



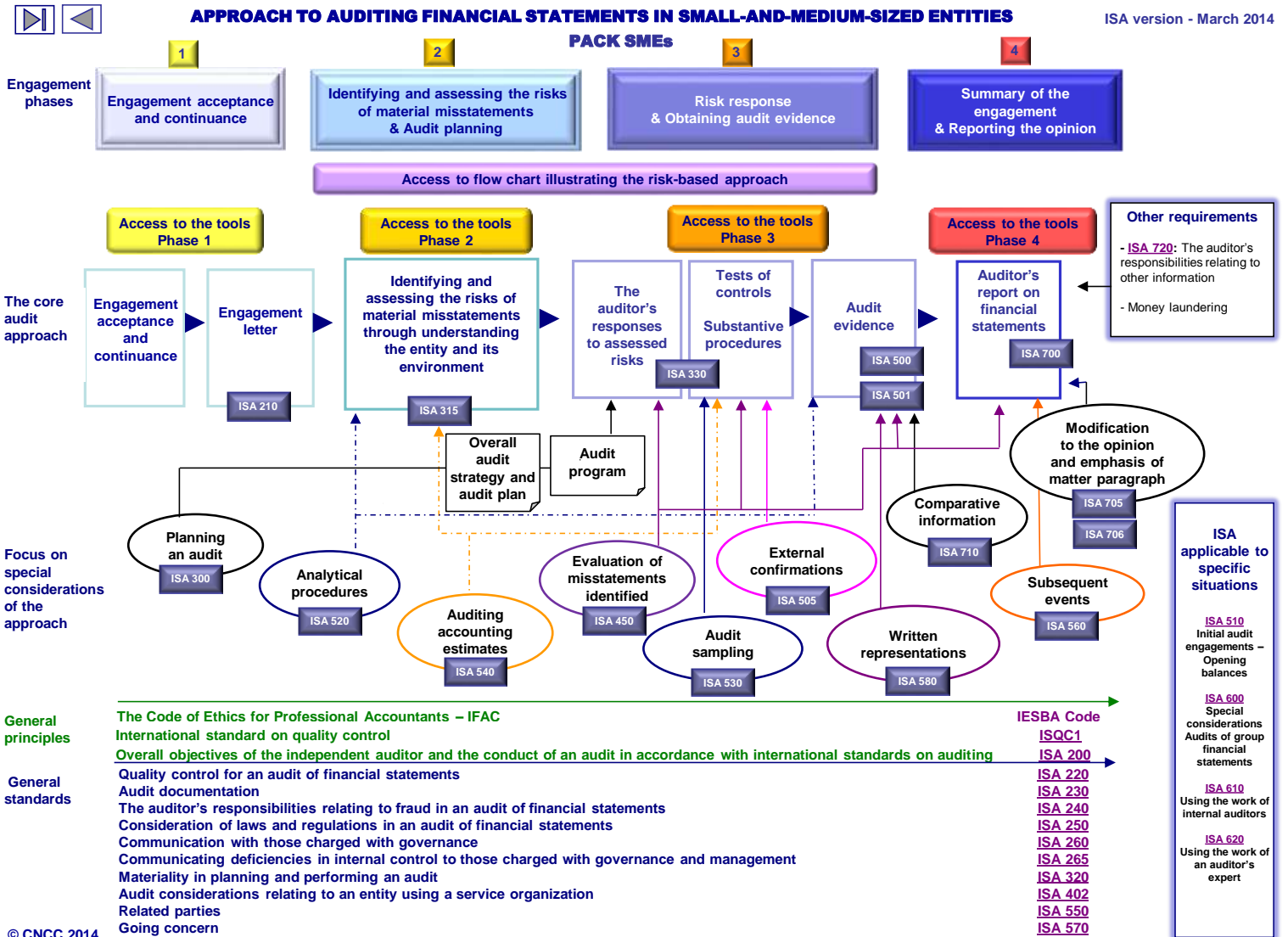
Report on the Adoption to the accounting standards applicable in Albania of the French “Audit Pack for SMEs” November 2014 (Pack petites Enterprises) in conducting SMEs audit.

March 2018

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Enhancing Quality of Financial reporting (EQ-FINREP) Albania Adaptation, translation, training on the Audit Pack for SMEs in Albania



Background and purpose of the project

Albania has prepared an Action Plan in 2008, which is based on 2006 Report of World Bank (WB) about the Observance of Standards and Codes of Accounting and Auditing in Albania (A&A ROSC). This Action Plan was implemented by National Steering Committee (NSC), consisting of public and private parties, and sets a clear reform program for improvement of Albania legal framework, institutions, accounting and auditing as a profession in order to realize a high quality financial reporting. Corporate financial reporting is an important element of developing the Albanian market and its role is growing along with the corporate sector development and an increase in direct foreign investment.

The objective of the Corporate Financial Reporting Enhancement Project is to create a transparent policy environment and effective institutional framework for corporate financial reporting in line with best international practices, aligned with European Union (EU) acquis communautaire.

There are five components to the project:

- The first component being improving the legal framework in the area of corporate financial reporting. This component will finance technical assistance and workshops to establish a sound basis for corporate financial reporting legislation alignment with the EU acquis communautaire.
- The second component is the strengthening the capacity of the national accounting council. Under this component, the capacity of the national accounting council will be strengthened, as well as processes for the setting and endorsement of financial reporting standards, through technical assistance and training.
- The third component is the establishment of an audit oversight system. Under this component, the project will finance technical assistance, workshops and goods to support strengthening of the recently established public audit oversight system envisaged in the new auditing law adopted in 2009, will focus on drafting the secondary legislation for public oversight system and the development of public register for auditors.
- The fourth component is the improving accounting and auditing curricula for university education and professional certification. Under this component, the project will finance TA and workshops to assist universities, professional bodies and the examination center (to be created under the Ministry of Finance, or MoF) to build foundations for sustainable curricula for accounting and auditing education and certification of whom accountants and auditors.
- Finally, the fifth component is the project management, strengthening reform capacity, and monitoring and evaluation.

It was within this framework that the Albanian Ministry of Finance, which chairs the Reform Implementation Group (RIG), on behalf of IEKA, agreed to contract with the French Accountancy Profession composed by CNCC (the French Institute Of Statutory Auditors) and CSOEC (The French Institute of Certified Public Accountants) to support IEKA on adopting a simplified computerized excel based tool for SMEs audits, based on clarified ISAs (The French Pack PE). This tool will be used by IEKA members, both as an audit and assurance learning tool, but also as a practical tool for conducting audit and assurance services.

Presentation of the Pack SMEs

The « Audit Pack for Small- and Medium-Sized Entities », or « Pack SMEs », prepared by the CNCC, is a package of tools designed to enable the auditor to plan and perform audit procedures and to structure the approach on SME audit, in accordance with International Standards on Auditing (ISAs).

The Audit Pack for Small and Medium Sized Entities was designed with the followings objectives in mind:

1. Helping auditors to comply with standards, while having an efficient use of their time, by adapting audit methods to small entities;
2. Providing them with a way to document their procedures and to comply with external quality control requirements;
3. Providing tools to help them to better communicate with the management and demonstrate the added value.

There is no threshold of SMEs for using the pack. The auditor will decide, on a case by case basis, if these tools are appropriate to the entity and if necessary, he could develop himself, complementary tools.

The Pack SMEs content

These tools have been prepared to save auditors time. In designing them, the characteristics of SMEs have been considered and they should not be used in other situations without prior modification. In this context, they can be grouped in two categories:

- « **structuring tools** »: considered to be essential to the audit approach, they should be used in all cases;
- « **other tools** »: considered to be useful to the audit approach, they are selected depending on the situation, on the basis of the auditor's judgment.

The Pack for Small and Medium Sized Entities is divided into 4 important phases.

The map

At the launching of the Pack the map of the Audit approach, showing to the auditor at what step of the engagement he is.

See table page 17

Adaptations for Albania

The adaptations of the Audit Pack for SMEs specifically developed for Albania can be summarized as followed:

- Translation in Albanian of the two main tools of PACK PE: Risk analysis matrix and the Preliminary analytical review or Lead sheets
- Training of albanian trainers who will thereafter deliver the program

Limitations and warnings

The proper use of Pack SMEs tools is the auditor's sole responsibility and it is assumed that the auditor has an appropriate understanding of International Standards on Auditing (ISAs), International Standard on Quality Control (ISQC1) and the Code of Ethics for Professional Accountants (IESBA code).

It does not exempt him from performing audit procedures appropriate to each audit engagement, or using additional tools to design those procedures. Accordingly, it does not include standard audit programs.

Work performed by CNCC for IEKA: Prerequisites

The translations CNCC has made for IEKA have for objective to help the auditor to implement the most important phase of the engagement and to translate in Albanian the two main tools of the Pack SMEs.

Indeed, during this phase, the auditor obtains an understanding of the entity, including the entity's internal control, to identify and assess the risks of material misstatements in the financial statements (consisting of two components: inherent risks and control risks).

As a first step, the auditor performs the analysis at the overall financial statement level, then at the audit cycle level for those cycles considered as material.

Furthermore, in the audit planning phase and throughout the audit, the auditor considers the possibility that a fraud could exist and the risk of the entity's ability not to continue as a going concern. For those purposes, he explains and documents those considerations within the entity in order to establish the audit plan.

The required understanding to assess **inherent risks** includes:

- entity's industry, regulatory environment and other external factors,
- nature of the entity (operations, ownership, governance structure, types of investments, the way the entity is structured and how it is financed),
- entity's selection and application of accounting policies,
- entity's objectives and strategies, and business risks that may result in risks of material misstatements,
- measurement and review of the entity's financial performance.

The required understanding to assess **control risks** covers the internal controls relevant to the audit.

For each assertion for each class of transaction, each account balance and each disclosure in the financial statements, if considered as material, the auditor:

- identifies the potential material misstatements,
- searches for the entity's controls that can prevent or detect those misstatements, and consequently assesses the risks of material misstatements.

In the context of Small-and Medium-Sized Entities, the assessment of the risks of material misstatements is performed according to the entity's size and the extent of involvement of management in the decision and control process.

Translation of the “Preliminary Analytical Review” or “Lead Sheet”

A preliminary analytical review used as a procedure to assess risks, enables the auditor to identify unusual transactions or events, amounts or trends that might reveal risks of material misstatements or matters having an effect on the audit.

Designed on the same pattern, the document titled “Lead Sheet” is used in Phase 3 engage an in-depth analysis of accounts.

The translation work allowed to:

- Align this document to the Albanian Chart of Accounts
- Present, from the introduction of a balance, the financial statements on the model enforceable in Albania

The International Development and Partnerships Directorate (DDPI) provided IEKA with a transmission tool of key information’s necessary for :

1. Adaptation of the application

- *Structure of Excel application*
- *User explanatory information*
- *Interface components (screens and buttons ...),*
- *Alerts and user messages*
- *Regional specificities to be taken into account (ex. currency)*

Translation of the « Risk Analysis Matrix »

The objective of this tool is to help the auditor to identify risks of material misstatement.

This tool is very helpful to teach the audit approach to the staff. The Risk Analysis Matrix is conducted in successive steps (inherent risks, internal control and substantives procedures), with automatic transfer of results as the analysis progresses:

- **In the sheet / tab 1**: it is classified by assertions and cycles. So, the auditor goes through to assess, by classes of transactions (purchases, sales....) and by assertions (reality, completeness...), inherent risks of material misstatements. If you click on the box you will find examples and define a level of risk.
- **In the sheet / tab 2** : this is the internal control the auditor is going to assess. He’s going to analyze if the internal control can reduce inherent risks that have been identified. In parallel, he will test if the internal control is relevant.

- Finally, he will be able to plan his audit procedures, by clearly linking substantives procedures to the risks of material misstatements you identified. Here, are some more examples of audit procedures.

All this example has been translated in Albanian for a better understanding and application in the specific context of Albania.

These examples should be tailored and supplemented according to the features and characteristics of the audit engagement.

The International Development and Partnerships Directorate (DDPI) provided IEKA with the following informations to translate in Albanian:

1. Technical data :

- ***Structure of Excel application***
- ***Interface components (screens and buttons ...),***
- ***Alerts and user messages***

2. Business data :

- ***Audit procedures***
- ***Advices to follow***
- ***Audit program reporting***

- ✓ ***The translated informations have been integrated in the application according to their envisaged use.***
- ✓ ***The application code has been enhanced to modify the Albanian interface elements***
- ✓ ***The result is an dedicated application to the Albanian users.***

Annex 1 - Full contains of the Audit Pack for SME

Phase 1 – Engagement acceptance

Before accepting an audit engagement, the auditor **assesses whether he can perform the engagement**, in compliance with laws and regulations, the Code of Ethics for Professional Accountants, the International Standard on Quality Control (ISQC1) and International Standards on Auditing (ISAs).

In the context of Small- and Medium-Sized Entities, completing a short questionnaire facilitates the identification of the main risk areas that would call into question the engagement acceptance:

>> A1.1 – Audit engagement acceptance check-list

Prior to the engagement acceptance, the auditor meets with the entity's management. After this meeting, he prepares a proposal for audit services to document the matters discussed. This proposal is particularly useful to management launching an invitation to tender.

>> B1.1 – Proposal for audit services

Once the acceptance decision has been made and documented, the auditor observes a number of procedures:

- **with the predecessor auditor**, requesting details about the end of his engagement and the obstacles encountered, if any, in performing his engagement:

>> B1.2 – Letter to the predecessor auditor

- **with the client**, specifying the terms of the engagement (the objective and scope of the audit of the financial statements, the responsibilities of the auditor, the responsibilities of management, identification of the applicable reporting framework used to prepare the financial statements, expected form and content of the auditor's report, fees,...):

>> B1.3 – Engagement letter

- **with the audit team members**, requesting them to commit themselves to compliance with the firm's policies and procedures, which include Section 290 and Section 291 of the IESBA Code of Ethics for Professional Accountants (IESBA code):

>> B1.4 – Acknowledgement of independence

Phase 2 – Identifying and assessing the risks of material misstatements & Audit planning

During this phase, the auditor obtains an understanding of the entity, including the entity's internal control, to identify and assess the risks of material misstatements in the financial statements (consisting of two components: inherent risks and control risks).

As a first step, the auditor performs the analysis at the overall financial statement level, then at the audit cycle level for those cycles considered as material.

Furthermore, in the audit planning phase and throughout the audit, the auditor considers the possibility that a fraud could exist and the risk of the entity's ability not to continue as a going concern. For those purposes, he explains and documents those considerations within the entity in order to establish the audit plan.

The required understanding to assess **inherent risks** includes:

- entity's industry, regulatory environment and other external factors,
- nature of the entity (operations, ownership, governance structure, types of investments, the way the entity is structured and how it is financed),
- entity's selection and application of accounting policies,
- entity's objectives and strategies, and business risks that may result in risks of material misstatements,
- measurement and review of the entity's financial performance.

The required understanding to assess **control risks** covers the internal controls relevant to the audit.

For each assertion for each class of transaction, each account balance and each disclosure in the financial statements, if considered as material, the auditor:

- identifies the potential material misstatements,
- searches for the entity's controls that can prevent or detect those misstatements, and consequently assesses the risks of material misstatements.

In the context of Small- and Medium-Sized Entities, the assessment of the risks of material misstatements is performed according to the entity's size and the extent of involvement of management in the decision and control process.

Phase 2 – Identifying and assessing the risks of material misstatements & Audit planning (continued)

The appropriate tools for identifying and assessing the risks of material misstatements in the financial statements and audit planning at this step are the following.

A preliminary analytical review used as a procedure to assess risks enables the auditor to identify unusual transactions or events, amounts or trends that might reveal risks of material misstatements or matters having an effect on the audit:

>> A2.1 – Preliminary analytical review

To document the assessment of risks of material misstatements at the overall financial statement level, the identification of material cycles and accounts, the assessment of management attitude and ethics, and the impact of identified risks on the audit approach, the auditor is provided with a structuring tool called « Overall audit strategy and audit plan ». It is a multi-year tool to update engagement acceptance, and to complete in connection with the risk analysis matrix of material misstatements per cycle and per assertion:

>> A2.2 – Overall audit strategy and audit plan

To put into practice the materiality concept appropriately when planning and performing the audit, the auditor documents materiality and performance materiality adopted for the audit:

>> A2.3 – Materiality and performance materiality

The risk analysis matrix is conducted in successive steps with automatic transfer of results as the analysis progresses: assessment of inherent risks, internal control and tests of controls considerations, summary of assessment of the risks of material misstatements, design of the substantive procedures to perform, and finally, the audit program which provides the link between identified material misstatements per assertion and planned audit procedures. Illustrative examples are provided in the input boxes for each step: inherent risks, internal controls, substantive procedures. These examples should be tailored and supplemented according to the features and characteristics of the audit engagement:

>> A2.4 – Risk analysis matrix

In order to manage the engagement in the best possible way, and to confirm his initial assessment, the auditor schedules the audit work, plans the nature and extent of resources necessary to perform the engagement and monitors time spent:

>> B2.1 – Audit scheduling

To help documenting tests of controls, tailored working papers are offered to the auditor:

>> B2.2 – Tests of controls papers

At the end of the phase of identification and assessment of material misstatements, the auditor meets with entity's management to present the risk analysis, to inform him of internal control strengths and deficiencies and present his recommendations. The following report, intended for the entity's management, makes it easier to conduct the meeting:

>> B2.3 – Preliminary report on risks and entity's controls *(PowerPoint and Word versions)*

Phase 3 – Risk response & Obtaining audit evidence

The auditor exercises professional judgment to assess whether sufficient appropriate audit evidence has been obtained, in order to obtain reasonable assurance that the financial statements are free from material misstatement.

During the course of the audit, he considers whether he has to revise the nature, timing or extent of planned audit procedures, based on the evidence obtained.

In the context of Small- and Medium-Sized Entities, lead sheets provide an essential link between the audited financial statements and the audit procedures performed.

>> A3.1 – Lead sheets

To perform those audit procedures, the auditor is provided with various audit techniques, including:

- external confirmations:

>> B3.1 – Confirmation requests

>> B3.2.1 – Processing of confirmations (*trade creditors*)

>> B3.2.2 – Processing of confirmations (*trade debtors*)

- attendance at physical inventory counting:

>> B3.3 – Attendance at physical inventory counting questionnaire

The auditor is also provided with tailored working papers to design and document the audit field work and to highlight audit issues and misstatements identified:

>> B3.4 – Working papers

Finally, key ratio monitoring allows the auditor to ensure the consistency between trends and evidence obtained throughout the audit regarding the entity and the relevant industry:

>> B3.5 – Key ratios

Phase 4 – Summary of the engagement and reporting the opinion

On the basis of the evidence obtained including the results of the tests of controls and the substantive procedures performed, the auditor prepares a summary of audit conclusions and findings aimed at reaching a conclusion and substantiating his opinion.

Before issuing his report, he verifies that he has complied with all the requirements.

In the context of Small- and Medium-Sized Entities, conducting this verification with a tailored questionnaire should allow the auditor to check compliance while also documenting the approach on going concern, subsequent events and communication with those charged with governance.

>> A4.1 – Completion questionnaire *(including going concern, subsequent events and communication with those charged with governance)*

The auditor meets with the audit client on completion of the engagement to present the conclusions reached. The following report, intended for the entity's management, makes it easier to conduct the meeting:

>> A4.2 – Audit findings report *(PowerPoint and Word versions)*

The preparation of a summary memorandum additional to the audit findings report allows the auditor to decide not only upon the opinion he will express but also upon the engagement continuance for the next period:

>> A4.3 – Additional summary memorandum

Before preparing the auditor's report on the financial statements, the auditor obtains written representations from his client confirming that he believes he has fulfilled his responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor, and to support other audit evidence relevant to the financial statements or specific assertions:

>> B4.1 – Management's representations

Once those verifications have been obtained, the auditor decides how to report his opinion and prepares his report on the financial statements:

>> B4.2 – Questionnaire to prepare the auditor's report on the financial statements

>> B4.3 – Auditor's reports on financial statements

Practice considerations

How to use the tools?

The tools offered to you in the Pack SMEs are office tools (MS Office suite).

They are ready for use and user-friendly.

Warning: we **draw your attention to the fact that they do not represent alone a complete audit file** and that they need to be supplemented by additional working papers on the basis of identified risks.

Furthermore, you are not required to use all the provided tools in Pack SMEs for each audit file. The auditor assesses whether their use is relevant based on his professional judgment.

In addition, in the questionnaires provided, **when a reply to some question relates to a shaded grey cell** (with a red color in the electronic version), it results in **assessing its impact on the audit strategy** by the auditor.

Finally, the Pack SMEs is designed to “live”: as a user, you have probably observations and comments on this pack (contents of tools provided, additional tools to suggest...). Therefore, we invite you to send them to the following email address in order to enhance the future versions:

Procedures to activate macros

Three tools from the pack « *A2.1 Preliminary analytical review* », « *A2.4 Risk analysis matrix* » and « *A3.1 Lead sheets* » include macros.

You need to enable macros on your computer to operate these tools.

The procedure to activate macros is integrated into the file directory of Pack SMEs.

Depending on the security level set in your system, such activation procedure might not be necessary.

As stipulated in the Pack SMEs user agreements, there is no technical support provided by IEKA for the office tools offered. It is the auditor's responsibility to make arrangements to ensure their proper installation and operation.

Pack SMEs user agreements

- The SME concept considered in the Pack SMEs relates to any form of SME and is not linked to any amount or threshold. This concept does not include listed entities.
- The proper use of Pack SMEs tools is the auditor's sole responsibility and it is assumed that the auditor has the appropriate understanding of International Standards on Auditing (ISAs), International Standard on Quality Control (ISQC1) and the Code of Ethics for Professional Accountants (IESBA code);
- It does not relieve him from exercising professional judgment and does not exempt him from performing audit procedures appropriate to the characteristics and specifics of each audit engagement, while ensuring compliance with International Standards on Auditing (ISAs);
- In order to use the Pack SMEs under the best conditions, auditors are highly recommended to take the training sessions tailored to SMEs offered by *[name of the professional institute of which the auditor is a member]*;
- The use of Pack SMEs office tools requires the following minimum computer configuration:
 - Operating system: Windows XP
 - MS Office version: 2003 (optimal performance from MS Office 2007);
- There is no technical support provided by the professional institute for the office tools offered.
It is the auditor's responsibility to make arrangements to ensure proper installation and operation;
- Three tools from the pack « *A2.1 Preliminary analytical review* », « *A2.4 Risk analysis matrix* » and « *A3.1 Lead sheets* » require a procedure to activate macros to be applied (see page 8).

The Audit Pack for SMEs can be downloaded
from the IEKA website

www.ieka.al



APPROACH TO AUDITING FINANCIAL STATEMENTS IN SMALL-AND-MEDIUM-SIZED ENTITIES

ISA version - March 2014

PACK SMEs

