how much assurance the auditor can provide. This is where the Quality of the Audit becomes vital.

In this first chapter, we will present the basic concepts of statutory auditing and its regulatory framework. We will also look closely at the statutory audit and explore the practices carried out by the Auditor during the Interim Audit phase then explore the concept of Audit Quality, along with the standards that support it.

Section One: Fundamentals of Audit and Statutory Auditing

Financial statements are prepared to reflect the reality of a business. Whether they are accurate or not is a question the auditor must answer for the various users of the audit report. To obtain reasonable assurance about these financial statements, the auditor must carry out a thorough and well-structured audit process, adhering to the regulatory framework of the profession and ensuring that the business complies with applicable laws.

In the following section, we will explore the rules and procedures the auditor must follow to carry out their work effectively and efficiently.

1 Audit Definition:

1.1 Etymological Perspective:

The term audit derives from the Latin verb “audire”, meaning "to hear."[1] Historically, particularly in medieval Europe, auditing involved the oral presentation and auditory examination of financial accounts to verify their accuracy. By tracing its linguistic roots, we recognize that auditing has always been, at its essence, an exercise in *attentive review*; a principle that remains central to its modern practice.

1.2 Professional Standards Perspective:

From the viewpoint of international standards, the definition of an audit is the following:

- According to ISO 19011:2018, an audit is: “A systematic, independent and documented process for obtaining audit evidence and evaluating it objectively to determine the extent to which audit criteria are fulfilled.”[2]
- The International Auditing and Assurance Standards Board (IAASB) also defines audit objective, within the context of financial statements, as: “The objective of an audit is to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.”[3]

[1] https://rb.gy/dpviom (05/05/2025 at 10:00 AM)
[2] ISO 19011:2018 – *Guidelines for Auditing Management Systems*.
[3] IAASB, *International Standards on Auditing* (ISA).

These definitions underline the audit's role in offering assurance on the reliability and accuracy of financial reporting.

2 Typology of Audit:

Auditing is a structured and systematic process that varies in scope, objective, and methodology depending on organizational needs and regulatory requirements. A clear classification of audit types enhances conceptual clarity and facilitates a deeper understanding of their distinct roles in governance, compliance, and operational efficiency. This section presents the principal categories of audits based on two key dimensions:

- The Objective of the Audit Engagement and;
- The Nature of the Auditor.

2.1 Classification by Objective of the Audit Engagement:

Audits can be fundamentally categorized into three types based on their primary objectives:

2.1.1 Financial Audit:

The most widely recognized form of audit, a financial audit, involves an independent examination of an entity's financial statements to verify their accuracy, completeness, and adherence to accounting standards (e.g., IFRS internationally and SCF nationally). The auditor's objective is to provide stakeholders (investors, regulators, and creditors) with assurance that the financial reports present a true and fair view of the organization's financial position.

2.1.2 Operational Audit:

Operational audits scrutinize the efficiency and effectiveness of business processes, ensuring that organizational activities align with predefined objectives. This type of audit extends beyond financial metrics to evaluate workflow optimization, resource allocation, and compliance with internal policies. By analyzing operational bottlenecks, this audit provides actionable insights to enhance productivity and cost-effectiveness.

2.1.3 Management Audit:

A management audit is a comprehensive evaluation of an organization's managerial processes, policies, and decision-making frameworks. Unlike financial audits, which focus on numerical accuracy, management audits assess qualitative aspects such as leadership effectiveness, strategic alignment, and operational efficiency. The primary goal is to identify inefficiencies, mitigate risks of mismanagement or fraud, and recommend improvements in governance structures.

2.2 Classification by Auditor:

The distinction between internal and external audits lies in the auditor's affiliation with the organization and the purpose of their engagement.

2.2.1 Internal Audit:

Conducted by an organization's own audit team, internal audits serve as a continuous monitoring mechanism to evaluate internal controls, risk management, and governance practices. Internal auditors operate under the framework established by management, providing recommendations to strengthen operational resilience and regulatory compliance. Their work is proactive, focusing on process improvements rather than retrospective financial validation.

2.2.2 External Audit:

External audits are performed by independent auditors or audit firms with no organizational ties with the entity subject to the audit, ensuring impartiality. These audits are primarily concerned with verifying financial statements for external stakeholders, such as shareholders and regulatory bodies. External audits can be further subdivided into:

- **Contractual Audit**: A voluntary engagement initiated by an organization to address specific concerns, such as mergers, acquisitions, or internal investigations.
- **Statutory Audit:** A legally mandated review to ensure compliance with financial reporting laws.

This typological approach helps clarify the specific functions and expectations associated with each audit type and sets the stage for a more focused discussion on the statutory audit, which is the core subject of our research.

3 Statutory Audit (Commissariat Aux Comptes « CAC ») :

3.1 Statutory Audit Definition:

- **First definition:** According to Article 22, Law No. 10-01 of June 29, 2010, concerning the legal definition of a statutory auditor: "A statutory auditor, within the meaning of this law, is any person who, in their own name and under their own responsibility, is regularly tasked with certifying the sincerity, regularity, and true and fair view of the accounts of companies and organizations, in accordance with the provisions of the applicable legislation."[4]
- **Second definition**: "Financial and accounting audit is the examination carried out by a competent and independent professional with the aim of expressing a reasoned opinion on the fairness with which an entity's annual accounts reflect its financial position at the closing date and its performance for the financial year in question, taking into account the laws and practices of the country where the company has its registered office."[5]

From the previous definitions we can define statutory audit as the *legally mandated* examination of a company's financial statements to ensure their *sincerity*, *regularity*, and that they present a *true and fair view*, in compliance with both local regulations and international standards.

3.2 The Institutional and Regulatory Framework Governing Statutory Auditors and the Structure of the Profession in Algeria:

3.2.1 Emergence of Statutory Audit in Algeria:

Statutory audit in Algeria was effectively introduced in 1992, following reforms in the economic sector that transitioned public enterprises into joint-stock companies (Société par Actions, SPA). These reforms were part of the 1988 revision of the Commercial Code and economic legislation. Article 2 of Law No. 88-02 of January 12, 1988, concerning economic planning, mandated that public economic enterprises (Entreprise Publique Économique, EPE) be constituted as either SPA or limited liability companies (Société à Responsabilité Limitée, SARL). Consequently, these companies became subject to the obligation of appointing a statutory auditor in accordance with Article 17 of the same law and Article 678 of the new Commercial Code enacted in 1992.[6]

[4] Article 22, Law No. 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor*.
[5] Dominique VIDAL, (1985), *Le commissaire aux comptes dans les sociétés anonymes*, L.G.D.J, page 56.
[6] BELAID Djamal, (2022), *LA PRATIQUE DU COMMISSARIAT AUX COMPTES EN ALGERIE*, page 7.

3.2.2 Governing Body for Statutory Auditors in Algeria:

The National Chamber of Statutory Auditors (La Chambre Nationale des Commissaires aux Comptes CNCC), established under Article 14 of Law No. 10-01 of June 29, 2010, is the representative organization of licensed professionals authorized to practice as statutory auditors. This institution possesses legal personality and brings together both natural and legal persons who are duly accredited and authorized to exercise the profession of statutory Auditor.[7]

The National Chamber of Statutory Auditors (CNCC) structure and operations are defined by Executive Decrees No. 11-26 and No. 11-24, both dated January 27, 2011.[8] It consists of two main bodies: the General Assembly and the National Council, which oversee and regulate the profession of statutory auditors.

3.2.3 Audit Standards in Algeria:

In 2011, Algeria's National Accounting Council (Conseil National De Comptabilité CNC) began formulating national auditing standards adapted to the Algerian environment. Inspired by the International Standards on Auditing (ISA), these were introduced under the name **Normes Algériennes d'Audit (NAA).** They were gradually adopted and published through ministerial decisions issued by the Ministry of Finance, under which the CNC operates. Below is a list of the published NAA standards, presented in numerical order:

- NAA 210 – Agreement on the Terms of Audit Engagements.
- NAA 230 – Audit Documentation.
- NAA 300 – Planning an Audit of Financial Statements.
- NAA 500 – Audit Evidence.
- NAA 501 – Audit Evidence – Specific Considerations.
- NAA 505 – External Confirmations.
- NAA 510 – Initial Audit Engagements and Opening Balances.
- NAA 520 – Analytical Procedures.

[7] https://www.cn-cncc.dz/cncc (08/05/2025, 10 :44 AM)
[8] https://www.cn-cncc.dz/cncc (08/05/2025, 10 :49 AM)

- NAA 530 – Audit Sampling.
- NAA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures.
- NAA 560 – Subsequent Events.
- NAA 570 – Going Concern.
- NAA 580 – Written Representations.
- NAA 610 – Using the Work of Internal Auditors.
- NAA 620 – Using the Work of an Auditor's Expert.
- NAA 700 – Forming an Opinion and Reporting on Financial Statements.

3.2.4 International Auditing Standards:

International Standards on Auditing (ISAs) are developed by the International Federation of Accountants (IFAC) through its International Auditing and Assurance Standards Board (IAASB). The efforts of IFAC, founded in 1977, are directed towards developing international technical, ethical and educational guidelines for auditors, and reciprocal recognition of practitioners' qualifications. The membership of IFAC member bodies represents several million accountants in public and private practice, education, academe and government service.[9]

There are several important groups within IFAC. The IFAC Council is responsible for overall governance of IFAC. The IFAC Board oversees the management of the organization, takes action to enhance the transparency of certain IFAC activities, and overseas expansion of its size to include more member bodies. The standard-setting activities of the IFAC are carried out by the International Auditing and Assurance Standards Board (IAASB), the Ethics Committee, the Education Committee, and the Public Sector Committee with an interest in governmental financial reporting.[10]

These standards are regularly updated to reflect changes in accounting practices, the international expansion of businesses, and the emergence of new technologies. Rather than serving as strict regulations, they are intended as guiding principles for conducting audit engagements from planning

[9] Hayes, R., Wallage, P., & Gortemaker, H, (2014), *Principles of auditing: An Introduction to International Standards on Auditing.* Pearson Higher Ed, page 7.
[10] *Ibid.*

to execution and reporting. Widely recognized as the global benchmark for audit quality, the ISA standards are followed by the world's leading audit firms.

The ISAs are structured into sections that address different aspects of the audit process, including: Audit planning, Risk assessment, Internal controls, Sampling procedures, Audit testing, Communication of audit findings.

The List of ISA Standards:

- ISA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with ISAs.
- ISA 210 – Agreeing the Terms of Audit Engagements.
- ISA 220 – Quality Management for an Audit of Financial Statements.
- ISA 230 – Audit Documentation.
- ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements.
- ISA 260 – Communication with Those Charged with Governance.
- ISA 265 – Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- ISA 300 – Planning an Audit of Financial Statements.
- ISA 315 – Identifying and Assessing the Risks of Material Misstatement.
- ISA 320 – Materiality in Planning and Performing an Audit.
- ISA 330 – The Auditor's Responses to Assessed Risks.
- ISA 402 – Audit Considerations Relating to an Entity Using a Service Organization.
- ISA 450 – Evaluation of Misstatements Identified During the Audit.
- ISA 500 – Audit Evidence.
- ISA 501 – Audit Evidence—Specific Considerations for Selected Items.
- ISA 505 – External Confirmations.
- ISA 510 – Initial Audit Engagements—Opening Balances.
- ISA 520 – Analytical Procedures.
- ISA 530 – Audit Sampling.
- ISA 540 – Auditing Accounting Estimates and Related Disclosures.

- ISA 550 – Related Parties.
- ISA 560 – Subsequent Events.
- ISA 570 – Going Concern.
- ISA 580 – Written Representations.
- ISA 600 – Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).
- ISA 610 – Using the Work of Internal Auditors.
- ISA 620 – Using the Work of an Auditor's Expert.
- ISA 700 – Forming an Opinion and Reporting on Financial Statements.
- ISA 705 – Modifications to the Opinion in the Independent Auditor's Report.
- ISA 706 – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.
- ISA 710 – Comparative Information—Corresponding Figures and Comparative Financial Statements.
- ISA 720 – The Auditor's Responsibilities Relating to Other Information.
- ISA 800 – Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.
- ISA 805 – Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.
- ISA 810 – Engagements to Report on Summary Financial Statements.
- ISA 820 – The Auditor's Considerations Relating to Accounting Information in Regulatory Submissions.
- ISA 830 – Audit of Financial Information Included in Documents Presented Under Legal or Regulatory Requirements.

3.2.5 Legal Foundations of the Statutory Audit Profession:

In Algeria, the role of the statutory auditor is primarily regulated by the following legal texts:

- The Commercial Code.
- Law No. 10-01 of 29 June 2010 on the Professions of Chartered Accountant, Statutory Auditor, and Certified Accountant, which enabled: the distinction between the various

professional categories previously integrated within the same organization, the direct involvement of public authorities, notably in the issuance of licenses, and the introduction of a new dynamic in standardization and training.

- Executive Decree No. 11-30 of 27 January 2011 setting the conditions and procedures for the licensing of the professions of Chartered Accountant, Statutory Auditor, and Certified Accountant.
- Executive Decree No. 11-26 of 27 January 2011 establishing the composition, responsibilities, and rules of procedure of the National Council of the National Chamber of Statutory Auditors (CNCC).
- Executive Decree No. 11-32 of 27 January 2011 concerning the appointment of Statutory Auditors.
- Code of Ethics for the Statutory Auditing Profession.
- Executive Decree No. 06-354 of 16 Ramadhan 1427 corresponding to 9 October 2006 setting the procedures for appointing Statutory Auditors in limited liability companies (SARL).
- Executive Decree No. 11-202 setting the standards for Statutory Auditor reports, as well as the procedures and deadlines for their submission.
- Order of 15 Sha'ban 1434 corresponding to 24 June 2013 establishing the content of the Statutory Auditor report standards.[11]

3.3 The Obligations of the statutory Auditor:

As outlined in Article 23 of Law 10-01, the auditor's obligations are as follows:

- To **certify** that the annual accounts are accurate and sincere, and that they provide a true representation of the results of the operations for the past financial year, as well as the financial situation and assets of the companies and organizations.
- To **verify** the accuracy and consistency of the information provided in the management report submitted by the directors to shareholders, partners, or stakeholders, with the annual accounts.
- To **give an opinion** in the form of a **special report on the internal control procedures** adopted by the board of directors, the executive board, or the manager.

[11] https://legal-doctrine.com/en/edition/Les-obligations-du-commissaire-aux-comptes-envers-les-associ%C3%A9s (08/05/2025, 10:33 AM)

- To **assess the conditions** under which agreements are concluded between the audited company and its affiliated companies or organizations, or with companies and organizations in which the directors or managers have a direct or indirect interest.
- To **report to the management** and the general assembly or authorized deliberative body any insufficiency that could compromise the continuity of the business operations, which the auditor may have become aware of.
- To **verify the company's or organization's assets** and documents and ensure the compliance of the accounting with the applicable rules, without interfering in the management.
- To **certify**, where applicable, the accuracy, regularity, and true representation of the consolidated or combined accounts, based on the accounting documents and the report from the auditors of subsidiaries or entities linked by the same decision-making center.[12]

3.4 The responsibilities of a statutory auditor:

in order to deliver an objective and independent opinion on a company's financial statements, the statutory auditor is both granted specific rights and bound by obligations; each carefully prescribed by the law 10-01 of June 29, 2010, concerning the legal definition of a statutory auditor.

3.4.1 Civil Liability:

"The statutory auditor is liable to the audited entity for any faults committed in the performance of their duties. They are jointly liable, both to the entity and to third parties, for any damage resulting from violations of the provisions of this law. The auditor is released from liability for violations in which they did not participate only if they prove that they exercised the normal due diligence required by their role, informed the board of directors of these violations, and, if the violations were not adequately remedied, reported them to the next general assembly after becoming aware of them. In the event of an established violation, the auditor must also prove that they informed the Public Prosecutor of the competent court."[13]

Civil liability pertains to the auditor's legal responsibility for damages arising from negligence, professional errors, or failure to exercise due diligence in the performance of their duties. The auditor incurs direct liability toward the audited entity for any misconduct or fault committed in the execution

[12] Article 23 of Law 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor*.
[13] Article 61 of Law 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor.*

of their professional responsibilities. Additionally, the auditor may bear joint (solidary) liability with other parties for damages resulting from violations of accounting regulations, including harm caused to third parties such as investors or creditors. However, exoneration from liability may be granted in cases where the auditor did not personally commit the violation, provided that they can demonstrate: (1) the application of standard professional care; (2) timely notification to the board of directors regarding the irregularity; (3) escalation of the issue to the general assembly if the board failed to act; and (4) notification to the Public Prosecutor upon confirmation of an infraction.

This framework underscores the active role of auditors, emphasizing their duty to undertake proactive, documented measures in response to observed irregularities, thereby reinforcing their function as integral agents of accountability and governance.

3.4.2 Criminal Liability:

"The criminal liability of the chartered accountant, the statutory auditor, and the licensed accountant is incurred for any breach of a legal obligation."[14]

Criminal liability arises when an auditor fails to adhere to statutory or regulatory obligations, thereby engaging in conduct that constitutes a violation of criminal law. This includes, but is not limited to, the deliberate certification of falsified financial statements, the concealment of fraudulent activities, the omission to report criminal offenses, or the obstruction of justice and legal investigations. Such acts are prosecutable under criminal law and may result in sanctions such as monetary fines, imprisonment, or both, contingent upon the severity and intentionality of the offense. In contrast to civil liability; which primarily seeks to provide redress for damages suffered criminal liability serves a punitive function, aiming to sanction behavior that undermines the public interest and the integrity of financial reporting systems.

3.4.3 Disciplinary Liability:

"The disciplinary liability of the chartered accountant, the statutory auditor, and the licensed accountant is brought before the disciplinary commission of the National Accounting Council, even after resignation, for any infraction or breach of professional, technical, or ethical rules committed

[14] Article 62, Chapter two, law 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor*.

during the exercise of their duties. Disciplinary sanctions, in increasing order of severity, are: A warning, A reprimand, Temporary suspension for a maximum duration of six (6) months, deregistration from the official register. Any appeal against disciplinary sanctions shall be made before the competent jurisdiction in accordance with current legal procedures. The classification of faults and corresponding sanctions shall be established by regulation."[15]

Disciplinary liability addresses breaches of professional, technical, or ethical standards, regardless of whether a criminal offense or civil harm has occurred. It may be enforced even after the auditor's resignation, ensuring accountability for prior professional conduct. Its primary aim is to preserve the integrity of the profession.

3.5 Audit Assertions:

Audit assertions are claims by management that the financial statements accurately reflect the entity's financial position and performance, in accordance with the relevant accounting and reporting framework.[16] These assertions cover areas such as **recognition, measurement**, **presentation**, and **disclosure of financial information.**

Definition of assertions by the IAASB: "Assertions – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement."

Categories of assertions are used by auditors to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement. The assertions differ from the written representations required by ISA 580 to confirm certain matters or support other audit evidence.[17]Assertions used by the auditor in considering the different types of potential misstatements that may occur may fall into the following categories:

[15] Article 63, Chapter two, law 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor.*
[16] Ling Feng Deng and Junying Peng, (2022), *"Reflections on the Concept, Classification and Application of "Assertion" Under the New Standards*." Frontiers in Business, Economics and Management.
[17] IAASB, ISA 315 (Revised 2019*) and Conforming and Consequential Amendments to Other International Standards Arising from ISA 315*.

- Assertions about **classes of transactions and events, and related disclosures**, for the period under audit are: (i) Occurrence, (ii) Completeness, (iii)Accuracy;(iv) Cut-off, (v) Classification, (vi) Presentation.
- Assertions about **account balances, and related disclosures**, at the period end: (i) Existence, (ii) Rights and obligations, (iii) Completeness, (iv) Accuracy, valuation and allocation, (v) Classification, (vi) Presentation.[18]

Table 1: Financial Statement Assertions, Definitions and Procedures.

Assertion	Definition	Procedures
Existence	Assets, liabilities and equity interests exist.	- Confirm customer account Balances. - Inspect shipping documents.
Rights and obligations (R&O)	The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.	- Inquire about factoring of receivables. - Inspect cash receipts.
Occurrence	Transaction and events that have been recorded *have occurred* and pertain to the entity.	- Inspect notes receivable. - Inspect sales invoices.
Completeness	*All transactions*, events, assets, liabilities and equity interests that should have been recorded have been recorded.	- perform analytical procedures. - Inspect inter-company sales Invoices.
Valuation and allocation	Assets, liabilities, and equity interests are included in the financial statements at *appropriate amounts* and any resulting valuation or allocation adjustments are appropriately recorded.	- Reconcile subsidiary ledger to general ledger. - Age receivables to test adequacy of allowance for doubtful accounts.
Accuracy	Amounts and other data relating to recorded transactions and	- Recalculate sales invoices. - Reperform sales transactions.

[18] IAASB, *ISA 315 (Revised 2019) and Conforming and Consequential Amendments to Other International Standards Arising from ISA 315.*

	events have been *recorded appropriately*.	
Classification	transactions and events have been recorded in the *proper accounts*.	- Inquire about revenue recognition policies.
Cut off	transactions and events have been recorded in the *correct accounting period.*	- Inspect next period bank statements for cash receipts - Inspect credit memos for sales returns
Presentation and Disclosure	An item is *disclosed, classified, and described* in accordance with acceptable accounting reporting framework.	- Review disclosures for compliance with IFRS and applicable regulation - Inspect loan documents for pledging or discounting of accounts receivable

Source: Hayes, R., Wallage, P., & Gortemaker, H. (2014). *Principles of auditing: An Introduction to International Standards on Auditing*. Pearson Higher Ed, page 20.

Section Two: Procedures of the Interim Audit Phase

In this section, we provide an overview of the audit process, outlining its main phases with a focus on the interim audit. We describe the key procedures performed during this phase and the tools commonly used by auditors to carry out their work to ensure the Quality of their Audit work.

1 Overview of the Audit Process:

The audit process is typically structured into several key phases to ensure a systematic and effective evaluation of an organization's financial statements and internal controls. The commonly recognized phases include:

1.1 Audit Planning Phase:

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- Helps the auditor to devote appropriate attention to important areas of the audit as well as identify and resolve potential problems on a timely basis.
- Helps to properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work. [19]

At the start of the audit engagement, the auditor must perform procedures under ISA 220 to *assess the continuity of the client relationship and audit engagement*, evaluate compliance with ethical requirements (including independence) and establish an understanding of the engagement terms in accordance with ISA 210.

Planning is not a discrete phase of an audit, but rather a *continual and iterative process* that often begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:

→ The analytical procedures to be applied as risk assessment procedures.
→ Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
→ The determination of materiality.
→ The involvement of experts.
→ The performance of other risk assessment procedures.

The overall Audit Strategy enables the auditor to plan resource deployment like the assignment of experienced staff or experts to high-risk areas, budgeting hours, and determining the timing of actions namely with specific focus on allocating resources during the interim audit stage (e.g., scheduling work at key cutoff dates or interim testing), while ensuring oversight through team briefings, reviews, and quality control processes, all contingent on finalizing risk assessments. It defines the high-level scope, timing, and resource allocation (including interim-phase deployment).

[19] IAASB, ISA 300, *Planning an Audit of financial statements.*

while the **audit plan** outlines the specific procedures, steps, and evidence-gathering activities to execute the strategy.

1.1.2. Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment:

The process begins with understanding the entity and its environment, as required by ISA 315. Auditors gather knowledge about the entity's operations, industry, regulatory framework, governance structure, and internal controls. This includes analyzing external factors such as market competition or economic trends, as well as internal factors like accounting systems, financial reporting processes, and management oversight.

A comprehensive understanding of these elements enables auditors to identify external and internal risk factors early in the audit process, thereby enhancing the effectiveness of audit planning.

This understanding is closely linked to the concepts of materiality and material misstatement, which help auditors determine the significance of identified risks. It also forms the basis for applying the Audit Risk Model (ARM); a structured framework auditors follow to assess and respond to risks throughout the engagement.

- **Materiality (ISA 320)** is a threshold of significance that determines whether an omission, misstatement, or disclosure in financial statements could reasonably influence the economic decisions of users. It is both quantitative (e.g., magnitude relative to benchmarks like revenue or profit) and qualitative (e.g., nature of the item, regulatory implications, or impact on stakeholder perceptions). Materiality is inherently contextual, shaped by the entity's specific circumstances and the informational needs of those relying on the financial statements.
- **Material Misstatement (ISA 200)** refers to errors or fraud in financial statements that exceed the materiality threshold, rendering the statements unreliable for decision-making. Such misstatements may arise from inaccuracies in recognition, measurement, presentation, or disclosure of financial information. The risk of material misstatement (ISA 315) encompasses two components: (1) inherent risk, (2) control risk.
- **The Audit Risk Model (ARM):** [20] Audit risk model is a conceptual tool applied by auditors to evaluate and manage the various risks arising from performing an audit engagement. The

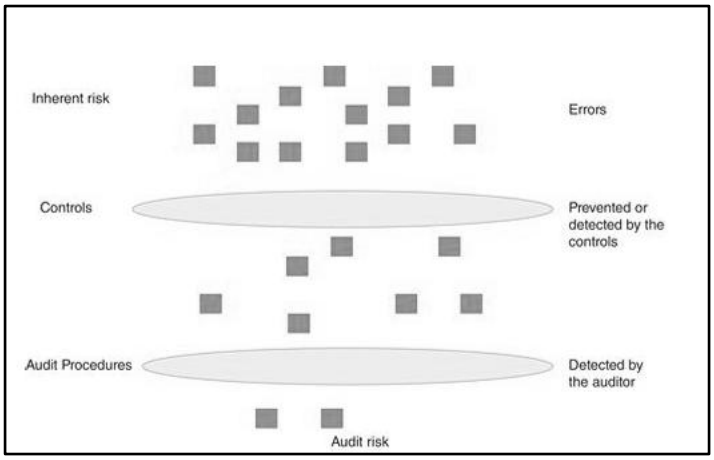
[20] https://corporatefinanceinstitute.com/resources/accounting/audit-risk-model/ (09/05/2025, 10:50 PM)

tool helps the auditor decide on the types of evidence and how much is needed for each relevant assertion.

The Audit Risk Model:

Audit Risk (AR) = Inherent Risk (IR) * Control Risk (CR) * Detection Risk (DR).

Figure 1: The Audit Risk.



Source: Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren, (2017), *Auditing.* 3rd Canadian ed. Wiley, page 304.

→ **Acceptable Audit Risk:** is the auditor's level of risk that they are willing to accept to release an unqualified opinion on financial statements that can be materially misstated. Unqualified audit opinions state that financial statements are presumed to be free from material misstatements.

→ I**nherent Risk (IR)**: is the auditor's assessment of the susceptibility to material misstatement of an assertion about a transaction class, an account balance, or an attached disclosure, quoted individually or an aggregation. **The assessment is performed before the consideration of relevant internal controls in place.** Inherent risk is essentially the perceived systematic risk of material misstatement based on the Auditee's structure, industry, or market it participates in.

- A higher inherent risk indicates that the transaction class, balance, or an attached disclosure is at risk of being materially misstated.
- Lower inherent risk implies that the account is not likely to be materially misstated.

→ **Control Risk (CR):** is the auditor's assessment of how likely a material misstatement can occur in an assertion about a transaction class, account balance, or an attached disclosure and cannot be identified or prevented in a time-sensitive manner by the client's ***pre-existing internal controls*.**

Generally, an auditor will perform a control risk assessment concerning the financial statement level of risk and the assertion level of risk. Therefore, performing such an assessment will require the auditor to possess a strong *understanding of the organization's internal controls.* The auditee is said to demonstrate:

- A high control risk of the controls if a specific assertion does not operate effectively or if the auditor deems that testing the internal controls would be an inefficient use of audit resources.
- A low control risk exists when the controls related to a specific assertion are designed and operating effectively, and the auditor determines that relying on and testing these controls is an efficient and effective use of audit resources.

→ **Detection Risk (DR):** The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

→ **Audit Risk (AR):** refers to the risk that the auditor may issue an inappropriate opinion on financial statements that are materially misstated. This risk is influenced by the risk of material misstatement (ROMM), which includes both inherent risk (IR) and control risk (CR), (ROMM= IR*CR➔ AR= ROMM*DR). The auditor evaluates IR and CR based on factors such as the complexity of transactions, susceptibility to fraud, and the effectiveness of the client's internal controls. These assessments are made prior to performing substantive audit procedures and help identify where material misstatements are most likely to occur.

Once ROMM has been assessed, the engagement partner determines the acceptable level of audit risk, which is always set at a low level to maintain **Audit Quality** and provide reasonable assurance. This accepted audit risk level informs how much detection risk the auditor can allow.

Since audit risk is a product of ROMM and detection risk (AR = ROMM × DR), the auditor effectively solves for detection risk by designing audit procedures that reduce it to a level that keeps overall audit risk low.

- When ROMM is high, the auditor must lower detection risk (DR) through more extensive and rigorous testing (Rely on Test of details).
- When ROMM is low, less extensive procedures may be sufficient, provided that the overall audit risk remains acceptably low.

Auditor plan their audit to reduce audit risk to an acceptably low level. Audit risk is the risk that an auditor issues an unmodified opinion (when the financial statements are in fact materially misstated).

The risk assessment phase involves assessing the audit risk and materiality, determining the audit strategy, as well as identifying the nature and the timing of the procedures to be performed. In order to plan an efficient and effective audit, an auditor must ***understand the entity and its environment*** to make a reasonable preliminary assessment of audit risk and materiality. This also allows the auditor to identify any significant risks or unique features of the entity or the environment that may impact the audit planning.[21]

1.2 Audit Execution Phase:

Following the planning stage and the assessment of audit risk, the audit execution phase also referred to as the risk response phase, is primarily concerned with implementing appropriate responses to the risks identified and assessed. This phase is governed by the principles outlined in ISA 330, which requires auditors to design and implement audit procedures that are responsive to the risks of material misstatement according to the International Auditing and Assurance Standards. These procedures include **tests of controls** and **substantive procedures** or a **mixed approach** of the two procedures, depending on the nature and extent of the assessed risks.

- **Test of controls (TOC)**: An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.[22]
- **Substantive procedure:** An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise: [23]

[21] Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren (2017), *Auditing.* 3rd Canadian ed. Wiley, page 217.
[22] IAASB, ISA 330 *The Auditor's Responses To Assessed Risks*, page 332.
[23] *Idem.*

(i) Tests of details (involves a thorough examination of individual transactions and account balances); and

(ii) Substantive analytical procedures (involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor).

During this phase the auditor carries out a detailed testing of controls, transactions, and balances. If he intends to place reliance on the entity's internal control system, tests of control are required to obtain sufficient appropriate audit evidence on their operating effectiveness.

Furthermore, substantive procedures like tests of transactions throughout the year and tests of account balances at year-end are performed to detect material misstatements at the assertion level. This combination of procedures enables the auditor to gather evidence regarding whether the financial statements present a true and fair view in accordance with the applicable financial reporting framework.[24]

- **Control-Based Approach:** This approach is adopted when the auditor concludes that the entity's internal control environment is strong and can be relied upon to prevent or detect material misstatements. Under this approach, the auditor performs tests of controls usually during the interim phase to evaluate the design and operational effectiveness of relevant controls. According to ISA 330, these tests are essential if the auditor wishes to reduce substantive testing based on reliance on controls.

  For example: an auditor may assess whether appropriate authorization procedures are in place for revenue recognition or whether segregation of duties is maintained in the purchasing cycle. If these controls operate effectively throughout the period, the auditor may reduce the extent of substantive testing during the audit.

  This approach is particularly effective in large entities with sophisticated control systems, as it allows auditors to gain assurance more efficiently. However, it demands rigorous documentation and evaluation of control activities, often supported by walkthroughs, inspection of documentation, and re-performance of procedures.[25]

[24] Gray, Iain, and Stuart Manson, (2019), *The Audit Process: Principles, Practice and Cases*. 7th ed. Andover.
[25] Arens, A. A., Elder, R. J., Beasley, M. S., & Hogan, C. E, (2022), *Auditing and Assurance Services: An Integrated Approach* (18th ed.). Pearson Education.

- ❖ **Substantive-Based Approach:** Conversely, the substantive approach is employed when the auditor either determines that:

  (1) internal controls are insufficient or (2) chooses not to rely on them.

  In this case, the auditor performs substantive procedures exclusively to detect material misstatements. These procedures include substantive analytical procedures and tests of details, which target specific assertions such as completeness, accuracy, existence, and valuation of financial statement elements. *The extent and nature of these procedures are directly related to the inherent risk and control risk levels previously assessed.*

  More so this approach is common in audits of small or medium-sized entities, where formal internal controls may be weak or not well-documented. It provides high assurance through direct evidence but often involves more resource-intensive procedures such as confirmation of receivables, physical inventory counts, and inspection of supporting documentation for significant transactions.[26]

1.3 Reporting Phase:

The audit reporting phase, also known as the final phase, can be broken down into the following main events:

→ **Audit Opinion Formation:** is the first step in the reporting phase. The auditor evaluates whether the financial statements are free from material misstatement, whether due to (1) Fraud or (2) Error.

- If the auditor concludes that the financial statements present a true and fair view, an *unqualified opinion* is issued.
- If the auditor identifies material misstatements meaning that the financial statements are fairly presented except for the specific issue noted. It indicates partial but not full assurance; a *qualified opinion* is issued. [27]
- If the auditor concludes that the financial statements are not presented fairly, in accordance with the applicable financial reporting framework, due to material and pervasive misstatements**,** *an adverse opinion* is issued.

→ **Going Concern Assessment** involves evaluating whether the entity is able to continue its operations for the foreseeable future. If material uncertainties exist, the auditor must determine

[26] Gray, I., & Manson, S, (2019), The *Audit Process: Principles, Practice and Cases* (7th ed.). Cengage Learning.
[27] IAASB, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

whether these have been adequately disclosed. If not, a qualified opinion may be required. This assessment is conducted under ISA/NAA 570, which addresses the auditor's responsibilities related to going concern.[28]

→ **Review of Subsequent Events** requires the auditor to consider events that occur between the date of the financial statements and the date of the auditor's report. Such events may affect the financial statements or require additional disclosures. The review is performed in accordance with ISA/NAA 560.[29]

→ **Issuing the Auditor's Report** marks the formal end of the audit. After forming the opinion and addressing all relevant matters, the auditor signs and dates the report. This final output is intended for stakeholders and must comply with the presentation and content requirements of ISA 700/NAA (Revised).[30]

→ **Communication with Those Charged with Governance** is essential for ensuring transparency. The auditor must communicate significant findings, including misstatements and any deficiencies in internal controls identified during the audit. These responsibilities are outlined in ISA 260 (Revised) and ISA 265.[31]

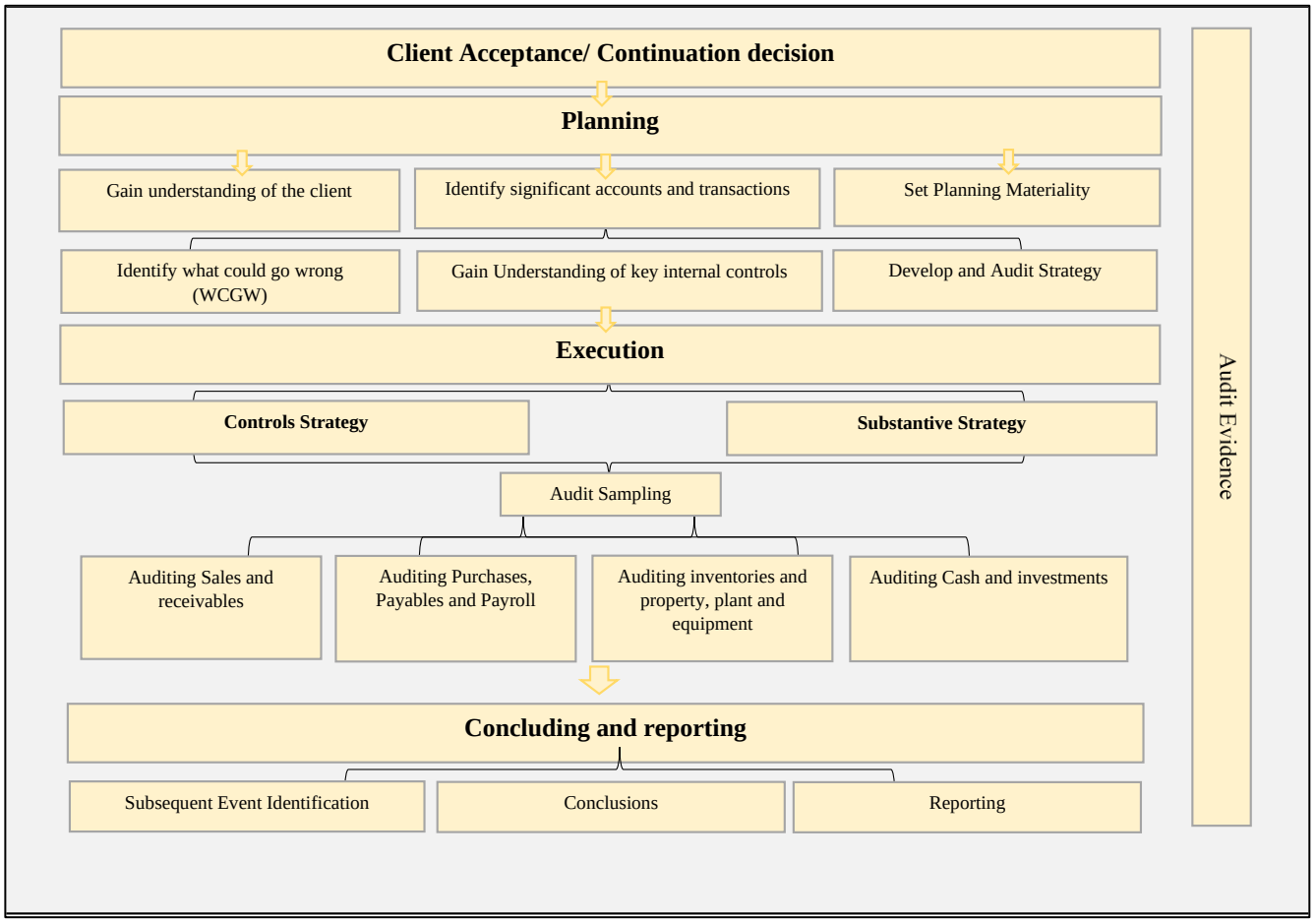
→ **Documentation and Archiving** concludes the process. The auditor must complete the assembly of the final audit file within 60 days after the date of the auditor's report and retain it for a minimum of five years. This step ensures accountability and is governed by ISA 230.[32]

This structured approach ensures a comprehensive evaluation of an organization's financial reporting and internal control systems.

[28] IAASB, ISA 570 (Revised), *Going Concern*.
[29] IAASB, ISA 560, *Subsequent Events*.
[30] IAASB, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.
[31] IAASB, ISA 260 (Revised), *Communication with Those Charged with Governance*.
[32] IAASB, ISA 230, *Audit Documentation*.

The following graph will resume the audit process overview:

Figure 2: The Audit Process.



Source: Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren. (2017), *Auditing*. 3rd Canadian ed. Wiley, page 36.

2 The Interim Phase of a statutory Audit:

2.1 Definition of the Interim phase:

Interim is a Latin adverb meaning "in the meantime." The first part, inter means "between." Interim is the time between one event, process, or period and another.[33]

The interim phase takes place before the closing of the financial year of the audited entity. During this stage, the statutory auditor obtains information about the company's operations and the functioning of its internal control system in order to define their audit strategy.[34]

2.2 The purpose of an interim phase:

An interim audit is an audit conducted during a client's accounting period or financial year, typically focusing on the first half of the period. Its primary purpose is to perform a preliminary assessment of the financial statements' reliability and accuracy, enabling early identification of material issues that may require corrective action. This assessment is based on audit procedures carried out during the interim period.[35] The key objectives of an interim audit include:

(1) **Evaluating internal controls:** Auditors assess the design and operational effectiveness of the client's existing internal controls, systems, and procedures.
(2) **Risk Assessment:** Highlighting significant risks or deficiencies that could impact the financial statements or audit process.

Interim audits also benefit auditors by allowing them to address issues proactively. By resolving problems early, auditors minimize disruptions during the final audit phase, ensuring a more efficient year-end engagement.

2.3 The scope of the interim Audit:

The scope of an interim audit can cover mainly:

- **Assessment of the Internal Control:** The auditor reviews the company's internal controls and procedures to ensure they are operating effectively during the interim phase.

[33] https://www.vocabulary.com/dictionary/interim (10/05/2025, 1 :42 PM)
[34] https://www.houdart-ac.fr/nos-articles/audit/methodologie-de-conduite-d-audit/#:~:text=La%20phase%20d'int%C3%A9rim%20a,d%C3%A9finir%20sa%20strat%C3%A9gie%20d'audit. (10/05/2025, 01 :45 PM)
[35] Azhar Ul Haque Sario, (2024*), CPA, CIA, CISA, ACCA Audit*, page 102.

- **Assessment of Risks:** to conclude the interim phase the auditor identifies areas of significant risk that require special attention (substantive approach) during the year-end audit.
- **Estimation of Audit Materiality thresholds:** The auditor may estimate the materiality level to be applied during the year-end audit.[36]

2.4 The procedures of the Interim Phase:

2.4.1 Assessment of the internal controls of the entity by the statutory Auditor:

Key components of Internal Control:

2.4.1.1 Controls:

Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context: (i) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions. (ii) Procedures are actions to implement policies.[37]

2.4.1.2 System of internal control (SIC):

The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The system of internal control consists of five interrelated components:[38]

A. Control environment: It is the overall attitude, awareness, and actions of management and those charged with governance regarding internal controls and their importance. For the auditor to understand the control environment, he needs to develop an understanding of:

(i) Management's oversight, integrity, and ethical values

(ii) The role and independence of those charged with governance

(iii) Assignment of authority and responsibility

[36] https://www.superfastcpa.com/what-is-an-interim-audit/#:~:text=The%20scope%20of%20an%20interim,year%20to%20verify%20their%20accuracy. (10/05/2025, 4 :42 PM)

[37] IAASB, ISA 315 (revised 2019), *Identifying and Assessing the Risks of Material Misstatement*.

[38] *Ibid.*

(iv) How the entity attracts, develops, and retains competent staff

(v) How individuals are held accountable

The auditor has to Evaluate whether the control environment:

- Encourages a culture of honesty and ethical behavior
- Provides a sound basis for the other components of internal control
- Has any deficiencies that could weaken the overall system of internal control.

B. The Entity's Risk Assessment Process: The risk assessment process is how an entity identifies and responds to risks that may affect its ability to prepare reliable financial statements. The auditor needs to ask the following questions: How does the entity identify business risks related to financial reporting? How does it evaluate the importance and likelihood of those risks? On the other hand he shall evaluates whether the entity's risk assessment process is suitable, based on its size, nature, and complexity.

C. The entity's process to monitor the system of internal control: The process to monitor internal control ensures that the system is functioning effectively and identifies areas where controls need improvement. The auditor has to understand: How the entity monitors the effectiveness of controls, including ongoing and separate evaluations, how control deficiencies are identified and addressed, the role and activities of the internal audit function, (if applicable), and the sources of information used to monitor internal control and how management ensures it is reliable.

The auditor evaluates whether the entity's monitoring process is suitable for its size, nature, and complexity.

D. The information system and communication: The information system and communication process involve how data is captured, processed, and communicated to ensure accurate financial reporting.

- The auditor has to understand the about the information system the following: How the entity processes data, including how transactions are recorded, corrected, and reported in financial statements; How non-transactional information is captured and disclosed, The specific accounting records and supporting documents, The financial reporting process, including disclosures, and the entity's resources, including IT systems, relevant to the financial reporting process.

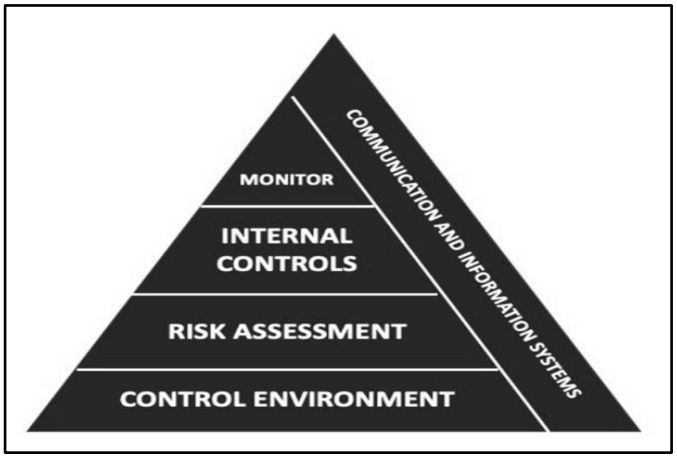
- And about Communication: How significant financial matters are communicated within the entity, including roles and responsibilities, How communication happens between management, governance, and external parties (e.g., regulators)
  This leads the auditor to evaluate whether the entity's information system and communication processes properly support accurate financial statement preparation.

E. Control activities: Control activities are the policies and procedures that help ensure risks are mitigated, especially those related to financial reporting. The auditor has to Identify: Controls addressing significant risks, Controls over journal entries, especially for unusual or non-recurring transactions, Controls to be tested for effectiveness during substantive testing (especially when substantive procedures alone are not sufficient), and other controls that help meet the audit objectives.

He also has to Identify IT Risks where he: identifies IT applications and aspects of the IT environment that may be affected by risks as well as Identifies the risks arising from IT usage and the entity's general IT controls.

The following figure summaries the different elements that make up the internal control system within an entity.

Figure 3: System of Internal Control (SIC).



Source: Understand the framework for systems of internal controls[39]

[39] https://oer.pressbooks.pub/utsaccounting1/chapter/understand-the-framework-for-systems-of-internal-controls/ (10/05/2025, 5:16 PM)

2.4.2 Internal Controls Frameworks:

External auditors often reference internal control frameworks to evaluate an organization's control environment, particularly when auditing financial statements or assessing compliance with regulations. While internal auditors use frameworks to design and test controls, external auditors use them as benchmarks to understand how management structures and monitors its controls. Below is an overview these frameworks:

2.4.2.1 The Committee of Sponsoring Organizations of the Treadway Commission framework (COSO):

Issued in 1992 (original) with updates in 2013 (Internal Control Framework) and 2017 (ERM Framework), COSO is a U.S.-developed framework for enterprise risk management (ERM) and financial controls. It's the gold standard for Sarbanes Oxley compliance. Its five components include Control Environment, Risk Assessment, Control Activities, Information/Communication, and Monitoring.

2.4.2.2 COBIT (Control Objectives for Information and Related Technologies):

Launched in 1996 by ISACA, COBIT's latest version (2019) focuses on IT governance and risk management. Core components include Governance Objectives (Evaluate, Direct, Monitor) and Management Objectives (Align, Plan, Build). COBIT 2019 integrates DevOps and agile practices, emphasizing metrics like "Goals Cascade" to link IT to business outcomes. Used globally for auditing IT controls.

2.4.2.3 ISO 27001:

Published by the International Organization for Standardization (ISO), ISO 27001 (latest version 2022) addresses information security management. It lists 93 controls across 4 themes: Organizational, People, Physical, and Technological. Requires a risk-based approach, regular audits, and continuous improvement. Widely adopted for cybersecurity certifications.

2.4.3 Types of internal Controls:

Internal controls can be categorized into two types: Preventative and detective Controls**.**

- **Preventative controls:** Aim to deter errors or fraud from happening in the first place and include thorough: Documentation, Authorization practices (such as mandating managerial

approvals on certain procedures) and separation of duties; ensuring that no individual is in a position to authorize, record, and be in the custody of a financial transaction and the resulting asset. In addition, preventative internal controls include limiting physical access to equipment, inventory, cash, and other assets.

- **Detective controls:** Are backup procedures designed to catch items or events the first line of defense has missed. The most important activity is reconciliation, which is used to compare between two sources of the same information. Corrective action is taken upon finding material differences.[40]

2.5 Technics Used by the Statutory Auditor to Assess Internal Controls:

2.5.1 Interviews:

Interviews with management and key personnel are structured or semi-structured dialogues conducted by auditors to obtain insights into the entity's internal control environment, business processes, and potential areas of risk. These interviews are an essential audit procedure, forming a cornerstone of the auditor's risk assessment process. There are notably two kinds of interviews:

- **Structured:** Utilize a standardized set of questions to ensure uniformity across departments. This approach facilitates comparison of responses and helps auditors identify gaps or anomalies.
- **Semi-structured:** More open-ended and conversational, allowing auditors to probe deeply into topics of interest. The human element helps the auditor to evaluate not only what controls are in place, but also the control environment and the overall management attitude towards company procedures whether they are understood and respected by those responsible for implementing them.

  Therefore interviews assist auditors in exercising professional judgment. For instance, inconsistencies in management's responses or indications of overconfidence in weak control systems can serve as red flags, directing the auditor's attention to key risks that may not be immediately obvious from documentation alone.

2.5.2 Questionnaire:

[40] https://www.investopedia.com/terms/i/internalcontrols.asp (10/05/2025, 8: 46 PM)

Auditors use structured questionnaires to systematically assess the **design, implementation,** and **operating effectiveness** of a company's internal controls. These tools ensure compliance with laws, regulations and internal company policies.

A questionnaire is a methodical instrument of formalized series of interrogatives (Questions) employed to systematically extract targeted data, perceptions, or attestations from respondents, often serving diagnostic, evaluative, or evidentiary purposes in academic, commercial, or regulatory contexts. Internal Control Questionnaires (ICQs) and Internal Control Evaluation Questionnaires (ICEQs) are tools used in auditing and risk management to assess control environments.

2.5.2.1 Internal control questionnaires (ICQs):

They are often standardized checklists established by the audit firm which may be adapted to individual clients. The use of standardized lists means that questions are less likely to be omitted or go unanswered. These documents can have several functions such as: a method of ascertaining of the system, to enable the auditors to review and assess the adequacy of the system as well as to identify areas of weakness, it can also be used in assisting the auditors to design a series of tests; in effect this means enabling the auditors to draw up their audit program and most importantly enables audit staff to familiarize themselves with the system quickly and comprehensively.[41]

ICQs focus on identifying whether specific **controls are in place** within an organization, ensuring that necessary policies and procedures exist.

Internal control questionnaire ICQ (Annex 1).

2.5.2.2 Internal Control Evaluation Questionnaires (ICEQs) :

Internal control questionnaires (ICQs) and flow charts are used to ascertain and record the system. However, it is also necessary to **evaluate the system's strengths and weaknesses**. An ideal method of doing this is by means of an ICEQ. [42]

ICEQs go a step further by evaluating whether these controls are operating effectively and achieving their intended purpose.

[41] Milli champ, Alan, and John Taylor (2022), *"Auditing"* 12th ed. Cengage Learning, page 145.
[42] *Ibid.*

2.5.3 Memos:

Memos are structured narrative documents that describe each department's core activities, events, procedures, and controls put in place. They are prepared following interviews with management and departmental heads, during the interim phase. These memos are a crucial part of audit working papers and are required under ISA 230 (Audit Documentation). Each memo becomes a blueprint of internal processes, linking activities to specific personnel, and outlining control weaknesses and risks through the WCGW (What Could Go Wrong) framework. Standard Structure of a Memo:

- Preamble: A brief introduction to the entity and d department of which the memo is about.
- Objective: States the aim of the review (e.g., understanding internal controls over the production process, procurement, or sales cycle).
- Work done: Description of audit procedures undertaken, such as interviews, walkthroughs, document inspections, or system access reviews.
- Organization of Involved Services: overview of departments or teams participating in the process (e.g., procurement, finance, operations).
- Products or Services Handled: Clarifies the outputs of the department (physical goods, services, or transactions managed).
- Process Breakdown: The main body of the memo, subdivided into the four chronological steps of a typical process:
  - ✓ Initiation: Triggering events or authorizations.
  - ✓ Recording: Entry of transactions or control activities into the system.
  - ✓ Processing: Execution of the transaction and interaction with related departments.
  - ✓ Reporting: Output and review stages, including summaries and reconciliations.

2.5.4 Flow charts (Workflows):

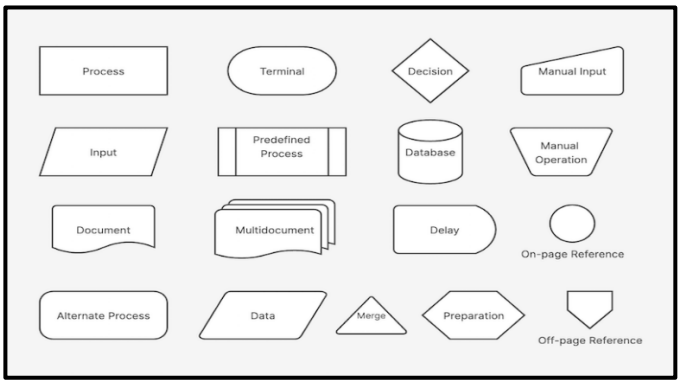
A flowchart (or flow chart) is a diagram that depicts a process, system or computer algorithm. They are widely used in multiple fields to document, study, plan, improve and communicate often complex

processes in clear, easy-to-understand diagrams. Flow charts are a method of recording internal control systems from the auditor's standpoint.[43]

A clear flowchart flows from top left to bottom right, using standard symbols and clean lines. It highlights key steps such as initiation, operations, responsibilities, controls, and outcomes, with minimal clutter and optional notes or charts for support.

The main Flowchart symbols:

Figure 4: Symbols Used in Flowcharts.



Source: Josh Spilker (2024), *The Ultimate Guide to Flowcharts: Types, Symbols, and Examples.* [44]

2.5.5 Walk-through Tests:

Once the system has been fully documented, including the preparation and review of flow charts, notes, ICQs, and ICEQs, the final step involves conducting a walk-through of the system. This ensures that the processes recorded in the audit files accurately reflect real-world operations.

The auditor selects a small sample of transactions, typically three or four, and traces them through the system while referencing the system notes.

2.5.6 Test of controls (TOC):

With the controls properly documented, the auditor must test their effectiveness. Common techniques for testing controls include inquiry, observation, inspection of physical evidence, and re-performance; collectively referred to as audit procedures. Typically, a combination of these methods provides the

[43] Milli champ, Alan, and John Taylor, (2022), *"Auditing"* 12th ed. Cengage Learning, page 145.
[44] https://tettra.com/article/flowcharts/ (11/05/2025, 07:03 AM)

necessary evidence to confirm that the control functioned as intended throughout the period under review.

Audit procedures are the techniques, processes, and methods that auditors use to obtain *reliable* audit evidence, which enables them to gain a sound judgment about an organization's financial status. Audit procedures are conducted to help determine whether or not a company's financial statement is credible and factual. The regular implementation of these procedures helps establish a business's financial reputation and strengthen its trustworthiness in the eyes of its customers, the market, and potential investors.[45]

According to ISA 500 Audit Evidence, Audit Procedures for Obtaining Audit Evidence are:

- **Inspection: Inspection of Records or Documents:** Inspection consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records or documents for evidence of authorization.
- **Inspection of Tangible Assets:** Inspection of tangible assets consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items ordinarily accompanies the observation of inventory counting.
- **Observation:** Observation consists of looking at a process or procedure being performed by others. Examples include observation of the counting of inventories by the entity's personnel and observation of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed.
- **Inquiry:** Inquiry involves seeking information from knowledgeable individuals inside or outside the entity and is widely used in audits, often alongside other procedures.

[45] https://safetyculture.com/topics/audit-procedures/ (11/05/2025, 08:14 AM)

- Inquiries can be formal or informal, and evaluating responses is essential, as they may provide new or corroborative evidence or reveal discrepancies requiring further audit work.
- However, inquiry alone is usually not sufficient to detect material misstatements or assess control effectiveness. In cases involving management's intent, the auditor may rely on past behavior and reasoning, especially when supporting evidence is limited. Written representations from management are often obtained when another sufficient audit evidence is unavailable or less reliable.

❖ **Confirmation:** Confirmation, which is a specific type of inquiry, is the process of obtaining a representation of information or of an existing condition directly from a third party. For example, the auditor may seek direct confirmation of receivables by communication with debtors. Confirmations are frequently used in relation to account balances and their components, but need not be restricted to these items. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request is designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are.

❖ **Recalculation:** Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation can be performed through the use of information technology, for example, by obtaining an electronic file from the entity and using CAATs (Computer-Assisted Audit Tool) to check the accuracy of the summarization of the file.

❖ **Reperformance:** Reperformance is the auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control, either manually or through the use of CAATs, for example, reperforming a bank reconciliation.

❖ **Analytical Procedures:** Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

2.5.6.1 Results of Tests Of Controls “TOC” (Control Risk):

The objective of testing controls is to confirm the extent of reliance on these controls.

The auditor should evaluate the results of controls testing at the level of each individual key control in order to reach an overall assessment of the effectiveness of the controls. Evaluating the results of controls testing requires a high degree of professional judgement as they have an impact on the audit approach.

The auditor should also assess whether management has detected the errors and the response and remedial actions they have taken to address them.[46]

The results of tests of controls may be as follows:

- if, when testing the controls, the auditor has ensured that they are operating **effectively** and continuously throughout the period, then the auditor will maintain the audit approach adopted at the planning stage.
- if some weaknesses are noted, but the overall system is not considered unreliable, then the assessment of control risk is revised and the extent of substantive procedures is increased in accordance with the assurance mode.
- if the controls are not operating as they should, then no assurance can be obtained regarding compliance with applicable laws and regulations. The auditor should then obtain the audit evidence mainly or solely from substantive testing.

The following table shows the relation between the results of internal controls assessment and the level of substantive testing auditors have to carry out during the final audit phase:

Table 2: The impact of control testing on the amount of substantive testing required to be performed.

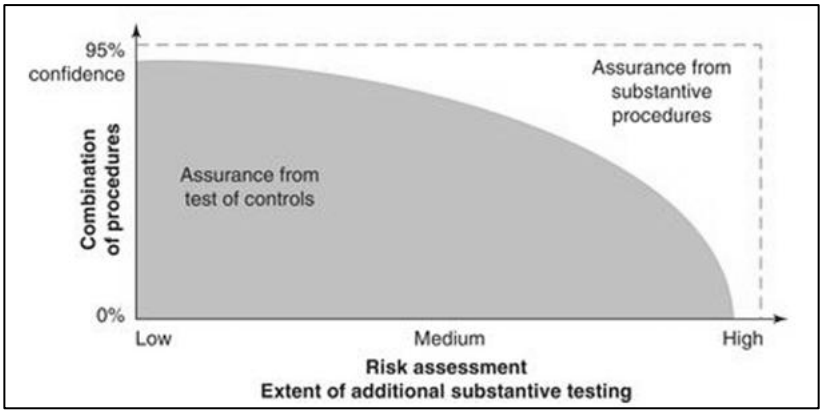
		Reasonable level of assurance from control testing	**Limited level of assurance from control testing**	**No assurance obtained from control testing**
Inherent Risk Assessment	**Low**	Overall analytical review	Some substantive procedures	Considerable testing
	High	Some substantive procedures	Considerable testing	Extensive procedures focused on estimating errors in the balance

[46] https://methodology.eca.europa.eu/aware/CA/Pages/Examination/Evaluating-tests-results.aspx (11/05/2025, 12:55 AM)

Source: Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren, (2017), *Auditing*. 3rd Canadian ed. Wiley, page 584.

The following figure further illustrates the level of substantive testing and its relation with the assurance level assessed by the auditor:

Figure 5: The impact of Control Testing on the level of Substantive Testing.



Source: Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren. (2017), *Auditing.* 3rd Canadian ed. Wiley, page 584.

2.5.6.2 Effectiveness of Controls:

Another objective of the interim phase may be to report on the effectiveness of internal controls, in which case the assessment of controls may be effective, partially effective or not effective, respectively. Assessment of the performance of the internal controls must be corroborated by substantive testing.

2.5.6.3 The results of the assessment of the Risk of Material Misstatement on the Audit risk equation:

After the Assessment of the Risk of material misstatements by the evaluation of the Inherent Risk and the Control Risk (through the Test of Controls), the Auditor proceeds to solve for the last variable of the Audit Risk Model that (ARM) that is the Detection Risk (DR), as previously described the Audit risk is:

$$AR = IR * CR * DR$$

Consequently:

$$DR = \frac{AR}{IR * CR}$$

There is a clear negative correlation between Detection Risk (DR) and the Risk of Material Misstatement (ROMM= IR*CR); as ROMM increases, the auditor must lower the acceptable level of DR to ensure that overall audit risk remains within permissible thresholds.

the allowable level of DR is calculated as the residual risk that can be accepted in order to keep overall audit risk within an acceptable level.

If the auditor's tests of controls reveal that controls are functioning effectively and consistently throughout the period, CR is assessed as low, which increases the allowable DR. This means the auditor can perform fewer or less detailed substantive procedures.

However, if control testing indicates weaknesses or that controls are ineffective, CR is assessed as high, and the auditor must lower DR to maintain acceptable audit risk, which results in a greater extent of substantive testing.

This relationship not only guides the nature and extent of substantive procedures but also plays a critical role in determining the thresholds and evidentiary standards applied during the final phase of the audit.

The negative correlation shapes the amount of substantive testing required and helps the auditor determine the thresholds for assurance needed in the final phase of the audit.

3 The final Audit phase:

Following the completion of the interim audit procedures, the auditors proceeded with the final phase of the audit by revisiting and, where necessary, revising the materiality thresholds initially established in accordance with ISA 320 (Materiality in Planning and Performing an Audit). This reassessment was informed by any significant developments in the entity’s financial position and by the updated evaluation of the risks of material misstatement (ROMM).

While the planning and risk assessment stages lay the groundwork for an effective audit, the critical focus during the final phase shifts towards the execution of **substantive audit procedures** (test of details) which constitute the core of evidence-gathering and audit documentation.

Additionally, the auditors undertook roll-forward testing to extend the assurance obtained during the interim phase to the financial year-end, thereby ensuring the continued relevance and sufficiency of audit evidence in support of the auditor's opinion.

3.1 Roll-forward from interim work to the period end:

The auditor should obtain adequate assurance about the effective operation of an internal control throughout the intended period of the audit. For the tests conducted at an interim period, the auditor will have to obtain assurance about the operation of that control during the subsequent period, which has not been tested namely the period between the end the of the interim intervention and the end of the fiscal year. Factors which the auditor would need to consider are the results of earlier audit tests of control; whether the control procedure has been changed during the remaining period; and evidence of the effective operation of that control obtained by other procedures, such as analytical reviews, cut-off and roll-forward tests or other substantive audit procedures.

Where evidence of the effectiveness of operation of controls is obtained during an interim period, or was obtained in prior audits, or relates to controls which have changed during the period, or where the auditor plans reliance on controls that have not changed since they were last tested, the requirement of ISA 330 is as follows:

"When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor should determine what additional audit evidence should be obtained for the remaining period"

In determining what additional audit evidence should be obtained, the auditor considers the following:

(i) The nature and amount of the significant account or disclosure and risk of significant misstatement;
(ii) Specific controls that were tested during the interim period;
(iii) The degree to which audit evidence about the operating effectiveness was obtained;
(iv) Impact of the control environment on the design and operation of controls;

The length of the remaining period; and Substantive procedures the auditor plans to perform, when they are to be performed, and the extent to which the auditor plans to reduce or modify the nature of substantive procedures based on the reliance on the selected controls.

The auditor thus obtains evidence about the nature and extent of any significant changes in internal controls, including changes in the control environment, information system, processes and personnel during the remaining period. The auditor may extend the tests of operating effectiveness of the controls or test the entity's monitoring of the controls during the remaining period. The auditor may simply rely on ***inquiry alone*** to determine whether the selected controls continued to operate effectively during the roll-forward period, provided:

- Controls are over routine transactions, do not have a high risk of management override, are not pervasive and not related to period end adjustments; and
- Results of the tests of control to the interim date indicate the controls operated effectively and there have been no changes in the design of the control or changes to other factors or risks that might affect the operating effectiveness of the controls.

In the case of automated controls, the auditor need not obtain further evidence of the operation of the controls during the roll-forward period, provided:

- when tested, the control was found to be effective; and the control meets the criteria above; and pervasive controls, including IT general controls affecting the automated control, are determined to be operating effectively during roll-forward period.

ISA 330 provides guidance regarding other considerations related to the timing of tests of control as follows:

- If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should obtain evidence about whether changes in those specific controls have occurred subsequent to the prior audit. The auditor should obtain evidence about whether such changes have occurred by performing inquiry in combination with observation or inspection to confirm the understanding of those specific controls.
- If the auditor plans to rely on controls that have changed since they were last tested, the auditor should test the operating effectiveness of such controls in the current audit.
- If the auditor plans to rely on controls that have not changed since they were last tested, the auditor should test the operating effectiveness of such controls at least in every third audit.

- Where there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of some controls in each audit. And
- When, in accordance with paragraph 108 of ISA 315, the auditor has determined that an assessed level of risk of material misstatement at the assertion level is a significant risk, and the auditor plans to rely on the operating effectiveness of controls intended to mitigate that significant risk, the auditor should obtain audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period. [47]

the auditor finalizes all procedures and evaluates the sufficiency and appropriateness of the audit evidence obtained to form an independent audit opinion on the financial statements. Based on this evaluation, the auditor may express an unqualified opinion when the financial statements are free from material misstatement, a qualified opinion when misstatements are material but not pervasive, or an adverse opinion when the misstatements are both material and pervasive. It must be emphasized, however, that an audit does not constitute a guarantee of the accuracy or completeness of the financial statements. Rather, in line with the principles set out in ISA 200, the auditor provides reasonable assurance; a high, but not absolute, level of assurance that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Section Three: Fundamentals of Audit Quality

Assuring that the audit is conducted in a quality manner is paramount to fulfilling users' expectations about the auditor's role in the capital markets. Throughout this Section, we discuss key concepts and approaches that are used to achieve audit quality.

1 Definition of Audit Quality:

- **First Definition:** One of the most popular and common definition of Audit quality in the research realm goes back to Linda Elizabeth DeAngelo's Definition of Audit Quality (1981): "the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach"[48]

[47] Puttick, George, and Sandy van Esch, (2007), *The Principles and Practice of Auditing.* 8th ed. Juta Academic. Page 496-498.
[48] Linda Elizabeth DeAngelo, (1981), *Auditor size and audit quality*, Journal of Accounting and Economics, Volume 3, Issue 3, Pages 183-199.

According to this definition the main components of knowing the Audit is of a high quality are:

- **The Competence** of the auditor for detecting misstatements and;
- **The Independence** of the auditor for reporting such misstatements.

- **Second Definition:** Another approach how to define audit quality is a more normative way of thinking is: "The auditor performs with excellent quality if he/she complies completely with all relevant standards."[49]

  In this perspective, the **Level of Compliance** with auditing standards reflects the level of audit quality. Peer review findings, inspection results of oversight boards (such as the PCAOB in USA and the APAK in Germany) as well as lawsuits against auditors are in this case the best indicators for audit quality.[50]

- **Third Definition:** According to the IAASB: "The term audit quality encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis.[51]

  The objective of an audit of financial statements is for the auditor to form an opinion on the financial statements based on having obtained sufficient and appropriate audit evidence about whether the financial statements are free from material misstatement and to report in accordance with the auditor's findings. A quality audit is likely to have been achieved by an engagement team that:

  (i) Exhibited appropriate values, ethics and attitudes;

  (ii) Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;

  (iii) Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;

  (iv) Provided useful and timely reports; and

  (v) Interacted appropriately with relevant stakeholders[52]."

[49] Krishnan, J. & Schauer, P. C, (2001), *Differences in quality among audit firms.* Journal of Accountancy, page 85.
[50] Tritschler, Jonas, (2013), *"Audit Quality: Association between Published Reporting Errors and Audit Firm Characteristics*, Page 10.
[51] Art.1, IAASB, (2014), *"A Framework for Audit Quality: Key Elements That Create An Environment for Audit Quality"*.
[52] *Idem.*

Audit quality is inherently a multi-dimensional concept, resulting in a range of definitions depending on the analytical lens through which it is examined. Because each of these perspectives employs different observable proxies, ranging from discretionary accruals and financial restatements to peer-review evaluations, oversight board inspections, and regulatory enforcement actions, scholars and regulators often arrive at multiple, and frequently complementary, definitions of audit quality.

2 The responsibility of the Audit Quality:

According to the Framework for Audit Quality issued by IAASB, Article 3: "The responsibility for performing quality audits of financial statements rests with auditors. However, audit quality is best achieved in an environment where there is support from, and appropriate interactions among, participants in the financial reporting supply chain."[53]

3 Users of Audited Financial Information:

Before assessing the quality of audit services, it is essential to examine the nature of audit outputs, and the intended users of audit findings. At the core of any financial audit lies its most tangible output: the *audit opinion*, formalized in the audit report.

This opinion is the culmination of the auditor's assessment of whether the financial statements of a company provide a true and fair view in accordance with the applicable financial reporting framework. The audit opinion acts as a signal of credibility and reliability for the company's financial disclosures.

The value of this opinion, however, depends heavily on its users, those who rely on audited financial statements to make decisions called the stakeholders. They are:

- **Owners and prospective owners (Principal):** evaluate whether the company generates a satisfactory return on investment, assess the feasibility of investing or adjusting their investment, and consider whether the company remains profitable while complying with regulations.
- **Those charged with governance (Agent):** use the audit report to evaluate the financial health and performance of an organization. The report provides insights into the accuracy, fairness, and compliance of financial statements, helping governance bodies make informed decisions

[53] Art.3, IAASB, (2014), *"A Framework for Audit Quality: Key elements that create an environment for Audit Quality".*

regarding strategic planning, risk management, and internal controls. Auditing highlights areas of improvement and any potential issues that require attention, ensuring accountability and transparency in financial reporting.

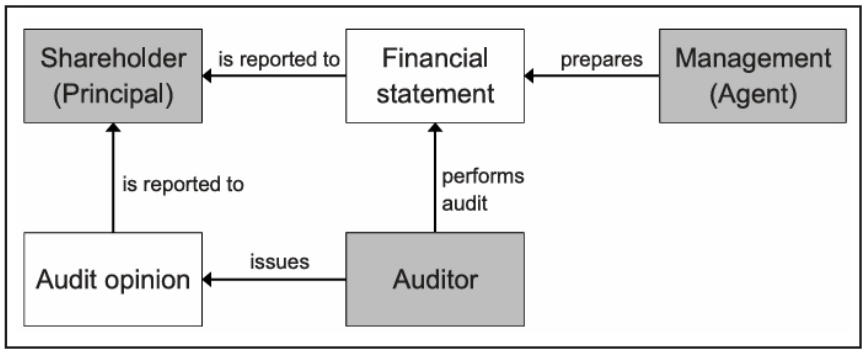
- **Creditors and lenders**: use financial information to determine the company's creditworthiness, solvability, and its overall financial stability.
- **Employees and their unions**: analyze the company's financial capacity to support wage increases and ensure long-term job security.
- **Governmental entities and regulators**: review financial statements to ensure that companies are complying with regulations and operating fairly and are not committing Tax Fraud.
- **Suppliers**: examine the company's financial health to evaluate the risk of non-payment and to decide whether to extend trade credit or continue a business relationship.

The relevance of the Audit Quality to the first two stakeholders can be understood through the lens of Agency Theory, which provides the economic rationale for audit services.

4 The Agency Theory:

Agency theory considers the optimal form of contract to control relationships in which one 'principal' – an entity or an organization – delegates work to another, the 'agent'. In economics, the main idea of agency theory is that the relationship between the principal and the agent should reflect efficient organization of information and risk-bearing costs. The theory attempts to solve problems of agency which occur when the principal and agent pursue different goals and have different risk preferences. Its main area of analysis is the contract between the parties.[54]

Figure 6: Shareholder-Management-Relationship including the Auditor.



[54] https://www.sciencedirect.com/topics/social-sciences/agency-theory (12/05/2025, 10:10 PM)

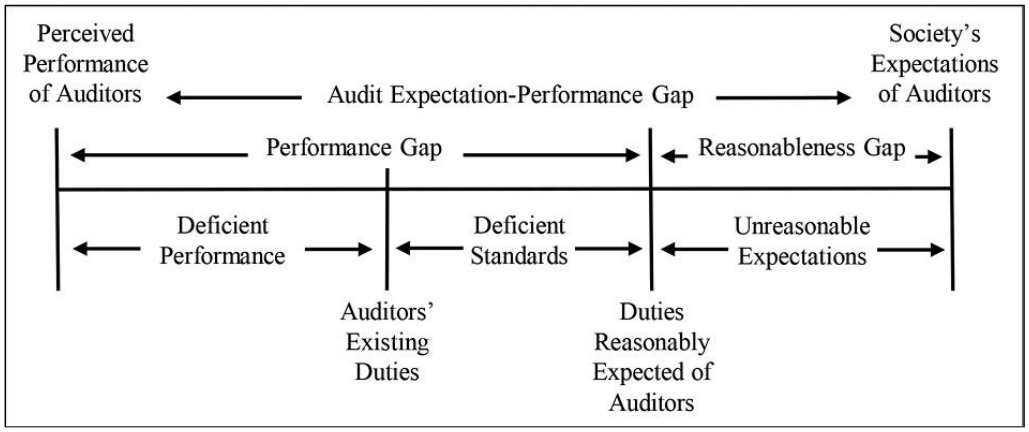
Source: Tritschler, Jonas, (2013) *'Audit Quality: Association between Published Reporting Errors and Audit Firm Characteristics'*. Page 10.

Although the agency problem cannot be entirely eliminated, principals can reduce agency costs through contracts, legal frameworks, and performance-based incentives. One of the most effective mechanisms is the appointment of independent auditors. Despite being agents themselves, auditors play a vital monitoring role by providing objective assessments of financial reporting. Their presence promotes transparency and encourages management to adhere to standards, ultimately increasing the confidence of shareholders and creditors.

This assurance, however, comes at a cost: the auditor's fee. Yet for principals, Audit Quality is a necessary investment. Only high-quality audits can provide the assurance needed to monitor agents, ensure transparency, and uphold accountability.

Nevertheless, a persistent Audit-Governance Gap exists between what governance frameworks expect from audits and what audits can realistically deliver. While audits are often expected to detect fraud and assess performance, these expectations may exceed the practical scope of audit work. In response, audit firms continue to improve quality to meet these demands and reinforce trust in the auditor-client relationship. Ultimately, Audit Quality is fundamental to the credibility and effectiveness of corporate governance.

Figure 7: Structure of the Audit Expectation Gap.



Source: Porter B (1993) *An empirical study of the audit expectation-performance gap*. Accounting and Business Research.

5 Standards and Frameworks Governing Audit Quality:

5.1 International Standards on Quality Management (ISQM):

5.1.1 International Standard on Quality Management (ISQM) 1:

Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.

The International Standard on Quality Management 1 (ISQM 1), issued by the International Auditing and Assurance Standards Board (IAASB) and effective as of December 15, 2022, introduces a ***system-based*** and risk-oriented approach to managing quality in firms that perform audits or other assurance and related services engagements.

It replaces the previous standard, ISQC 1, and requires the establishment of a tailored System of Quality Management (SoQM) for each firm.

The SoQM must be designed based on the nature and circumstances of the firm and its engagements. The approach is structured around proactive identification and management of quality risks, aiming to ensure consistent quality in engagements and adaptability to changing internal and external conditions.

ISQM 1 is structured around the following eight interrelated components:

(i) **Governance and Leadership:** the firm must assign ultimate responsibility and accountability for the SoQM to individuals at the highest level. Leadership is expected to demonstrate commitment to quality and set the appropriate tone regarding ethical behavior and quality-focused decision-making.

(ii) **Relevant Ethical Requirements:** firms must establish policies and procedures to ensure compliance with ethical standards, including the IESBA (International Ethics Standards Board for Accountants) Code of Ethics. This covers principles such as integrity, objectivity, professional competence, due care, confidentiality, and professional behavior.

(iii) **Acceptance and Continuance of Client Relationships and Specific Engagements**: the firm is required to assess whether to accept or continue engagements based on client integrity, the firm's ability to perform the engagement competently, and the likelihood of compliance with legal and professional requirements.

(iv) **Engagement Performance:** This component addresses the design and execution of engagements, emphasizing planning, supervision, direction, review, and consultation. It ensures that engagements are performed in accordance with professional standards and legal requirements.

(v) **Resources:** The firm must determine and allocate appropriate resources (human, technological, or intellectual) that support the consistent performance of quality engagements. This includes access to skilled personnel, tools, and reference materials.

(vi) **Information and Communication:** Effective information and communication systems must be in place to ensure that relevant quality information is obtained, processed, and shared internally and, where appropriate, externally. This supports timely decision-making and awareness of quality-related responsibilities.

(vii) **Risk Assessment Process:** Firms must establish a process to identify, assess, and respond to quality risks. This involves setting quality objectives, identifying risks that could prevent their achievement, and developing appropriate responses to mitigate those risks.

(viii) **Monitoring and Remediation Process:** The firm is required to monitor the design, implementation, and operation of the SoQM. Identified deficiencies must be investigated, root causes analyzed, and remedial actions taken to ensure the continued effectiveness of the quality management system.

ISQM 1 emphasizes ongoing responsiveness and continuous improvement, shifting from a procedural compliance model to a dynamic, risk-based quality management framework. By integrating these eight components into a coherent system, firms are better positioned to uphold audit quality and serve the public interest.

5.1.2 International Standard on Quality Management (ISQM) 2: Engagement Quality Reviews.

The International Standard on Quality Management 2 (ISQM 2) introduces a structured framework for Engagement Quality Reviews (EQRs), aimed at reinforcing the quality of audits through independent, objective evaluation.

An EQR is defined as an assessment by an engagement quality reviewer (EQR) of the significant judgements made by the audit team and the conclusions drawn, completed before the issuance of the

audit report. This process helps ensure that the audit team exercised professional skepticism and made sound professional judgements, thereby contributing to higher audit quality.

ISQM 2 operates in conjunction with ISQM 1 and outlines when an EQR is mandatory. It applies to audits of listed entities (company which has any of its securities listed on any recognized stock exchange), audits required by law or regulation, and those where the firm deems an EQR necessary to address quality risks. These situations typically involve high complexity or judgement, contentious issues, or new client relationships. The application of EQRs in these settings enhances audit quality by verifying whether sufficient and appropriate audit evidence has been obtained to support the auditor's opinion.

- **Appointment and Eligibility Criteria of reviewers:** central focus of ISQM 2 is ensuring that reviewers are appropriately (a) qualified and (b) independent. Reviewers must not be part of the audit team, must observe a two-year cooling-off period if previously involved, and must possess relevant experience, competence, and authority. This structure protects the objectivity of the EQR process and reinforces the ability to challenge audit judgements critically, particularly in high-risk or sensitive engagements, ensuring skepticism is upheld throughout the audit lifecycle.

- Responsibilities and Procedures: ISQM 2 delineates the reviewer's responsibilities at various audit stage. The reviewer evaluates whether the engagement team applied professional skepticism, if independence requirements were met, and whether proper consultations occurred on difficult matters. Additionally, the reviewer performs a "stand back" evaluation to confirm all review requirements were fulfilled before the audit report is finalized. These procedures collectively reinforce both the integrity of audit judgements and the appropriateness of audit evidence, bolstering overall engagement quality.

- **Documentation and Audit Culture:** the standard requires comprehensive documentation of the EQR to enable external understanding and verification of the review process. Documentation must capture the nature, timing, and extent of procedures performed, aligning with firm-level policies within the System of Quality Management (SoQM). The standard also emphasizes fostering a firm culture where reviewers' input is respected, free from undue influence, ensuring that professional skepticism is preserved at all levels.

5.2 International Standard on Auditing ISA 220 (Revised), Quality Management for an Audit of Financial Statements:

The International Standard on Auditing (ISA) 220 (Revised), titled Quality Management for an Audit of Financial Statements, was issued by the International Auditing and Assurance Standards Board (IAASB) in December 2020. It became effective for audits of financial statements for periods beginning on or after 15 December 2022.

ISA 220 (Revised) outlines the specific responsibilities of the engagement partner and the engagement team in managing and achieving quality on an audit engagement. It forms part of the IAASB's broader quality management standards, developed alongside International Standard on Quality Management (ISQM) 1 and ISQM 2, which focus on firm-wide quality management and engagement quality reviews, respectively.

This revised standard represents a fundamental shift from a "quality control" approach to a proactive and risk-based "quality management" approach, emphasizing continuous monitoring, responsiveness to identified risks, and the embedding of quality principles into the engagement process.

5.2.1 Objectives of ISA 220 (Revised):

The main objective is to ensure that the auditor achieves quality in performing the audit by:

- Designing and implementing appropriate responses to quality risks;
- Complying with relevant ethical requirements, including independence;
- Exercising professional judgment and professional skepticism throughout the engagement.

Although ISA 220 (Revised) operates at the level of individual engagements, it is closely aligned with the firm-level quality management framework established by ISQM 1. Both standards share the same eight interrelated components of a system of quality management, which are as follows: Governance and Leadership, Relevant Ethical Requirements, Acceptance and Continuance of Client Relationships and Specific Engagements, Engagement Performance, Resources, Information and Communication, Monitoring and Remediation, The Risk Assessment Process. This alignment across both ISQM 1 and ISA 220 (Revised) reflects the IAASB's comprehensive and integrated approach to audit quality. ***At the firm level***, ISQM 1 establishes the structure and environment in which quality is managed, while

at the engagement level, ISA 220 (Revised) ensures that these quality principles are effectively applied and tailored to the specific circumstances of each audit.

ISA 220 (Revised) strengthens the responsibility of the engagement partner by requiring more explicit leadership in setting the tone for quality, directing and supervising team members, and reviewing the work performed. Moreover, the engagement partner is responsible for determining that sufficient and appropriate resources have been assigned, and that the audit has been conducted in accordance with applicable standards.

This standard reflects the IAASB's response to increasing complexity in audit engagements, rising stakeholder expectations, and the evolving regulatory environment. By emphasizing a principles-based and **scalable approach**.

The table below resumes the content of the ISQM 1, ISQM 2 and ISA 220:

Table 3: The significant changes arising from the new Quality Management Standards (ISQMs).

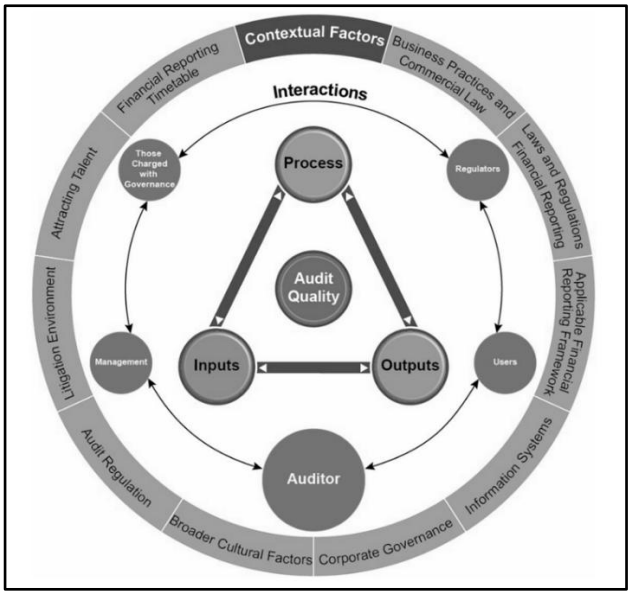
ISQM 1:					
Introducing a risk-based approach focused on achieving the quality objectives	Expanded resources	Improving Information and communication	Proactive monitoring of the system as a whole, and timely and effective remediation.	Evaluating the system of quality management on an annual basis	Addressing the use of networks.
ISQM 2:					
Extended scope of engagement subject to EQ reviews		Enhanced eligibility criteria for EQ reviewers		More robust performance and documentation requirements	
ISA 220:					
Modernizing ISA 220 for an evolving environment	Engagement team may depend on the firm's system of quality responsibilities	Clarifying engagement partner responsibilities	Managing and achieving quality at the engagement level	Professional skepticism is central to quality management Resources	Resources

Source: the Malaysian institute of accountants, accountants Today.[55]

5.3 A Framework for Audit Quality:

The International Auditing and Assurance Standards Board (IAASB) developed the Framework for Audit Quality to highlight the key elements that foster a strong environment for high-quality audits. This framework does not seek to provide a universally accepted definition of audit quality since the concept is complex and multi-dimensional as discussed in our research but rather outlines critical factors that contribute to consistent, reliable audits. Its main objective is to enhance awareness among stakeholders and to promote actions that elevate the overall quality of financial statement audits. Within these framework elements, quality attributes are further developed considering different levels (engagement level, firm level, national level) and perspectives (auditor, entity, regulators, and user), the following figure illustrates the framework components:

Figure 8: IAASB Perspectives on Audit Quality.



Source: IAASB, (2012), *"Framework for Audit Quality",* page 5.

The Framework distinguishes the following elements:

- **Inputs**: Are grouped into the following input factors:

[55] https://www.at-mia.my/2022/03/07/reminder-to-practitioners-and-audit-firms-new-quality-management-standards-isqms-isa-220-revised-isqm-1-isqm-2-will-be-effective-from-15-december-2022/ (14/05/2025, 1:11 PM)

The values, ethics and attitudes of auditors, which in turn, are influenced by the culture prevailing within the audit firm; and

The knowledge, skills, and experience of auditors and the time allocated for them to perform the audit.

- **Process**: The rigor of the audit process and quality control procedures impact audit quality.
- **Outputs**: Outputs include reports and information that are formally prepared and presented by one party to another, as well as outputs that arise from the auditing process that are generally not visible to those outside the audited organization. For example, these may include improvements to the entity's financial reporting practices and internal control over financial reporting, that may result from auditor findings. The outputs from the audit are often determined by the context, including legislative requirements. While some stakeholders can influence the nature of the outputs, others have less influence. Indeed, for some stakeholders, such as investors in listed companies, the auditor's report is the primary output.
- **Key Interactions within the Financial Reporting Supply Chain:** "both formal and informal communications", which will be "influenced by the context in which the audit is performed and allow a dynamic relationship to exist between inputs and outputs" elements of the framework.
- **Contextual Factors:** The contextual factors include "corporate government requirements and the applicable financial reporting framework" as well as "legislative and regulatory requirements", which also "shape the interactions amongst key stakeholder".

6 Determinants of Audit Quality:

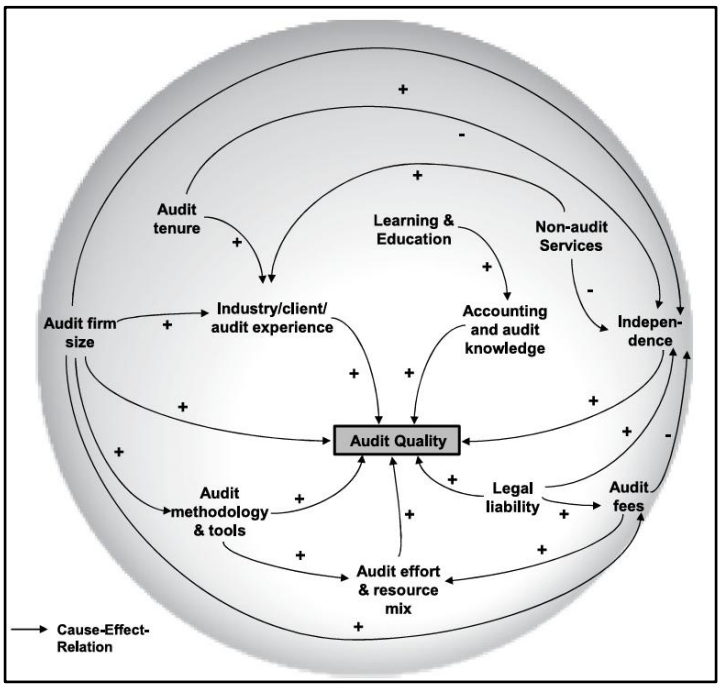
In this segment, we draw on the framework developed by Francis (2012)[56], who outlined ten core determinants of audit quality; including auditor expertise, firm culture, incentives, and the regulatory context that together form a solid foundation for understanding what drives high-quality audits.

To offer a clearer visualization of how these factors interact, Tritschler (2013)[57] introduced the Globe of Audit Quality: Cause-Effect Diagram, an improved model that maps the complex relationships between the determinants in a structured and accessible way. This model effectively brings together

[56] Francis, Jere R., Paul N. Michas, and Scott E. Seavey, (2013), *"Does audit market concentration harm the quality of audited earnings? Evidence from audit markets in 42 countries."* Contemporary Accounting Research 30, no. 1.
[57] Steckel, R. & Manry, D. & Tritschler, Jonas, (2015). *Audit Quality: Association between published reporting errors and audit firm characteristics.*

the key standards, definitions, and research findings discussed earlier. As a result, we adopt Tritschler's model as the most comprehensive and practical tool currently available for evaluating audit quality:

Figure 9: The Globe of Audit Quality: Cause-Effect-Diagram.



Source: Tritschler, Jonas, (2013), *"Audit Quality: Association between Published Reporting Errors and Audit Firm Characteristics"*. Page 26.

Conclusion:

In the chapter, we explored the significance of the statutory audit profession and the role it plays in the financial reporting process. Auditing is a safeguard that helps ensure transparency, accountability, and trust in financial information. The auditor is responsible for examining the financial statements with due diligence and obtaining reasonable assurance that they present a true and fair view of the entity's financial position.

We also discussed the audit process in detail, with particular attention to the interim phase. This stage is crucial as it allows auditors to gain a preliminary understanding of the client's operations, assess internal controls, and identify potential risks. The interim work lays the groundwork for the final audit by providing early insights that can shape the overall audit strategy and enhance the efficiency and effectiveness of the final phase.

Finally, we focused on the concept of Audit Quality, which is a central pillar of the audit profession. High-quality audits are built on the auditor's independence, professional competence, and adherence to auditing standards and regulatory frameworks. These factors are critical in ensuring that the audit opinion can be relied upon by users of financial statements and in upholding the credibility and integrity of the audit process.

Chapter II:

The Interim Phase Audit at EY

and

Its Impact on Audit Quality

Introduction:

This chapter focuses on the practical application of our research, expanding on the theoretical principles of interim auditing covered earlier.

We'll start by introducing EY Algeria, the firm where the internship took place, including its role in the market and its approach to auditing. Next, we'll break down EY's audit methodology for the interim phase, explaining how its structured process ensures accuracy and efficiency.

To illustrate this in action, we'll examine a real case from an interim audit engagement. This will show how the methodology is applied on the ground and what it means for the later stages of the audit.

Section One: Presentation of Ernst and Young (EY).

This section introduces our final-year internship at EY Algeria, a Big Four firm whose globally standardized audit methodologies provide relevant insights for this research. As a leader in professional services, EY's Algerian operations offer a valuable case study of international audit practices in a local context.

1 Presentation of the Firm Ernst & Young (EY):

Ernst & Young (EY) is a multinational professional services network headquartered in London, United Kingdom. One of the "Big Four" accounting firms, alongside Deloitte, KPMG, and PwC.

EY operates as a global network of member firms, which are legally distinct entities under the umbrella of Ernst & Young Global Limited, a UK company limited by guarantee. As of 2024, EY has over 700 offices in more than 150 countries, making it one of the largest professional services organizations worldwide.

The firm provides a wide range of services, including assurance, tax, law, consulting, and advisory solutions. EY also offers technology-related services such as cybersecurity, cloud computing, digital transformation, and artificial intelligence through managed service models. These services support clients in adapting to fast-changing market conditions and emerging challenges.

EY's current global structure was established in 1989 through the merger of Ernst & Whinney and Arthur Young & Co. In 2013, the organization underwent a global rebranding initiative and officially adopted the name "EY."

1.1 EY Purpose, Vision, and Strategic Direction:

EY's core purpose is captured in its guiding motto: "Building a better working world".

This principle shapes the firm's long-term goals of creating value for clients, employees, and society, while fostering trust in global capital markets. It emphasizes leadership development, high-quality services, and a commitment to integrity and transparency. The firm's latest vision "shaping the future

with confidence" empowers organizations to make bold decisions, embrace change, and drive sustainable growth across industries.

The firm's approach to global challenges involves asking "better questions" to arrive at innovative solutions. This commitment is reflected in its strategic initiative, "All In", introduced by EY Global Chair and CEO Janet Truncale. This initiative recognizes the diverse and multifaceted issues organizations face today, from financial and environmental concerns to technological disruption and geopolitical shifts.

1.2 History of the Firm Ernst & Young:

EY's origins can be traced back to the nineteenth century and its founders. Arthur Young and Alwin C Ernst. Arthur Young was born in the Scottish city of Glasgow. He earned a law degree but became interested in banking and investing. He moved to the United States in 1890 to pursue a career in accounting. In 1906, he and his brother Stanley established Arthur Young & Company, an accounting firm. Alwin C. Ernst was born in Cleveland, Ohio, in the United States. He worked as a bookkeeper after graduating from high school. He and his brother Theodore then founded Ernst & Ernst, a modest public accounting firm, in 1903.

Both companies were keen to penetrate the global market. They partnered with well-known British enterprises as early as 1924: Young with Broads Paterson & Co and Ernst with Whinney Smith & Whinney. These were the first of many agreements for both companies, which created offices around the world to serve their global clients.[58]

The company we know today is the result of a series of mergers between former organizations. The oldest of them (Harding & Pullein) was founded in England in 1849. That same year, the American Frederick Whinney joined the firm and became a partner in 1859. In 1894, it was renamed Whinney, Smith & Whinney with the help of his son. Alwin and Theodore Ernst founded Ernst & Ernst in Cleveland in 1903, while Arthur Young & Company was established in Chicago in 1906.

In 1965, Whinney, Smith & Whinney merged with Brown, Fleming & Murray to form Whinney Murray, an accounting and consulting firm. Whinney, Smith & Whinney had been close allies of

[58] https://highbridgeacademy.com/ernst-young-ey-profile/#1646211136986-e0e7a1a1-3330 (11/05/2025, 9:55 PM)

Ernst & Ernst since the 1940s, and in 1979, Whinney Murray, Ernst & Ernst, and Turquands Barton Mayhew merged to create Ernst & Whinney, forming the world's fourth-largest auditing firm.

In 1989, the firm merged with Arthur Young, then ranked #5, to establish Ernst & Young. This merger helped centralize accounting and auditing services, and a few years later, the "Big Ten" became the "Big Four."

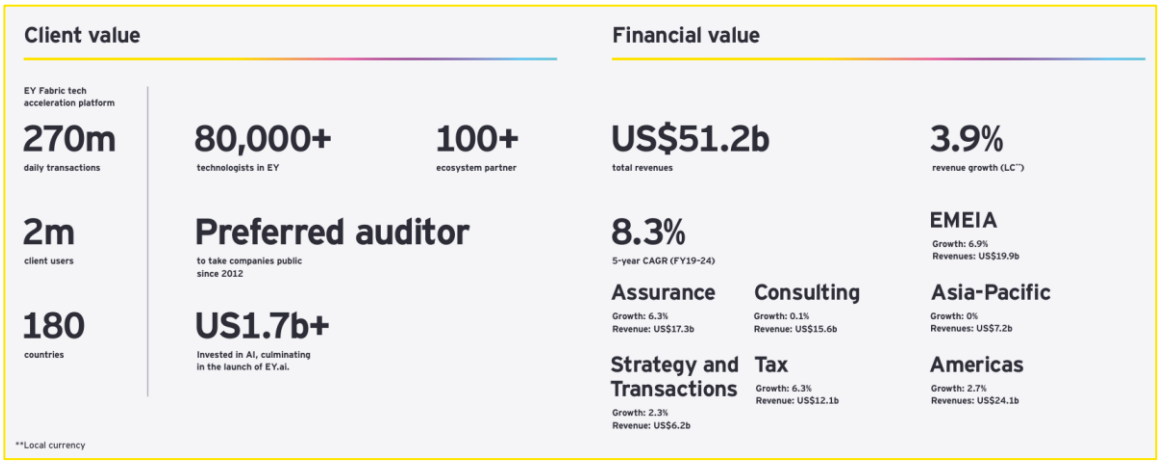
The network then expanded into consulting services in the 1980s and 1990s. However, the Securities and Exchange Commission (SEC) and members of the financial investment community grew concerned about potential conflicts of interest between audit and consulting work. Ernst & Young was the first among the Big Five audit firms (alongside Deloitte, PwC, KPMG, and Arthur Andersen) to formally separate its consulting and audit practices.

1.3 EY in Numbers:

Figure 10: EY People & Social values.

Source: EY 2024 report.

Figure 11: EY Client & Financial values.



Source: EY 2024 report.

1.4 EY Group:

EY structure is composed of the Executive and Regions. The Executive includes the global leadership, governance bodies and three geographic Areas. Working together they oversee the firm's global strategy, brand, business planning, investments and priorities.

EY 22 Regions are grouped under three geographic Areas: Americas; Europe, Middle East, India and Africa (EMEIA); and Asia-Pacific. The structure allows quick decisions making, execution of strategy and provides exceptional client service around the world.

1.5 EY Algeria:

Ernst & Young (EY) operates under a departmentalized structure, wherein each division maintains distinct operational protocols while interfacing with centralized administrative and financial units. The financial statements are certified under the name of Mr. Noureddine Bougueham, who serves as the partner responsible at EY Algeria.

Location: 6th floor, Oriental Business Park, Les Pins Maritimes, Bab Ezzouar, Algiers- Algeria.

5-1- Organizational Structure:[59]

The Algiers office is segmented into six functional divisions:

[59] Internal EY document.

A- Administrative & Financial Division:

Under the leadership of Mr. Noureddine Bougueham Partner and Statutory Auditor, this division oversees secretarial, IT, accounting, and human resources functions.

B- Advisory Division:

EY's advisory services specialize in financial and industrial consulting, facilitating client transitions from strategic planning to operational execution. The multidisciplinary team, comprising industrial engineers, marketers, IT specialists, and management experts delivers solutions for multisectoral enterprises.

C- Tax Division:

This unit ensures compliance with Algerian fiscal regulations, particularly for multinational corporations. It provides critical support during mergers, acquisitions, emphasizing risk mitigation and transactional tax efficiency. Scope of Services: Corporate tax consulting, Tax accounting and risk management, Tax compliance, Transaction tax, International taxation.

D- Assurance Division:

As the firm's cornerstone service, the audit division conducts three primary engagement types:

- Statutory Audits: Mandated certification of annual financial statements (3-year renewable terms).
- Reporting Engagements: Subsidiary financial assessments aligned with parent-company directives.
- Due Diligence: Pre-acquisition financial evaluations for potential investors.

E- Accounting & Payroll Division (ACP):

Responsible for maintaining SCF-compliant accounting records and administering payroll for its clients.

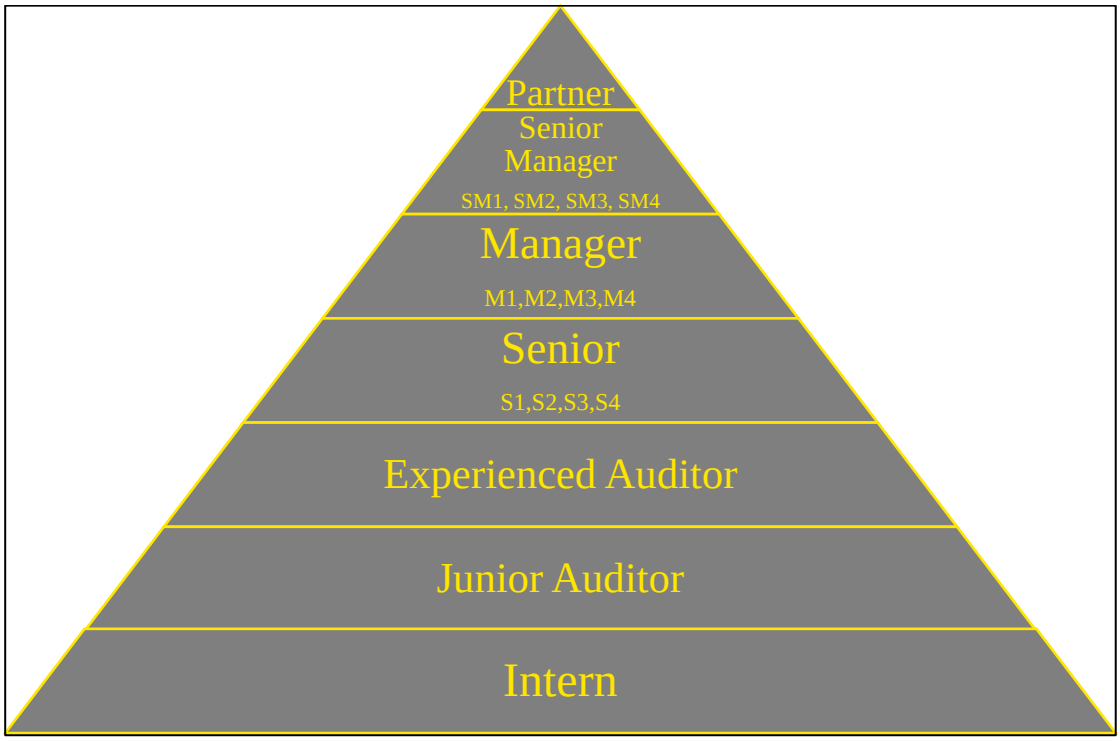
2 Hierarchical Progression at EY:

The Audit Service conducts statutory and contractual audit assignments, requiring experience and specialized roles. The firm organizes its services into several levels, each with specific responsibilities:

- **Partner:** The senior associate who finalizes EY Algeria's engagements with clients. They appoint the Manager and Senior in charge of the assignment, attend the opening and closing meetings, define the audit strategy, and rely on the auditor's work.
- **Senior Manager:** Oversees multiple engagements and high-risk audits. They:
  - Ensure compliance with EY's global audit standards (GAM).
  - Advise managers on complex accounting issues.
  - Act as the primary liaison between Partners and Managers.
- **Manager:** The person who reviews and approves the work performed by all team members, particularly the Senior overseeing the engagement. Leads the audit team's execution. They:
  - Review and validate work performed by Seniors and Auditors.
  - Coordinate deadlines and client communications.
  - Report directly to the Senior Manager/Partner.
- **Experienced Auditor (AE):** Acts as the Senior's right hand, handling complex and sensitive tasks, handles advanced and more complex Audit work such as inventory and payroll.
- **Junior Auditor (AD):** Supports the Experienced Auditor, assisting with their duties and performing assigned entry-level audit tasks.
- **Audit Intern:** The company has a specific recruitment policy; all auditors must complete a minimum 3-month internship to familiarize themselves with the profession and EY's methodology.

EY hires interns year-round and involves them in ongoing assignments during their internship.

Figure 12: EY Algeria Organizational Structure Pyramid.



Source: Prepared by the author using internal EY documents.

Section Two: Case study of Interim Phase Audit at EY

In this section, we will go over the interim audit carried out for our case study at EY Algeria. We'll highlight the main procedures performed during this stage, its purpose, and the key findings that helped prepare for the final audit.

Our research seeks to **underscore the significance of the interim phase in the audit process,** particularly in the context of risk assessment. In the case study presented in the following section, we aim to illustrate how auditors identify and evaluate the risk of material misstatements during this phase. Our main attention is given to the assessment of Control Risk (CR), which involves a thorough evaluation of the client's internal control system through various audit procedures.

→ Choice of the Case Study:

The upcoming case study focuses on the methodology employed by Ernst & Young (EY) in assessing control risk for one of its industrial clients. The selection of this specific case aligns with our primary

objective: to demonstrate the importance of conducting a preliminary examination of a client's internal control environment before the year-end audit. By systematically evaluating risks at the interim stage, auditors can better design their audit strategy and enhance the overall effectiveness of the final audit.

The chosen client (Company Y) operates in the industrial sector and maintains interdependent functions that rely heavily on well-established internal controls. The company also deals with foreign suppliers and manages a large number of operational variables, making it a suitable subject to highlight the challenges and criticality of risk assessment in such contexts.

Through this case study, we will examine the specific procedures adopted by EY to evaluate internal controls, particularly the **Tests of Controls "TOC"** conducted during the interim phase for company Y. This practical exploration will help clarify how early assessments contribute to audit efficiency and reduce the likelihood of oversight, thereby reinforcing the core argument of our thesis.

→ **Case Study Methodology:**

Building on the rationale behind our case study selection, we now turn to the methodological approach used to explore and analyze it. We begin by introducing the client selected for the study, providing a general overview of its operations to contextualize the audit procedures that follow.

We will then examine the specific procedures carried out by the auditors during the interim phase, focusing on the assessment of control risk using: **Interviews** and **Test of Controls (TOC)**.

we have chosen to concentrate on key audit areas that are particularly relevant to internal control and material misstatement risk: **cash** and **inventory cycles**. we will give an overview of control risk evaluation.

→ **Timeline:** The Interim Audit Mission for Company Y was conducted in early November, and its testing covered the financial records of the audited year 2024 up to the end of September 2024.

→ **Note:** The working papers and audit documents related to the case study will not be included in our presentation to protect the client's confidentiality. Also, the figures have been modified using a coefficient to keep the client's information private.

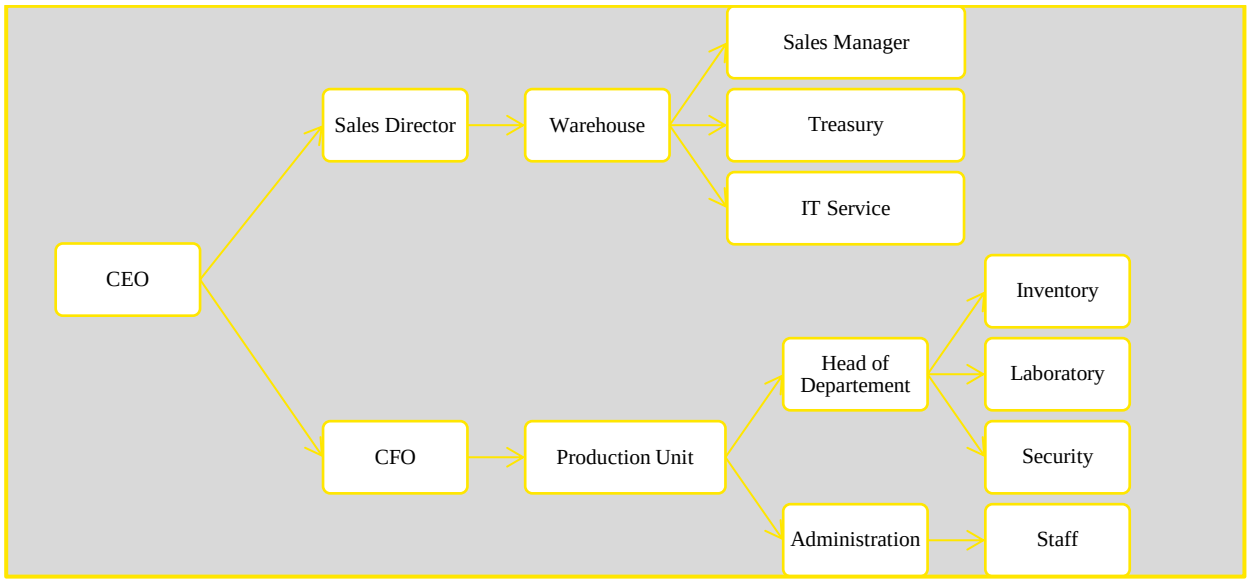
1 Presentation of Company Y:

Company Y is an Algerian company that manufactures and distributes hygiene products. It operates in the Algerian market, with its headquarters in Algiers and as well as a production facility. It is one of the main companies in its field locally and offers a range of quality products at affordable prices.

Legal statuts : SPA (Société par action).

Organizational chart:

Figure 13: Organizational Chart of company Y.



Source: Internal document of Company Y.

2 The Evaluation of Internal Controls at Company Y:

2.1 Cash:

The objective is to review the entire cash cycle in order to identify the main risks related to compliance with the established internal control procedures, and to assess their relevance in validating the existence and accuracy of available funds.

2.1.1 Cash Memo:

As part of our audit procedure, we conducted an interview with the following employees: **the Finance Manager**, **the Chief Accountant, and the Cashier**. The objective of this meeting was to gather detailed information about the company's cash cycle and related processes. We sought to:

- Understand the nature of cash inflows and outflows, as well as the methods of payment and collection used, in order to obtain a complete description of the cash cycle.
- Optimize our risk assessment and better plan any necessary substantive audit procedures.
- Identify the existing internal controls at each stage of the cash process and evaluate the associated risks.
- Gain insight into the bank reconciliation procedures, whether they are performed manually or automatically, and understand how receivables and collections are reconciled.
- Document the walkthrough test of transactions within the cycle.
- Understand the IT environment supporting treasury operations.

This information is essential for assessing the reliability of the internal controls and determining the accuracy and existence of the company's available funds. We were able to gather the following elements for Cash Memo:

- **The individuals or/and departments involved in the Cash Cycle are:**

- General Management: Chairman of the Board of Directors (English for President du conseil administration PCA).
- Accounting Department: Chief Accountant, Senior Accountant 1, Senior Accountant 2.
- Finance Department: Finance Officer and Finance Manager.
- Cash Desk: Finance Officer and Cashier.

1- Initiation:

- **Bank Accounts: Available Accounts:**

As of 30/09/2024, the company Y holds 5 bank accounts registered un the name of the company as discussed with the finance department, listed below (Account Numbers included in the memo):

- One account at Société Générale Algérie (SGA).
- One account at Gulf Bank Algérie (AGB).
- One account at BNP Exploitation.
- One account at the Algerian Bank for Rural Development (BADR).

- One account at Trust Bank Algeria.

- **The Use of each account:** All the accounts are used for Payments to local and foreign suppliers, transfers, client receipts, letters of credit, the Trust bank Account however was opened for a leasing project but the project did not see the light so Company Y was going through the closing process. (we were provided with the closing proof at the final Audit).
- **Bank Accounts: Closed Accounts:** In 2024, Company Y initiated the closure of its account with Société Générale Algérie as well as Trust Bank account.
- **Bank Accounts: Opened Bank Accounts:** No new bank accounts were opened in 2024. The opening a bank account must be approved by the Chairman of the Board of Directors.
- **Banking Authority:** All banking payment operations require approval from CBD, evidenced by his signature on financial documents.
- **Leasing:** Company Y entered into leasing contracts. In 2024, the company signed a leasing agreement for vehicles (Attached to memo ***leasing contract***), the decision was made in a general management meeting (attached the ***financing schedule*** with ***purchase option***).
- **Cash Register:** Company Y has one operational cash register: Operating Cash Register.

2- Recording:

- The cashier records all cash transactions in Excel for traceability.
- Accounting entries are processed in SAP by the relevant department.

3- Processing:

- **Bank Reconciliations:** At each month's end, the accounting team reconciles the general ledger balances with bank statement balances.

  Bank reconciliations (ERB Etat de Rapprochement Bancaire) accounts are first prepared and signed by the Accountant, then validated by Chief Accountant. (attached to the memo a ***bank reconciliation***).

WCGW: Fraudulent Bank Reconciliation.

Control: Bank reconciliation statements are prepared monthly for the accounts. They are processed by the accounting officer and validated by the chief accountant. (segregation of duties)

- **Cash Register: Disbursements: Various purchases:** The requesting department submits a purchase request, validated by purchase department, budget controller/financial manager, and Chairman of the Board.

Advance payments are signed by the cashier and acknowledged by the beneficiary. If discrepancies exist between justification and advance, the difference must be settled.

Upon receiving invoices or proof of expenses, the documents are forwarded to accounting (purchase order, service rendered/invoice, cash payment).

- **Cash Register: Disbursements: Staff loans:** Company Y provides loans through two sources: the participation committee and a reserve allocated by top management.

  Employees request a loan by submitting documents to HR, which prepares a checklist and agreement for management approval; once approved and signed, the loan is paid by check or bank transfer. Accounting records the loan, which results in salary deductions until full repayment.
- **Cash Register: Disbursements: Salary advances:** When needed, staff fill out and sign a salary advance request, which must be approved by the HR department and then by the PCA. (attached to the memo an example of the Salary Advance)

  A cash expense voucher is then issued, which includes validations from the accounting and financial departments, as well as the Chairman. (attached to the memo a Cash Expense Voucher)
- **Cash Register: Disbursements: Mission expenses:** For work missions, the concerned employees must provide supporting documents for accommodation and food expenses (e.g., vouchers, invoices), the mission order approved by general management, and the validated purchase request. (attached to the memo Mission Expense File)
- **Cash Register: Cash Replenishment:** Replenishment is done as needed.

  The cashier verbally informs the finance department, which prepares the payment order and check for validation/signature by the PCA. The replenishment is made by check, signed by the PCA and made out to the cashier's name.

  The replenishment ceiling for the cash fund ranges between 1.6 million may go up to 2.2 million dinars depending on needs. However, the minimum threshold for replenishing the fund is set at 100,000 DZD.

WCGW: Fraudulent or unjustified cash funding.

Control: Preparation of a payment order approved by the PCA.

- **Cash Register Status:** Cash monitoring is done during each disbursement. A cash log and count are conducted monthly by the cashier, who signs the record. (Attached to the memo Cash Log)
- **Cash Inventory:** The inventory of cash (central and operational) is conducted by the cashier, who prepares a monthly cash report in the presence of the Accounting Manager. This report is validated by both the Accounting Manager and the PCA (attached to the memo is a Cash Report).
- **Customer Receipts (account receivable): Checks:** Checks are received by the cashier, who identifies the receipts (matching the invoices paid by the received checks). The original check is forwarded to the finance department to be cashed out, which then sends a copy of the check to the accounting department, along with a copy of the check deposit slip. Attached to the memo a Check deposit slip, which records the amount in sub-account 511 and transfers it to 512 once the amount is confirmed on the bank statements.

  The processing time for check receipts is approximately 4 days for tracking.

  If a copy of the check is missing, the company will refer to the transaction notice (Avis d'operation). This alternative procedure has never been applied.
- **Customer Receipts (account receivable): Bank Transfers:** Customer receipts are generally made through bank transfers, but this depends on the payment terms specific to each client.

  During the year 2024, the company reduced customer receipts by check, trying to optimize transfers.

  In the case of payment via bank transfer, the payment amount must be confirmed on the bank statement, and the supporting document added is the client's transfer order. (Attached to the memo a Transfer Order)

  Note: The accounting department has online access to consult accounts at two banks: AGB and BNP.
- **Supplier Payments: Local Suppliers:** A payment request (payment order by check) is prepared and signed by the finance manager and the PCA (attached to the memo a Payment Request). Once the supplier collects the check, the finance department sends a copy of it with the supplier's acknowledgment receipt to accounting to record the transaction in the system.

Note: To make a payment, all supporting documents must be formalized and validated (a purchase order approved by the PCA, an invoice, and the delivery note (BL) or service acceptance (service fait).

- If the invoice concerns materials, payment is made 30 days from the invoice date.
- For any other invoice, payment is made 45 days from the invoice date.
- If payment is made by transfer, a supplier payment order is issued and signed by the PCA.

WCGW: Risk of fraudulent disbursements.

Control: Payment order approved by the Chairman of the Board (PCA).

- **Foreign Suppliers: Supplier Payments: Payment by Letter of Credit:**

  For payments made through a documentary credit, once a letter of credit is opened and validated by the Chairman of the Board (PCA), as referenced in Letter of Credit Opening File attached to the memo, the funds are automatically released by the bank on the due date. This transaction is only recorded on the bank statement. The payment is executed automatically, and the debit advice (Avis de debit) is then collected by the Finance Department. It is forwarded to the Accounting Department for proper recording in the accounts.

- **Foreign Suppliers: Supplier Payments: Documentary Collection (Remise Documentaire):**

  A documentary collection file is prepared, consisting of the Domiciliation Certificate, Pro Forma Invoice, and Commercial Invoice. A Bill of Exchange is received by the supplier and signed by the Chairman of the Board (PCA) at the time of domiciliation. (attached to the memo example of the file). On the due date, a Payment Order is issued, signed by the PCA, and submitted to the bank. Upon disbursement, two debit advices are received (1) one for the fund provision and (2) another for the actual settlement to be processed by the Accounting Department for bookkeeping.

  Note: This practice of issuing dual debit advices applies only to BADR Bank.

- **Foreign Suppliers: Supplier Payments: Free Transfer:** The shipping documentation is sent directly to the company Y, which in turn forwards it to the bank for domiciliation.

  On the due date, a Payment Order is issued, signed by the PCA, and submitted to the bank along with an International Wire Transfer Order.

Subsequently, debit advices for the provision and the execution are received during disbursement to allow accounting.

4- Reporting:

- **Customer receipts: Check Payments:** Upon receipt of a check, the cashier verifies the amount against the related invoices and informs the Accounting Department. **The accounting entry** is made once the check is received and confirmed by Accounting.
- **Customer receipts: Bank Transfers**: The payment must first appear on the bank statement before it can be recorded. The client's transfer order serves as the supporting document for **the accounting entry**.
- **Supplier Payments: Local Payments:** Before recording any payment, all supporting documentation must be complete and approved. This includes:

- Purchase order approved by the Chairman of the Board (PCA).
- Supplier invoice.
- Delivery notes or service acceptance report.
- Payment request signed by both the Finance Manager and PCA.
- Copy of the check and supplier's signed acknowledgment of receipt.

  The accounting entry is made upon confirmation of the check deposit.

- **Supplier Payments: International Payments:** For payments made abroad, **the accounting entry** is made upon receipt of the bank's debit advice.
- **Cash Flow Monitoring:** Annual cash flow tracking is carried out by the Finance Manager using an Excel-based monitoring matrix.

WCGW: Error in the recorded amount.

Control: Bank reconciliations and cash reports help detect any discrepancies.

2.1.2 Cash Test Of Controls TOC:

After identifying the internal control procedures related to the cash cycle at Company Y, we will move on to test two key controls: bank reconciliation and treasury reconciliation. These controls were selected based on the frequency with which they are performed, as outlined below:

Table 4: The minimum sample sizes for tests of controls.

Frequency of Performance	Minimum Number of Items to Test
Control performed daily or many times per day	25
Control performed weekly	5
Control performed Monthly	2
Control performed quarterly	2
Control performed semi-annually	2
Control performed Annually	1

Source: Internal EY document.

According the Firm's methodology the test of controls that are to be tested are performed on a monthly basis, this brings us to 2 minimum tests of each control.

The way we determine the months selected for the test is by doing a Random sampling; whereas of the 9 months (January 2024 to September 2024) covered in the interim testing, a tool is used to randomly select two months out of nine.

General Procedure: Before beginning the testing process, the auditor will first reconcile the Trial Balance and the General Ledger provided by the client as part of the Provided By Client (PBC) documentation. This step is taken to ensure the accuracy and consistency of both documents for the first nine months, as the audit is covering the interim period.

2.1.2.1 Bank Reconciliation:

Using EY random Sampling, we were able to select randomly the months of June and September.

From the PBC Trial Balance of each month we were able to read the bank account balances recorded in accounting.

The test of controls tested for the Bank Reconciliation are:

(i) The existence of the document (ERB).

(ii) Its accuracy with the bank statement.

(iii) The respect of the company's procedure of the bank reconciliation being prepared and signed by the accountant.

(iv) The bank reconciliation signed by the Chief accountant.

→ **The finding for the month of June were:**

Table 5: TOC Bank Reconciliations June.

Account	512010	512070	512090	512110	512120
Bank	BADR	GULF BANK	BNP PARIBAS	SGA	TRUST BANK
Trial balance at 31/06/2024	398 133 565,55	166 618 725,70	300 510 744,34	1 720 369,05	663 058,98
Bank statement Balance	398 346 819,18	170 702 735,49	302 289 851,48	0	662 10,.22
Difference	213 253,63	4 084 009,79	1 779 107,14	1 720 369,05	956,76
Unreconciled items	213 253,63	4 084 009,79	1 779 107,15		0
Difference	0	0	0,01	1 720 369,05	956,76
x-ref	C.1	C.2	C.3	C.4	C.5
Signature of the Accountant	✓	✓	✓		✓
Signature of the Chief Accountants	✓	✓	✓		✓
Remark	-	-	-	(1)	Difference between the Bank Statement and Accounting
Conclusion	TOC effective	TOC effective	TOC effective	TOC effective	TOC NOT effective

Source: EY internal Document.

→ **The finding for the month of September were:**

Table 6: TOC Bank Reconciliations September.

Account	512010	512070	512090	512110	512120
Bank	BADR	GULF BANK	BNP PARIBAS	SGA	TRUST BANK
Trial balance at 31/09/2024	246 990 940,40	108 233 360,16	216 210 202,85	1 720 369,05	663 058,98
Bank statement Balance	247 204 194.03	119 416 267.97	219 105 755,73	0	656 840,04
Difference	213 253,63	11 182 907,81	2 895 552,88	1 720 369,05	6 218,94
Unreconciled items	213 253,63	11 182 907,81	2 895 552,88		0
Difference	0	0	0	1 720 369,05	6 218,94
x-ref	C.1.1	C.2.1	C.3.1	C.4.1	C.5.1

Signature of the Accountant	✓	✓	✓		✓
Signature of the Chief Accountants	✓	✓	✓		✓
Remark	-	-	-	(1)	Difference between the Bank Statement and Accounting
Conclusion	TOC effective	TOC effective	TOC effective	TOC effective	TOC NOT effective

Source: EY internal document.

(1) bank account that has had no activity since 2023. currently in the process of being closed. To obtain the closure certificate during the final audit and assess whether the test of controls (TOC) is effective or not. ⇒ No impact, as the cash TOC is considered ineffective.

→ **Comment:** Two of the Bank reconciliations of Trust Bank for the month of June and September did not match bank Statements which made the test for Bank reconciliation **Not Effective**.

2.1.2.2 Treasury Reconciliation:

Using EY random Sampling, we were able to Randomly select the months of: June and September.

From the PBC Trial Balance of each month we were able to read the treasury account balance recorded in accounting.

The test of controls tested for treasury reconciliation are:

- The existence of the cash reconciliation statement.
- Its accuracy with the accounting record.
- The respect of the company's procedure of cash reconciliation being prepared and signed by the cashier.
- The reconciliation signed by the Chief accountant.
- The reconciliation signed by the PCA.

→ **The findings for the month of May:**

Table 7: TOC Treasury Reconciliation May.

Account	530020
Register	Operating cash
Trial Balance May	13 095 430,42
Cash reconciliation statement	13 095 431,40
Difference	-0,98
Prepared and signed by the Cashier	✓
Chief accountant Signature	✓
PCA Signature	✓
Remark	-
Conclusion	TOC effective

Source: EY internal Document.

→ **The findings for the month of September:**

Table 8: Treasury Reconciliation September.

Account	530020
Register	Operating cash
Trial Balance May	7 302 358,51
Cash reconciliation statement	7 302 360,15
Difference	-1,64
Prepared and signed by the Cashier	✓
Chief accountant Signature	✓
PCA Signature	✓
Remark	-
Conclusion	TOC effective

Source: EY internal Document.

2.1.3 Results of Cash TOC:

The findings of the Test of Control for company Y cash Cycle can be resumed in the following table:

Table 9: TOC Cash Findings.

Key control	Frequency	Sample	Sample size	Pass	Fail	N/A	Conclusion
Bank reconciliation	Monthly	2 Months per bank account (5 banks)	10	6	2	2	TOC Not effective
Treasury reconciliation	Monthly	2 Months per cash register (1 register)	2	2	0	0	TOC effective

Source: EY internal document.

N/A= Not applicable.

→ **Comment**: The overall Cash Test of control is **Not Effective**.

2.2 Inventory:

2.2.1 Inventory Memo:

As part of our audit procedure, we conducted an interview with the Planning Manager. The objective of this meeting was to gather detailed information about the company's inventory cycle and related processes. Specifically, we sought to:

- Describe the process of inventory inflows and outflows.
- Understand the process of physical inventory counts.
- Identify existing internal controls, as well as the risks associated with the stages of the inventory process.
- Document the walkthrough test.
- Understand the IT environment.
- Conclude on the level of control in place.

➢ **Types of inventories:** There are four types of inventories:

- Finished goods. (PF / produits finis)
- Raw Materials. (MP / Matière première)
- Packaging.

- Replacement Parts.

- **Storage Areas: Internal Storage area:** The internal storage area consists of three main buildings. **Building A** and **Building B** are both designated for storing three types of items: finished products, raw materials, and packaging materials. **Building C** is dedicated to the storage of raw materials and also functions as a buffer zone for finished products and spare parts.
- **Storage Areas: External Storage Area**: Outdoor storage area for raw materials and finished products.

I- Inventory entry process:

1- Initiation:

- **Raw Materials:** Upon arrival of goods at the raw materials warehouse, the warehouse manager checks the delivery against the purchase order using the **packing list**. A Goods Receipt Note (Bon de reception) is then issued and must be validated by both the quality controller on duty and the warehouse manager.

  A **Seal Monitoring Log** is maintained by the warehouse manager to track the quantities of raw materials received.

  In the event of any non-conformities, a Quality Incident Report must be issued. (attached to the memo an example of the documents highlighted in bold)
- **Finished Products:** The finished goods inventory manager receives products ***daily*** from the production line. At the end of each shift (8 hours), they verify and count the finished goods. Before each transfer from production to the warehouse, a **Production Report** is prepared by the production line supervisor and approved by both the supervisor and the inventory manager. A **Transfer Note** (BT /Bon de transfert) is then issued and signed by both parties.
- **Replacement Parts:** When a need is identified and the procurement process follows the steps outlined in the purchasing procedure memo, spare or replacement parts are first received in a designated buffer zone for pending items before they are officially entered into the system.

  The inventory manager compares the **Delivery Note**, **the Purchase Request**, and the actual **quantities received**, and records them in the **Reception Log** for traceability. Once validated, the delivery is entered into SAP by the spare parts manager.

2- Recording:

- **Raw Materials: The Purchase Order** is issued in SAP by the purchasing department and is marked as received once validated by the raw materials manager. Final entry is confirmed after accounting validation based on the **import file**.

  A Raw Materials Entry Report, generated from SAP and validated by the inventory manager, is then submitted to the finance department.
- **Finished Products: Based** on the **Transfer Note**, the inventory manager records finished goods entries in SAP. Valuation is predefined in the system but can be adjusted. At the end of each month, the chief accountant reverses the entries and posts them again using the final production cost.

  A **Finished Goods Entry Report** is generated from SAP.
- **Replacement Parts:** After validation of the delivery note, the spare parts manager confirms receipt in SAP.

3- Processing:

- **Raw Materials:** The inventory manager physically receives and stores raw materials in the main plant warehouse. When volumes are high, excess inventory is transferred to the external storage area.

  A ***Monthly*** **Production Plan** is developed based on available stock quantities. A ***Daily*** **Consumption Sheet per line** is completed, signed daily by the inventory manager, and validated the next day by the logistics coordinator and the production manager. Line supervisors sign off on it once production is complete.

  Management controllers also perform back-calculations based on product formulations to estimate expected raw material consumption. In case of discrepancies between theoretical and actual consumption, a **site investigation** is carried out. This process is monitored and recorded on a dedicated dashboard.

  Raw materials are **valued** at purchase cost, which includes the purchase price and all additional charges (freight, customs, transit fees, etc.).
- **Finished Products:** Based on the Sales Plan provided by the sales administration and analysis team via email, finished products are transferred from the production line to the sales-designated stock area. At this point, stock levels become visible to both the sales and inventory managers, though physical inventory remains under the inventory manager's control.

Finished products are **valued** at the Internal Production Cost (PRI/ Prix de revient interne), which includes the cost of consumed raw materials, variable costs, and a share of fixed costs.

- **Replacement Parts:** Once entered into SAP, spare parts are organized and stored by reference in a dedicated area at the plant. They are then made available exclusively for maintenance technicians for repairs or preventive maintenance.

4- Reporting:

- **Raw Materials:** Stock withdrawals are recorded every morning. The raw materials manager enters the quantities consumed from the previous day (based on production orders) into an **Excel file**, then proceeds to record the raw material withdrawals in SAP.
- **Finished Products:** When the sales team issues an invoice in the system (during a sale to a customer), the corresponding stock-out and sales accounting entries are automatically generated in SAP.
- **Replacement Parts:** At the end of each shift, the spare parts inventory manager records the withdrawal of spare parts in SAP. The withdrawn part is used to replace an old part, referred to as a used part.

II- Inventory Outflow Process:

1- Initiation:

- **Raw Materials:** Inventory outflows are processed ***each morning***. The raw materials (MP) manager enters the quantities consumed (based on the Manufacturing Orders) from the previous day (D-1) into an Excel file named **Inventory**, then records the raw materials' outflows into SAP.
- **Finished Products:** The Inventory Manager sends a **daily inventory report** by email to the Sales Manager. Based on the sales forecasts shared by supervisors, the Sales Manager allocates inventory among distributors.

  Once the sales plan is approved by the CEO (during a meeting), the Sales Manager emails the daily schedule to the logistics department for delivery preparation.
- **Replacement Parts:** replacement parts outflows are initiated through a **manual request** by the engineer, who also validates it.

2- Recording:

- **Raw Materials: The** shift supervisor creates the **Manufacturing Order (MO English for OF/ Ordre de Fabrication)** in the SAP system. Once created, the supervisor can print the consumption sheet by manufacturing order (OF).
- **Finished Products:** An **inventory report** is sent to the Sales Administration, which prepares a delivery schedule. This is forwarded to the dock supervisor, who loads the quantities based on the invoices and **delivery notes** prepared in advance by the sales department. The delivery note is validated by the Customer Service and also approved by the dock supervisor, then sent to the client for validation.

  Finished product outflows are automatically generated once the invoice is created by the sales department.
- **Replacement Parts:** For each outflow, the replacement parts manager enters the transaction in the system. At the end of the day, a global outflow note is validated by both the manager and the shift supervisor.

3- Processing:

- **Raw Materials:** Raw material outflows from the warehouse to the production unit occur ***daily*** or ***on demand***. These are documented with **transfer slips (Notes).**

  For every raw material outflow from inventory, a withdrawal or transfer slip to the buffer inventory (production workshops) is issued by the MP manager.

  Each morning, the MP manager enters the previous day's consumption (from OFs) into an Excel file and records the outflows in SAP. The stock coverage (initial inventory + receipts - consumption) is calculated to provide the Logistics Manager with visibility. This document is shared with the purchasing planning team, the CEO, and the Management Control Department. The calculation is also done in SAP to keep inventory status updated.
- **Finished Products:** An inventory report is sent to the Sales Administration, which creates a delivery plan and forwards it to the dock supervisor, who loads the products according to pre-validated invoices and DNs.

  The sales department prepares **invoices** for each distributor, which are validated by the invoicing unit and the Cash Office. **Delivery notes** (Bon de livraison) are validated by both the Cash Office and warehouse clerk. Both the invoice and DN are sent with the driver, who returns the signed delivery note with the distributor’s acknowledgment to the sales department.

Note: Finished product outflows are automatically generated once the invoice is issued by the sales team.

The detailed process of finished product outflows is documented in our sales memo procedures.

- **Replacement Parts:** Once a manual request is approved, the Replacement Parts Manager (PDRI) enters the outflow in SAP. Each shift, a global outflow slip is validated by the PDRI and the shift mechanic.

  At the end of each month or when the storage location is full, a report on used parts is prepared and signed by the manager, Method Department, HSE, and General Management, for either waste disposal or resale of remaining parts.

4- **Reporting**:

- **Raw Materials:** Inventory outflows are processed each morning. The MP manager records the previous day's consumption (based on OFs) into the Excel file, and the outflows are entered into SAP.
- **Finished Products:** When the sales team creates an invoice in the system (at the time of client sale), the inventory outflow and sales accounting entries are automatically generated in SAP.

  In case of returns due to quality issues, the returned items follow the same process as damaged goods identified during inventories (see: recording of damaged goods).
- **Replacement Parts:** At the end of each shift, the replacement Parts Inventory Manager records spare parts outflows in SAP.
- **Work-in-Progress Products:** Work-in-progress (WIP) inventory is recorded monthly. The Management Controller sends an Excel file with WIP details to the Chief Accountant. Finished goods inventory is accounted for through a transfer entry from WIP to finished goods by the Accounting Department.

III. Inventory Process

1- **Initiation:** The annual inventory count is conducted at year-end. Inventory dates are determined by management.

2- **Recording:** Not applicable.

3- **Processing:**

- **Physical Inventory:** ***Daily*** inventories for finished products are carried out per shift (every 8 hours). These are tracked in an Excel file, which includes both inventory results and the sales schedule.

  At the end of each month, the Management Controller oversees a full inventory to analyze stock levels. This mainly involves comparing SAP-reported quantities of RM, packaging, and finished goods with actual physical counts. If discrepancies arise, the Inventory Manager emails the IT department to input corrections into SAP.

  Note: Monthly inventory is not done for all materials. The 5 most consumed items are counted monthly, the next 20 every 3 months, and the rest every 5 months. Finished products are inventoried monthly.

  Monthly inventory spreadsheets are validated by:

  → Logistics Flow Coordinator for RM & FG

  → Finance Manager

  → Inventory Manager

  → General Management

- **Annual Inventory:** Annual inventories are formalized by the assigned **inventory committee**. External teams are accompanied by a logistics representative. Inventory results are approved by the committee.
- **Identification and Handling of Damaged Goods:**

  During physical inventories, damaged products are identified.

  The Quality Department inspects the affected products. Upon confirmation, a "**Non-Conformity Report**" is issued and approved by the Laboratory Manager and HSE Manager. Damaged goods are isolated with clear labeling indicating they are not for sale.

  Note: No damaged goods were reported in 2024. Therefore, a non-conformity report from November 2023 was reused.
- **Entry of Physical Inventory Results:** The IT department enters inventory results into SAP.

4- Reporting:

- **Accounting:** Once inventory entries are validated in SAP by the warehouse manager, related accounting entries for inventory discrepancies are generated.

  For damaged goods, a report is sent to the Management Controller for validation and then forwarded to the Chief Accountant to record depreciation.

In case of disposal, a destruction report is submitted to the Chief Accountant to cancel the depreciation and record the loss.

Note: No destructions occurred in 2024.

2.2.2 Inventory Test of control TOC:

After identifying the internal control procedures related to the inventory cycle at Company Y, we will move on to test two key controls:

→ **Test Manufacturing Order (MO)**: The transfer of raw materials from the warehouse to the production unit is documented by a daily work order (MO), for each production line.

→ **Test Transfer Note (TN):** The transfer of finished products from the production unit to the warehouse is documented by a daily transfer Note (TN), and this is done for each line.

2.2.2.1 TOC Manufacturing Order:

Based on the PBC file, which contains all the production lines that were active during the period from 01/01/2024 to 30/09/2024, we selected 25 items (random sampling) to test out of 672 per EY methodology. The test of controls tested for Manufacturing Order are:

- The existence of the document (MO).
- The respect of the company's procedure of the MO being signed by inventory manager per Shift (3 shifts per day).

→ **Our Audit finding were the following:**

Table 10: TOC Manufacturing Order.

Day tested	Line	Validation by shift Manager			Remark	Conclusion
		Shift 1	Shift 2	Shift 3		
04-02-24	Z/M019	✓	✓	✓	-	TOC Effective
10-02-24	Z/M019	✓	N/A	N/A	*	TOC Effective
18-02-24	Z/2144	✓	N/A	N/A	*	TOC Effective
29-02-24	Z/2248	✓	✓	✓	-	TOC Effective
06-03-24	Z/3207	✓	N/A	N/A	*	TOC Effective

09-03-24	Z/2218	✓	✓	✓	-	TOC Effective
18-03-24	Z/2248	✓	✓	✓	-	TOC Effective
18-03-24	Z/M019	✓	✓	✓	-	TOC Effective
05-04-24	Z/M019	✓	✓	✓	-	TOC Effective
15-04-24	Z/M019	✓	✓	✓	-	TOC Effective
16-04-24	Z/M019	✓	✓	✓	-	TOC Effective
05-05-24	Z/2218	✓	✓	✓	-	TOC Effective
06-05-24	Z/2218	✓	✓	✓	-	TOC Effective
15-05-24	Z/2218	✓	✓	✓	-	TOC Effective
16-05-24	Z/2248	✓	N/A	N/A	*	TOC Effective
20-05-24	Z/M019	✓	✓	✓	-	TOC Effective
20-06-24	Z/2248	N/A	✓	✓	-	TOC Effective
03-07-24	Z/M019	✓	✓	✓	-	TOC Effective
11-07-24	Z/2218	✓	✓	✓	-	TOC Effective
17-08-24	Z/2248	✓	✓	✓	-	TOC Effective
25-08-24	Z/2248	✓	✓	✓	-	TOC Effective
03-09-24	Z/M019	✓	✓	✓	-	TOC Effective
06-09-24	Z/M019	✓	✓	✓	-	TOC Effective
12-09-24	Z/M019	✓	✓	✓	-	TOC Effective
23-09-24	Z/2248	✓	✓	✓	-	TOC Effective

(*) There was no production on this production line during the working hours of Shift 2 and Shift 3.

Source: EY internal document.

→ **Comment:** the test of the control for Manufacturing Order **is Effective.**

2.2.2.2 TOC Transfer Note:

Based on the PBC file, which contains all the production lines that were active during the period from 01/01/2024 to 30/09/2024, we selected 25 items (random sampling) to test out of 672 per EY methodology. The test of controls tested for Manufacturing Order are:

- The existence of the document (TN).
- The respect of the company's procedure of the TN being signed by Line supervisor per Shift.

- The respect of the company's procedure of the TN being signed by Logistics shift manager per Shift.

→ **Our Findings were:**

Table 11: TOC Transfer Note.

Day tested	Line	Validation by shift Manager						Remark	Conclusion
		Shift 1		Shift 2		Shift 3			
		Line supervisor validation	Logistics shift manager validation	Line supervisor validation	Logistics shift manager validation	Line supervisor validation	Logistics shift manager validation		
19-01	Z/2248	N/A	N/A	✓	✓	✓	✓	*	**TOC Effective**
25-01	Z/2144	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
03-02	Z/2218	N/A	N/A	N/A	N/A	✓	✓	*	**TOC Effective**
22-02	Z/2218	✓	✓	N/A	N/A	N/A	N/A	*	**TOC Effective**
24-03	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
13-05	Z/2144	✓	✓	N/A	N/A	N/A	N/A	*	**TOC Effective**
20-05	Z/2218	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
24-05	Z/2218	✓	✓	N/A	N/A	N/A	N/A	*	**TOC Effective**
25-05	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
01-06	Z/2218	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
07-06	Z/2248	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
10-06	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
12-06	Z/2248	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
12-06	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
30-06	Z/3207	✓	✓	N/A	N/A	N/A	N/A	*	**TOC Effective**
30-07	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
06-07	Z/2218	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
10-07	Z/2144	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
13-07	Z/2218	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
14-08	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
17-08	Z/2218	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
24-08	Z/2248	✓	✓	✓	✓	✓	✓	-	**TOC Effective**

27-08	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
28-08	Z/M019	✓	✓	✓	✓	✓	✓	-	**TOC Effective**
21-08	Z/2144	✓	✓	✓	✓	✓	✓	-	**TOC Effective**

(*) There was no production on this production line during the working hours of Shifts with N/A.

Source: EY internal document.

→ **Comment:** The test of the transfer Note **is Effective.**

2.2.3 Inventory Test of control Result:

The findings of the Test of Control for company Y Inventory Cycle can be resumed in the following table:

Table 12: TOC Inventory Findings.

Key control	Frequency	Sample size	Pass	Fail	Conclusion
Manufacturing Order	Daily	25	25	0	TOC effective
Transfer Note	Daily	25	25	0	TOC effective

Source: EY internal document.

2.3 Test of controls of company Y:

During the interim audit phase, the audit team focused on identifying significant classes of transactions (SCOTs) and account balances that are material to the financial statements. As part of our risk assessment and planning procedures. Particular attention was given to the Cash and Inventory cycles during our case study. In the following table, we provide a recapitulation of the results of our internal controls testing:

Table 13: TOC Findings for Company Y.

SCOTs	TOC Result	Control risk
Cash	Toc Not Effective	Not rely
Purchase	Toc Not Effective	Not rely
Payroll	Toc Effective	Rely
Stock	Toc Effective	Rely

Sales	Toc Effective	Rely

Source: EY internal document.

2.4 Case Study Summary:

In our case study, our main objective is to understand how the auditor assesses internal control during the interim phase of the statutory audit of Company Y, where they identify key controls of each business cycle, then proceed to test them to determine whether they are functioning as designed by the company, as well as evaluate whether they are preventing or detecting errors that might occur during the financial year.

We audited a company operating in the production and distribution of hygiene products, which had been audited by the firm for over five years. The scope of the audit covers the entirety of the business; however, we focused on two main cycles in our case study work: the cash and inventory cycles.

The tools used to gain an understanding of the internal control procedures are:

- → Interviews with managers of different departments.
- → Documentary review of internal procedure manuals.
- → Observation of processes, and performance of walkthroughs.
- → Inspection and inquiry about different business processes.

In the cash cycle, we identified several control procedures. However, based on the auditor's professional judgment, we proceeded to test (1) bank reconciliations and (2) treasury reconciliations prepared by Company Y. some of the controls were not consistent with third party confirmations hence were deemed unreliable. As a result, the auditor decided to **NOT RELY** on internal controls and will instead need to apply more substantive procedures during the final audit phase to obtain sufficient audit evidence of the accuracy of the financial information in the Cash cycle.

In contrast, in our work on the inventory cycle. We identified two key controls to test: (1) Manufacturing Order Control and (2) Transfer Note Control. The testing confirmed the presence of well-designed and effectively implemented procedures. Therefore, we concluded that auditors can **RELY** on the internal controls put in place for the inventory cycle, which allows us to reduce the extent of substantive testing in this area during the final audit phase.

In addition to the two cycles presented, we also performed Tests of Controls (TOCs) on other sections of the internal control system. For the purchase cycle, TOCs were performed but found to be ineffective, meaning the auditor cannot rely on these controls. However, for the payroll and sales cycles, the TOCs were effective, which means the auditor can rely on the internal controls in these areas. These findings helped shape the overall audit approach and the extent of substantive procedures required across different processes for the final audit phase.

Section Three: The Impact of the Interim Audit Phase Work on The Quality of the Final Audit Phase:

This section aims to synthesize how the work performed during the interim phase contributes to the effectiveness and efficiency of the final audit phase. By examining the results of control testing and risk assessment carried out beforehand, we highlight their role in shaping audit approach, reducing audit risk, and enhancing the overall quality of the final audit procedures.

1 The Results of the interim Audit Phase:

After proceeding with the interim audit phase the auditor will be able to present the following findings:

1.1 Determination of Combined Risk Assessment (CRA) and Audit Thresholds:

During the interim audit phase, auditors assess two main types of risk: **inherent risk**, which is categorized as Low, Medium, or High based on the nature and complexity of the transactions. The second risk; **control risk**, which involves deciding whether or not to rely on the internal controls in place.

Based on these assessments, auditors determine the level of Combined Risk Assessment (CRA) using the reference table below that helps them evaluate the overall risk level and plan the nature, timing, and extent of audit procedures accordingly.

Table 14: Determination of Combined Risk Level (CRA).

Control Risk Assessment	Rely on controls		Not Rely on controls	
Inherent Risk Assessment	Lower	Higher	Lower	Higher
CRA	Minimal	Low	Moderate	High

Source: Internal EY document.

This assessment directly influences the establishment of audit thresholds:

- **Planning Materiality (PM):** This represents the maximum error that can exist in financial statements without affecting users' decisions. It's typically based on a percentage of a financial benchmark, such as 5–10% of profit before tax or 0.5–2% of total revenue, depending on the entity's characteristics and industry norms.
- **Tolerable Error (TE):** Derived from PM, TE is the maximum error in a specific account balance or class of transactions that auditors are willing to accept. Higher assessed risks necessitate a lower TE to ensure sufficient audit assurance.
- **Summary of Adjustments (SAD) Threshold:** This is the threshold above which identified misstatements are aggregated for evaluation. It's often set at 10% of PM, ensuring that even smaller errors are considered if they could cumulatively affect the financial statements.
- **Identification Threshold (IT):** This pertains to the threshold for individual misstatements to be considered during testing. It's typically a percentage of TE, adjusted based on the auditor's judgment and the risk associated with specific accounts.

By calibrating these thresholds based on the CRA, auditors tailor their approach to the entity's risk profile, ensuring that audit efforts are focused where they are most needed.

1.2 The Extent of Substantive Testing and Sampling Strategy:

The assessed CRA significantly impacts the determination of audit sample sizes:

→ **Higher Assessed Risk:** When CRA indicates higher risks, auditors increase sample sizes to achieve a desired level of assurance. This is because a larger sample reduces sampling risk, enhancing the likelihood of detecting material misstatements.

→ **Lower Tolerable Error:** A lower TE, resulting from higher risk assessments, necessitates larger sample sizes to detect smaller errors that could be material.

→ **Expected Error Rates:** If auditors anticipate a higher rate of errors in a population, they increase sample sizes accordingly to ensure that the sample is representative and that significant errors are likely to be detected.

Thus, the interim CRA directly informs the extent of audit testing, balancing the need for assurance with audit efficiency.

1.3 Identification of High-Risk Areas:

The interim CRA facilitates the early identification of high-risk areas within the entity's financial reporting:

- **Targeted Testing:** By pinpointing business cycles with higher risks, auditors can allocate more resources and perform more rigorous testing where it's most warranted.
- **Behavioral Observations:** During the interim phase, auditors may observe behaviors or practices that indicate potential risks, such as aggressive revenue recognition or inadequate segregation of duties. These observations inform the risk assessment and subsequent audit procedures.
- **Enhanced Professional Skepticism:** Recognizing high-risk areas early on encourages auditors to maintain heightened professional skepticism, ensuring that they critically evaluate evidence and management assertions in these areas.

This preliminary testing enhances the audit's effectiveness by focusing attention on areas most susceptible to material misstatement.

2 The impact of the Interim Audit Phase on the Quality of the Final Audit Phase:

The interim audit phase plays a pivotal role in shaping the quality of the final audit phase. It enables the planning and preliminary evaluation necessary to direct audit efforts where they are most needed.

- **Audit Strategy and Methodology:** Information gathered during the interim phase allows auditors to tailor the audit strategy to the client’s risk profile. This supports a risk-based approach aligned with ISA 315 (Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment) and ISA 330 (The Auditor’s

Responses to Assessed Risks) and contributes to improved effectiveness. High-risk areas receive more attention, while lower-risk areas may require reduced testing, leading to a more efficient and targeted audit methodology.

- **Resource Allocation and Audit Effort:** Early risk identification facilitates better allocation of time, personnel, and tools in the final phase. The audit teams can assign tasks based on complexity and required expertise, optimizing the use of available resources and aligning with planned audit effort levels.
- **Audit Evidence and Documentation:** Testing during the interim phase enhances the ability to collect relevant and sufficient audit evidence. Identified control deficiencies or operational issues are documented in advance, contributing to stronger conclusions and clearer audit documentation in the final phase.
- **Independence and Judgment:** The interim phase allows for early exercise of professional judgment, particularly in identifying and responding to material risks. It also helps maintain auditor independence by creating procedural distance from year-end pressures and providing an early point of interaction with management on sensitive matters.

3 The impact of the Interim Audit Phase on the Overall Audit Quality:

At the engagement level, the interim phase elevates overall audit quality by strengthening compliance and reducing risk by:

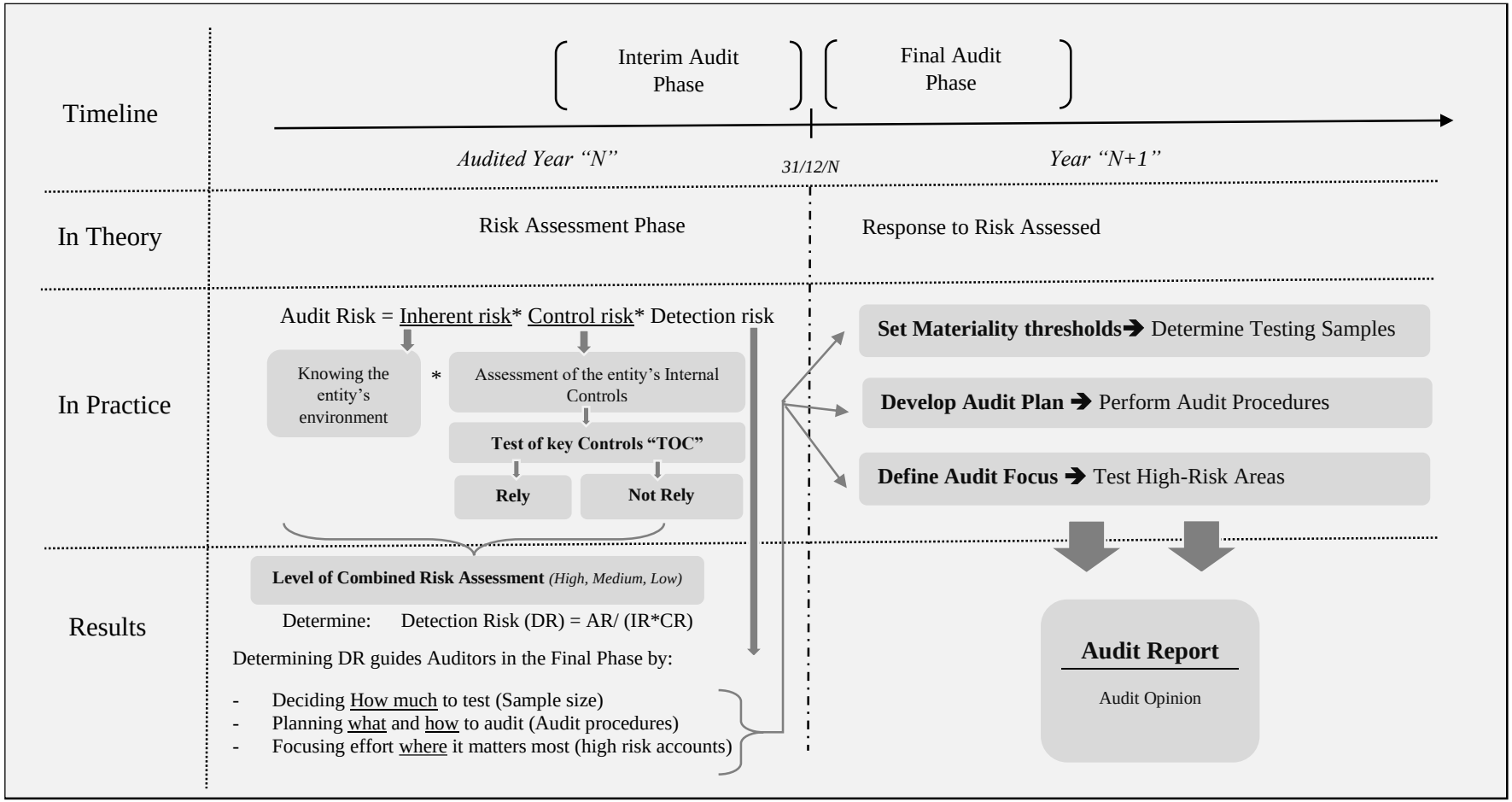
- **Stronger Risk Assessment Foundation:** Early engagement fosters a deeper understanding of the entity's operations and control environment, leading to more accurate risk identification and improved professional judgment.
- **Robust Internal Control Evaluation:** Early TOCs enables effective assessment of control design and operation, supporting justified reliance and enhancing audit efficiency and effectiveness.
- **Increased Timeliness and Responsiveness:** Spreading work allows audits to be completed within deadlines without compromising quality, meeting stakeholder needs and maintaining reputation and trust.
- **Lower Overall Audit Risk:** Distributing procedures and continuously updating assessments reduces detection risk and the risk that material misstatement remains undetected.

- **Compliance with Regulatory Expectations:** Effective interim work aligns with PCAOB and IAASB emphasis on early/continuous engagement, demonstrating strong Audit Quality Indicators like responsiveness, professional skepticism, and evidence sufficiency.

4 Research Overview:

The figure below provides a synthesized overview of the key stages covered in our research. It highlights the major steps, procedures, and findings of the interim audit phase, and illustrates how these elements shape and influence the final audit phase. This visual summary aims to clearly connect theoretical principles with practical execution, offering a timeline-based representation of how risk assessment and detection strategies evolve throughout the statutory audit process.

Figure 14: The impact of the interim audit Phase on the Final Audit phase.



Source: Created by the Author.

Conclusion:

To conclude this chapter and based on the case study conducted, the interim audit phase proved to be a crucial stage in enhancing the overall quality of the audit engagement. The process began with preliminary procedures including interviews with key personnel, review of internal documentation, and walkthroughs of significant transactions and controls. These steps were followed by tests of controls that enabled early identification of control weaknesses and areas of heightened risk.

The evidence collected during the interim phase allowed the audit team to refine their understanding of the client's operations and risk environment. This directly influenced the risk assessment process, leading to more informed planning and a more focused final audit phase. The team was able to adjust the nature, timing, and extent of audit procedures based on the insights gained.

The case results demonstrated that early testing and documentation supported more efficient resource allocation and better coordination during the final audit. The ability to anticipate potential issues before year-end also reduced time pressure and improved the quality of audit evidence. These outcomes can be reflected in stronger audit documentation, enhanced audit effectiveness, and clearer justification for professional judgments made during the final phase.

Ultimately, the case confirmed that the interim audit phase directly impacted several elements of audit quality most notably audit efficiency, methodology, risk responsiveness, and compliance with standards. It also supported the exercise of professional judgment and contributed to maintaining auditor independence throughout the engagement. The integration of findings from both phases of the audit are central to delivering a high-quality audit.

General Conclusion

The statutory auditor carries both a legal and professional responsibility to provide stakeholders with reasonable assurance regarding the accuracy and reliability of financial statements. This responsibility has wide-reaching effects, as it supports sound financial decision-making, preserves public trust, and upholds the integrity of capital markets. Importantly, this assurance is not simply a final opinion; it is the outcome of a structured, evidence-based process made up of several audit phases, each guided by specific procedures and professional standards. These phases involve collecting sufficient and appropriate audit evidence, which directly impacts the overall quality of the audit.

The audit process typically includes four key phases: the planning phase, the interim audit phase, the final audit phase, and the reporting phase. Each of these phases plays a specific role in developing the audit strategy, identifying and assessing risks, performing control and substantive testing, and forming the final audit opinion. The interim audit phase allows auditors to better understand the client's environment, assess internal controls, and shape the scope and timeline of the final audit intervention. This phase also helps determine important elements such as materiality thresholds, sampling plans, and testing strategies.

The central research question is: **"How does the Interim Audit Phase Impact the Quality of the Final Statutory Audit?"**

This study focused on the extent to which the interim audit phase influences the quality of the final statutory audit. To address this question, the study examined how the structure of the audit process contributes to auditor responsibilities, professional judgment, and the overall effectiveness of audit procedures. Three main hypotheses were explored:

H1: The hypothesis is confirmed. A statutory audit is a legally required examination of a company's financial statements, conducted to verify their accuracy and ensure compliance with relevant laws and accounting standards. It is a formal process that helps safeguard the integrity of financial reporting, protects the interests of shareholders and regulators, and contributes to the overall credibility of the financial system.

H2: suggested that auditors use the interim phase to understand the client's business. While this is partly true, the phase also includes essential risk assessment tasks, such as evaluating internal controls, interviewing management, and conducting control tests.

H3: claimed that audit quality could be measured solely through the detection of errors. This was disproven, as audit quality is a multidimensional concept that also includes compliance with auditing standards, auditor's independence, as well as level of competence and sound professional judgment.

The research findings, particularly through our case study clearly demonstrate that the interim audit phase plays a significant role in improving audit quality. During this phase, auditors carry out early risk assessments that guide the planning of audit procedures and help focus efforts on high-risk areas. This leads to better use of time and resources, improves the efficiency of the audit, and reinforces professional skepticism.

From a quality perspective, the interim audit strengthens the process on several levels:

→ **Process level:** by reducing time pressure and allowing more organized execution in the final phase.
→ **Input level:** by aligning the skills of the audit team with the identified risks.
→ **Output level:** by improving documentation and supporting clearer, more defensible conclusions.
→ **Firm level:** by reinforcing independence, adherence to standards, and overall credibility.

Based on these conclusions, it is essential to promote the use of a structured audit approach within the Algerian auditing profession. Risk assessment during the interim phase should be viewed as a professional obligation, not an optional step. Skipping this phase or relying on informal methods undermines audit quality and increases risk for both the auditor and the client. Early planning also gives auditors the opportunity to apply professional judgment in a meaningful way, which is a key requirement of their role.

Furthermore, Algerian auditors are strongly encouraged to align not only with national auditing standards (NAA) but also with International Standards on Auditing (ISAs). These international frameworks provide more comprehensive guidance and reflect global best practices. It is also important to challenge the assumption that such structured methodologies are only relevant for large audit firms. In fact, sole practitioners and small audit firms are held to the same ethical and professional standards and must ensure the same level of Audit Quality.

Recommendations for Future Research

Future research could build on this study by exploring areas such as:

- The relationship between interim audits and fraud detection, especially in high-risk industries.

- Comparative studies across countries with similar economic and regulatory environments, to examine how local practices influence Audit Quality and how international standards can be better integrated into national systems.

Bibliography

→ **Books:**

- Arens, A. A., Elder, R. J., Beasley, M. S., & Hogan, C. E. *Auditing and Assurance Services: An Integrated Approach* (18th ed.). Pearson Education, 2022.
- Gray, Iain, and Stuart Manson. *The Audit Process: Principles, Practice and Cases*. 7th ed. Andover, 2019.
- Hayes, R., Wallage, P., & Gortemaker, H. *Principles of auditing: An Introduction to International Standards on Auditing*. Pearson Higher Ed, 2014.
- Kesimli, I. *External Auditing and Quality*. Springer, 2019.
- Milli champ, Alan, and John Taylor, *"Auditing"* 12th ed. Cengage Learning, 2022.
- Moroney, Robyn, Fiona Campbell, Jane Hamilton, and Valerie Warren. *Auditing*. 3rd Canadian ed. Wiley, 2017.
- Puttick, George, and Sandy van Esch. *The Principles and Practice of Auditing*. 8th ed. Juta Academic, 2007.
- VIDAL, Dominique. *Le commissaire aux comptes dans les sociétés anonymes*. Paris: L.G.D.J, 1985.
- Westland, J. Christopher. *Audit Analytics: Data Science for the Accounting Profession*. Germany, Springer International Publishing, Imprint: Springer, 2024.

→ **Research papers:**

- Christensen, Brant E. and Newton, Nathan J. and Wilkins, Michael S., *Archival Evidence on the Audit Process: Determinants and Consequences of Interim Effort*. Contemporary Accounting Research, 2020.
- Francis, Jere R., Paul N. Michas, and Scott E. Seavey. *"Does audit market concentration harm the quality of audited earnings? Evidence from audit markets in 42 countries."* Contemporary Accounting Research 30, no. 1, 2013.
- Krishnan, J. & Schauer, P. C. *Differences in quality among audit firms.* Journal of Accountancy, page 85, 2001.
- Lin, H.-L. and Yen, A.-R, *"An examination of the association between interim audits and final audits"*, Asian Journal of Accounting Research, Vol. 8 No. 1, pp. 2-14, 2023.
- Linda Elizabeth DeAngelo, *Auditor size and audit quality*, Journal of Accounting and Economics, Volume 3, 1981.

- Ling Feng Deng and Junying Peng. *"Reflections on the Concept, Classification and Application of "Assertion" Under the New Standards."* Frontiers in Business, Economics and Management, 2022.
- Porter, B. *An Empirical Study of the Audit Expectation-Performance Gap*. Accounting and Business Research, 1993.
- Steckel, R. & Manry, D. & Tritschler, Jonas. *Audit Quality: Association between published reporting errors and audit firm characteristics*, 2014.

→ **Thesis:**

- Khellaifia Anis Mokhtar, Belmedrek Ahmed. 2022*, L'importance de l'évaluation du contrôle interne dans le cadre de la mission d'audit légal*. EHEC.

→ **Reports:**

- Azhar Ul Haque Sario*, CPA, CIA, CISA, ACCA Audit*, 2024.
- BELAID Djamal, *« La Pratique du Commissariat aux Comptes en Algérie* », 2022.
- EY report 2024.

→ **Guides and Frameworks:**

- IAASB "A Framework for Audit Quality: Key Elements That Create An Environment for Audit Quality", February 2014.
- *International Standards on Auditing* (ISA) – IAASB.
- *International Standard on Quality Management* (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.
- *International Standard on Quality Management* (ISQM) 2, Engagement Quality Reviews.
- ISA 220 (Revised), Quality Management for an Audit of Financial Statements.
- ISA 315 (Revised 2019) and Conforming and Consequential Amendments to Other International Standards Arising from ISA 315.
- ISA 300, Planning an Audit of financial statements.
- ISA 330 The Auditor's Responses To Assessed Risks.
- ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements. IFAC, 2015.
- ISA 570 (Revised), Going Concern. IFAC, 2015.
- ISA 560, Subsequent Events. IFAC, 2009.
- ISA 260 (Revised), Communication with Those Charged with Governance. IFAC, 2015.
- ISA 230, Audit Documentation. IFAC, 2009.

- ISO 19011:2018, *Guidelines for Auditing Management Systems*.

→ **Text of Regulations:**

- Law No. 10-01 of June 29, 2010, *concerning the legal definition of a statutory auditor*.

→ **Websites:**

- https://www.cn-cncc.dz/cncc
- https://pcaobus.org/
- https://legal-doctrine.com/en
- https://www.ifac.org/
- https://www.iaasb.org/
- https://www.ey.com/en_dz
- https://corporatefinanceinstitute.com/resources/accounting/audit-risk-model/
- https://www.investopedia.com/terms/i/internalcontrols.asp
- https://tettra.com/article/flowcharts/
- https://methodology.eca.europa.eu/aware/CA/Pages/Examination/Evaluating-tests-results.aspx
- https://www.sciencedirect.com/topics/social-sciences/agency-theory

→ **Other Sources:**

- Dr. Amanda White Auditing Lectures 2020, University of Technology Sydney (UTS).
- EY Atlas (Library), 2025.
- Internal EY documents and work paper.

Annex

Annex 01 : Internal Controls Questionnaire (ICQ)

→ "Yes" answer to the following questions indicates good internal controls are in place and/or practiced.

→ "No" answer highlights those areas where improvements should be made to improve internal controls.

→ "NA" indicates the control is not applicable to this department.

→ "NS" indicates you're not sure about the status of the control in question.

Control Environment		**Yes**	**No**	**NA**	**NS**
1	Has management established a mission statement, set realistic and measurable goals, and developed plans to meet its objectives?				
2	Are staff members familiar with the policies contained in the Company Handbook?				
3	Does management in your department exhibit high ethical values, personal and professional integrity, and compliance with Company policies? See the company's Code of Ethics, Conflict of Interest, and other General company Policies and Procedures in the company Handbook.				
4	Do all staff members know how to report ethical and fiscal misconduct? See Fraud Policy Statement Handbook, and Fraud Hotline.				
5	Do staff have the knowledge, training, and skills necessary to perform their jobs competently?				
6	Does the department have the time, tools, and resources to effectively accomplish its mission and objectives?				
7	Are employee morale and employee turnover rates at an acceptable level?				
8	Does the department have a business continuation plan that addresses the absence of key employees?				
Provide an explanation or comment about any "N", "NA", or "NS" responses above:					

General Operating Controls		Yes	No	NA	NS
1	Does the department have documented policies and procedures for its primary operational processes?				
2	Are departmental policies and procedures relevant, adequate, effective, and current?				
3	Is someone in the department responsible for performing a monthly review/reconciliation of its Banner accounts and reports for accuracy?				
4	Are unreconciled or unrecognized financial transactions researched and corrected in a reasonable period of time?				
5	Is the staff performing the reconciliation separate from the staff initiating and finalizing transactions?				
6	Do departmental financial managers know who to contact for budget and accounting questions or problems?				
7	If departmental fund deficits are anticipated, are appropriate levels of management notified timely and appropriate corrective action taken?				
8	Does the department have backup procedures for key processes?				
9	Does the department have a document retention plan?				
Provide an explanation or comment about any “N”, “NA”, or “NS” responses above:					

Cash Controls		Yes	No	NA	NS
1	If the department has petty cash funds, is one person assigned custodial responsibility for that fund?				
2	Are petty cash disbursements supported by original receipts which verify the amount disbursed?				
3	If the department has petty cash funds, are those funds counted, reconciled, and replenished on a monthly basis by someone other than the custodian?				
4	If the department has revenue-producing activities, are there procedures to establish accountability for cash and related items immediately upon receipt? Examples: cash register, pre-numbered receipts.				
5	Are cash and related items physically safeguarded against theft and loss?				
6	Is the employee who is responsible for preparing the cash receipts deposit separate from the employee responsible for reconciling cash to department accounts or recording sales in department records?				
7	Are cash shortages identified, analyzed, recorded, and reported?				
8	Do you deposit income within one day of receipt?				
9	Does someone independent of the cash receipting process review and approve voids and refund transactions?				
Provide an explanation or comment about any “N”, “NA”, or “NS” responses above:					

Expenditure Controls		**Yes**	**No**	**NA**	**NS**
1	Are departmental funds used only for purchases of goods or services that support the department's mission?				
2	Are the duties for authorizing purchases, receiving goods, approval of invoice payments, and reconciliation of departmental operating reports separated between two or more employees?				
3	Are all purchases made using a procurement card reviewed and approved by the director/vice as appropriate?				
4	Does departmental management periodically review the list of departmental cardholders and their limits to determine if changes need to be made?				
5	Are purchase requisitions initiated and approved by employees specifically authorized to perform this task?				
6	Are the purchase requisitions initiated and approved prior to the actual purchase?				
7	Is management familiar with company's Purchasing Policies regarding thresholds, when to get comparative bids, and other important purchasing guidelines?				
8	Are purchase requisitions, travel authorizations, and other payment requests compared to the departmental budget balance to ensure the expenses are within the budget limits?				
9	Do invoices receive appropriate supervisory approval before payment?				
10	Are telephone bills, copy machine logs, and fax logs reviewed to ensure that personal use is kept to a minimum?				
11	Are the purchase, storage, and issuance of supplies properly controlled to prevent over-purchasing, pilferage, deterioration, and damage?				
Provide an explanation or comment about any "N", "NA", or "NS" responses above:					

Payroll		**Yes**	**No**	**NA**	**NS**
1	Are time sheets approved by a supervisor who has direct supervisory responsibilities over the person whose time is being approved?				
2	Does the employee designated to collect the departmental time sheets and complete the payroll recap sheet ensure that all time sheets are properly completed, accurately totaled, and signed by the appropriate supervisor?				
3	Are all payroll documents completed in ink so that any changes can be detected?				
4	Does departmental management review, sign, and date the payroll recap sheets to document that staff are paid according to wage contracts and terminated employees are not being paid?				
5	Do you notify the HR/payroll department immediately of employee terminations?				
6	Are departmental payroll expenditures reviewed by management for accuracy and compared to budgeted amounts?				
7	Are departmental procedures in place to ensure that overtime hours are planned or controlled so as not to become excessive?				
8	Are departmental procedures in place to ensure that leave taken is properly approved and planned so as not to create a hardship on others' workloads?				
9	Are all staff members familiar with company's policies regarding time off, compensation, and payroll procedures in section Handbook?				
Provide an explanation or comment about any "N", "NA", or "NS" responses above:					

Information Technology		Yes	No	NA	NS
1	Are all staff members familiar with the company's data communications and computer use policies?				
2	Are employees required to create strong, effective passwords?				
3	Are passwords safeguarded from unauthorized access and changed every 60 days or less?				
4	Are employees reminded to back up their current work often and to back up the data on all directories on a regular basis?				
5	Do employees log off of their computers, or lock the screen with a password protected screen saver, when they will be away from their computers for any extended amount of time?				
6	Are only company's mission-related activities being performed on the computers for which you are responsible?				
7	Are the environmental variables (e.g., temperature, humidity, power) and the physical location where your computer equipment resides properly controlled and secured?				
8	Are all copies of software used by the department appropriately licensed?				
9	Is there a process in place to authorize and control the use of laptops or other data equipment off the premises?				
Provide an explanation or comment about any "N", "NA", or "NS" responses above:					

Table of Contents