LEBANESE AMERICAN UNIVERSITY

COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING (ISA) IN LEBANON

By

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September, 1996
COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING (ISA)

IN
LEBANON

A RESEARCH TOPIC
PRESENTED TO BUSINESS SCHOOL
LEBANESE AMERICAN UNIVERSITY

IN PARTIAL FULFILLMENT
OF THE REQUIREMENT FOR THE DEGREE
MASTER OF SCIENCE IN BUSINESS MANAGEMENT

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SEPTEMBER 1996
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BEIRUT LEBANON

APPROVAL OF RESEARCH TOPIC

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DATE : SEPTEMBER 1996
DEGREE : MASTER OF SCIENCE IN BUSINESS MANAGEMENT

TITLE OF RESEARCH TOPIC: COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING (ISA) IN LEBANON

THE FOLLOWING PROFESSORS NOMINATED TO SERVE AS THE ADVISORS OF THE ABOVE CANDIDATE HAVE APPROVED HER RESEARCH WORK.

ADVISORS

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[Initial]

MR. MOUNIR JOUDY
TO MY PARENTS
TO MY SISTERS
ACKNOWLEDGMENT

My sincere thanks to my advisors Miss RANDA TAKASH

& Mr. MOUNIR JOUDY for their valuable advises and to my father

MANSOUR for his support and encouragement.

SAMAR JABER

SEPT. 1996
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Introduction

**Purpose of the research:**

The purpose of this research is to find if Audit firms are in compliance with International Standards on Auditing, and if there is any specific Lebanese laws that conflict or surprises these standards.

**Organization of the paper:**

The paper is organized as follows:

I- Chapter I defines International Audit Standards and shows the process of their development.

II- Chapter II describes the historical back ground of the auditing profession in Lebanon and laws or rules that govern it.

III- Chapter III highlights the methodology used in conducting the research.

IV Chapter IV shows the conflict between International Audit Standards and the practice in Lebanon.

V- Chapter V presents the results, and offers recommendations.
The Role Of The International Federation Of Accountants (IFAC):

International Federation of Accountants IFAC has a mission to develop and enhance the accounting profession able to provide services of consistently high quality in the public interest. Working toward this mission, the council of IFAC has established IAPC (International Auditing Practices Committee) to develop and issue, on behalf of the council, standards and statements on auditing and related services. IAPC believes that the issuing of such standards and statements will improve the uniformity of auditing practices and related services throughout the world.
Chapter I

International Audit Standards

I-1 **International Audit Standards:**

In this section we will give a quick preview of these standards by topic.

I-1-1 **Responsibilities:**

-ISA 1- Objective and General Principal Governing an Audit of Financial Statements:

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. As for the principals, the auditor should comply with the "Code of Ethics for Professional Accountants", conduct the audit in accordance with International Audit Standards, plan and perform the audit with an attitude of professional skepticism recognizing that circumstances may exist which cause the financial statements to be materially misstated.

The audit of the financial statements does not relieve management from its responsibilities for the preparation and presentation of financial statements.
-ISA 2-Terms Of Audit Engagements:

The auditor and the client should agree on the terms of the engagement and then issue an engagement letter. The engagement letter documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the audit, the extent of the auditor’s responsibilities and the form of reports. Where the terms of the engagement are changed, the auditor and the client should agree on the new terms. The auditor should not agree on a change where there is no reasonable justification for doing so. If management insists and limits the scope of audit, the auditor should withdraw, and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances leading to the withdrawal.

-ISA 7-Quality Control For Audit Work:

Quality control policies and procedures should be implemented at both the level of the audit firm and on individual audits. The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with International Audit Standards or relevant national standards or practices.
Quality control policies and procedures should be communicated to the firm’s personnel in a manner that provides reasonable assurance that they are understood and implemented correctly.
ISA 9- Documentation:

The auditor should document matters that are important in providing evidence to support the audit opinion and proof that the audit was carried out in accordance with International Audit Standards. The auditor should record in the working papers planning, the nature, timing and the extent of the audit procedures performed, the results there of, and the conclusions reached from the audit evidence obtained. Working papers are the property of the Audit Firm. They should be kept confidential and safe in accordance with legal and professional requirements of record retention.

ISA 11- Fraud and Error:

The objective of this International Audit Standard is to provide guidance on the auditor’s responsibility to consider fraud and error in an audit of financial statements.

The term “fraud” refers to an intentional act made by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements.

Fraud may involve:

-Misappropriation of assets.

-Recording of transactions without substance.

-Misapplication of accounting policies.
The term “error” refers to unintentional mistakes in the financial statements, such as:

-Oversight or misinterpretation of facts.

-Mathematical or clerical mistakes in underlying records and accounting data.

The responsibility of prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems.

The auditor could not be held responsible for the prevention of the fraud and error, although he must give the appropriate professional care by:

- Assessing the risk that may rise due to fraud and error.

- Inquiring from management for any fraud and error detected by the internal control system.

- Designing audit procedures to obtain reasonable assurance that misstatements arising from fraud and error that are material to the financial statements taken as a whole, are detected.

When the application of audit procedures designed from the risk assessment indicates the possible existence of fraud or error, the auditor should consider the potential effect on the financial statements. If the auditor believes that the indicated fraud or error could have a material effect on the financial statements, the auditor should perform appropriate, alternative or additional procedures.
After the application of additional procedures, the auditor should communicate his findings to management. Here, we have several instances:

- The matter could be properly reflected or corrected in the financial statements, thus no modification of the auditor opinion is necessary.

- The matter was not properly reflected or corrected in the financial statements. Then, the auditor should express a qualified or an adverse opinion according to the findings.

- The management may preclude the auditor from obtaining sufficient appropriate audit evidence. Then, the auditor should express a qualified opinion or a disclaimer of opinion due to scope limitation.

- When the auditor finds that the top management authorities are overlapping. That may affect the reliability of management representations, he should seek legal advice and may withdrawal from the engagement.

-ISAC 31- Consideration Of Laws And Regulations In An Audit Of Financial Statements:

The objective of this International Audit Standard is to provide guidance on the auditor’s responsibility to consider laws and regulations in an audit of financial statements. When planning and performing audit procedures, and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance of the entity with laws and regulations may materially affect the financial statements.
The term "noncompliance" refers to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws and regulations. Such acts, include transactions entered into by, or in the name of, the entity or in its behalf by its management or employees.

It is the management’s responsibility to ensure that the entity’s operations are conducted in accordance with laws and regulations. The responsibility of prevention and detection of noncompliance rests with management.

The auditor is not, and cannot be held responsible for preventing noncompliance, although he must give appropriate professional care by:

- Obtaining a general understanding of the legal and regulatory framework applicable to the entity and the industry, and how the entity is complying with that framework.

- Inquiring of management whether the entity is in compliance with such laws and regulations.

- Reading minutes, inquiring of the entity’s management and legal counsel concerning litigation, claims and assessments, and performing substantive tests of details of transactions or balances.

- Inspecting correspondence with the relevant licensing or regulatory authorities.
When the auditor becomes aware of information concerning a possible instance of noncompliance, the auditor should obtain an understanding of the nature of act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements. The auditor should document the findings and discuss them with management.

If the auditor concludes that the noncompliance has a material effect on the financial statements, he should consider modifying his opinion accordingly to qualified, adverse or disclaimer of opinion.

I-1-2 Planning

-ISA 4-Planning:

The objective of this International Audit standard is to provide guidance on planning an audit of financial statements. The auditor should plan the audit work so, that the audit will be performed in an effective manner.

"Planning means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner."

Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to assistants and in coordination of work done by other auditors and experts.

In order to achieve an appropriate planning the auditor should develop and document an audit plan and an audit program.
The auditor should consider in developing the audit plan the following factors:

- Knowledge of the business.
- Understanding the accounting and study the internal control systems.
- Risk and materiality.
- Coordination, Direction, Supervision and Review.
- Other matters such as going concern, related parties ....

The auditor should develop and document an audit program, setting out the nature timing and extent of planned audit procedures required to implement the overall audit plan. The audit program serves as a set of instructions to assistants involved in the audit and as a means to control and record the proper execution of work.

Finally the overall audit plan and the audit program should be revised as necessary during the audit.

ISA 30-Knowledge of the business:

The objective of this International Audit Standard is to provide guidance on what is meant by knowledge of the business, and how the auditor obtains and uses that knowledge.

"Knowledge of the business" means the auditor's general knowledge of the economy and the industry within which the entity operates and a more particular knowledge of how the entity operates.
The auditor can obtain knowledge of the industry and the entity from different sources. For example:

- Previous experience with the entity and its industry.
- Discussion with people in the entity such as: directors, seniors and operating personnel ......
- Legislation and regulations that significantly affects the entity.
- Visits to the entity’s premises and plants’ facilities.

Such knowledge is used by the auditor in assessing inherent and control risks and in determining the nature, timing and extent of audit procedures. To make effective use of knowledge about the business, the auditor should consider how it affects the financial statements taken as a whole and, whether the assertions in the financial statements are consistent with the auditor’s knowledge of the business.

-ISA 25- Audit Materiality:

Upon planning the audit, the auditor should consider materiality and its relationship with audit risk:

"Materiality “is defined in the International Accounting Standards Committee’s in the following terms:

Information is material if its omission or misstatement could influence the economical decisions of users taken on the basis of the financial statements.
Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus materiality provides a threshold or cutoff point rather than being primary qualitative characteristic which information must have if it is to be useful.

Materiality should be considered by the auditor when:

- Determining the nature, timing and extent of audit procedures.

- Evaluating the effect of misstatements.

If management refuses to adjust the financial statements and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should consider the appropriate modification to the auditor’s report according to ISA “The Auditor’s Report On Financial Statements “

I-1-3 Internal Control:

-ISA  6- Risk Assessments and Internal Control:

The objective of this International Audit Standard is to provide guidance to understand the accounting and internal control systems of the entity audited, and how to assess the audit risk.

When obtaining an understanding of the accounting and control systems to plan the audit, the auditor obtains a knowledge of the design of the accounting and control systems, and their operations.
The term “accounting system” means the series of tasks and records of an entity by which transactions are processed as a mean of maintaining financial records.

The term “internal control system” means all the policies and procedures adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as, practicable, the orderly and sufficient conduct of its business.

The auditor should use professional judgment to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level.

“Audit risk” means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Audit risk has three components: Inherent risk, Control risk and Detection risk.

-“Inherent risk” the susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structures policies or procedures. The risk of such misstatement is greater for some assertions and related balances than others for example cash.

-“Control risk ”the risk that a misstatement could occur in an account, balance or class of transactions that could be material or individually or when aggregated with misstatements in other balances, or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems.

-“Detection risk ”the risk that an auditor’s substantive procedures will not detect a misstatement that exists in an account or class of transactions that could be material individually or when aggregated with balances or classes.
The higher the assessment of inherent and control risk, the more audit evidence the auditor should obtain from the performance of substantive procedures. When the auditor determines that risk detection regarding a financial statement cannot be reduced to an acceptably low level, the auditor should express a qualified opinion or a disclaimer of opinion.

Audit Risk = Inherent Risk * Control Risk * Detection Risk
AR = IR * CR * DR

There is an inverse relationship between detection risk and the combined level of inherent and control risks, as shown in the table under:

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<th>Auditor's assessment of inherent risk</th>
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-ISA 15-Auditing in a computer Information systems Environment:

In accordance with ISA “Risk Assessments and Internal Control” the auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. In planning the portions of the audit which may be affected by the client’s CIS(Computer Information Systems) environment, the auditor should obtain an understanding of the significance and complexity of the CIS activities and the availability of data for use in the audit and whether CIS may influence the assessment of inherent and control risks. CIS environment should be considered in designing audit procedures to reduce audit risk to an acceptably low level.
Addenda 2 to ISA 6: Audit Considerations Relating to Entities Using Service Organizations:

The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance to an auditor whose client uses a service organization. The auditor should consider how a service organization affects the client’s accounting and internal control systems so as to plan the audit and develop an effective audit approach.

I-1-4 Audit Evidence:

-ISA 8-Audit Evidence:

The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which the audit opinion will be based. Sufficiency and appropriateness are interrelated and applied to audit evidence obtained from both tests of control and substantive procedures.

Sufficiency is the measure of the quantity of audit evidence.

Appropriateness is the measure of the quality of audit evidence and its relevance to a particular assertion and its reliability.

Ordinarily, the auditor finds it is necessary to rely on audit evidence that is persuasive rather than convincing and will often seek audit evidence from different sources or of a different nature to support the same assertion. If, he is unable to obtain sufficient appropriate audit evidence, however the auditor should express a qualified opinion or a disclaimer of opinion.
Procedures for obtaining Audit Evidence:

1-Inspection.

2-Observation.

3-Inquiry and confirmation.

4-Computation.

5-Analytical procedures.

Addenda to ISA 8: Audit evidence - Additional considerations of specific Items:

This ISA comprises the following parts:

**Part A: Attendance of Physical Inventory Counting:**

When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by observing the physical inventory counting unless impracticable.

If he is unable to attend, the auditor should take or observe some physical counts on an alternative date. When necessary, he should perform tests of intervening transactions.

Where physical inspection or count is impracticable, due to factors such as of the nature and location of the inventory. The auditor should consider whether alternative procedures provide sufficient appropriate audit evidence of existence and conditions. Then the auditor should conclude if he must not make reference to a scope limitation.
**Part B: Confirmation of accounts receivable:**

When the accounts receivable are material to the financial statements, and when it is reasonable to expect debtors to respond, the auditor should plan to obtain direct confirmation.

Direct confirmation provides reliable audit evidence as to the existence of debtors and the accuracy of their recorded account balances.

When it is expected that debtors will not respond, the auditor should plan to perform alternative procedures such as examining subsequent cash collection related to the specific account balance at period end.

The request for confirmation of balances may take:

- Positive form, in which the debtor is asked to reply by agreement or to express disagreement with the recorded balance.

- Negative form, in which a reply is requested only if there is disagreement with the recorded balance.

The choice between positive and negative forms will depend upon the circumstances, including the assessment of both inherent and control risks. A combination of positive and negative forms may be used.

When management requests the auditor not to confirm certain accounts receivable balances, the auditor should consider if there is any valid reason for such request. He should examine any available evidence to support management’s explanations, then apply alternative procedures.
Part C: Inquiry Regarding litigation and Claims:

Litigation and claims involving an entity may have a material effect on the financial statements and thus may be required to be disclosed and, or provided for in the financial statements.

The auditor should carry out procedures to become aware of any litigation and claims involving the entity that may have a material effect on the financial statements. Such procedures would include:

- Make appropriate inquiries of management including obtaining representations.

- Review board minutes and correspondence with the entity’s lawyers.

- Examine legal account expense.

When litigation or claims have been identified or when the auditor believes that they may exist, the auditor should seek direct communication with the entity’s lawyers.

The letter, which should be prepared by management and sent by the auditor, should request the lawyer to communicate directly with the auditor. The letter would ordinarily specify:

- A list of litigation’s and claims.

- A request that the lawyers confirm the reasonableness of management’s assessments and provide the auditor with further information if the list is considered by the lawyer to be incomplete or incorrect.
If management refuses to give the auditor permission to communicate with the entity’s lawyers, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion.

**Part D: Valuation and disclosure of long-term Investments:**

When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.

**Part E: Segment Information:**

When segment information is material to the financial statements the auditor should obtain sufficient appropriate audit evidence regarding its disclosure according to the identified financial reporting framework.

-ISA 28 -Initial Engagements -Opening Balances:

For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that:

- The opening balances do not contain misstatements that materially affect the current period’s financial statements.

- The prior period’s closing balances have been correctly brought forward to the current period or, when appropriate, have been restated.

- Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for, and adequately disclosed.
ISA 12-Analytical procedures:

The objective of this International Audit Standard is to provide guidance on the application of analytical procedures.

"Analytical procedures" means the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.

Analytical procedures include:

- The consideration of comparisons of the entity's financial information with: comparable information for prior periods, budgets, forecasts or similar industry information.

- The consideration of relationships: among elements of the financial information or between financial information and non-financial information.

Analytical procedures are used for the following purposes:

- To assist the auditor in planning the, nature, timing and extent of other audit procedures.

- As substantive procedures when their use can be more effective or efficient than tests of details in reducing detection risk for specific financial statement assertions.

- As an overall review of the financial statements in the final review stage of the audit.
The extent of reliance on the results of analytical procedures depends on the following:

- Materiality of the items involved.

- Other audit procedures directed toward the same audit objectives.

- Accuracy with which the expected results of analytical procedures can be predicted.

- Assessment of inherent and control risks.

When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information, or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence.

- ISA 19- Audit sampling:

The objective of this International Audit Standard is to provide guidance on the design and selection of an audit sample and the evaluation of the sample results.

“Audit sampling” means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form, or assist in forming a conclusion concerning the population.
When designing an audit sample, the auditor should consider:

- The specific audit objectives.

- The population from which the auditor selects his sample.

- The sample size.

The auditor should select sample items in a way that the sample can be expected to be representative of the population.

Having carried out, on each sample item, those audit procedures that are appropriate to the particular audit objective, the auditor should:

- Analyze any errors detected in the sample.

- Project the errors found in the sample to the population.

- Reassess the sampling risk.

-ISA 26- Audit of Accounting Estimates:

The auditor should obtain sufficient appropriate audit evidence regarding accounting estimates. Accounting estimate means an approximation of the amount of an item in the absence of a precise means of measurements; example: Accrued revenues; Deferred tax; Provision for a loss from a lawsuit. The auditor should make an assessment of the reasonableness of the estimate based on the auditor’s knowledge of the business, and whether the estimate is consistent with other audit evidence obtained during the audit.
ISA 17-Related parties:

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure of related parties made by management and the effect of related party transactions that are material to the financial statements. Parties are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions.

ISA 21-Subsequent Events:

The auditor should consider the effect of subsequent events on the financial statements and the auditor’s report.

We have two types of events.

-Events occurring up to the date of the Auditor’s Report.

-Facts discovered after the date of the Auditor’s Report but before the financial statements are issued, or after the financial statements have been issued.

ISA 23-Going Concern:

When planning and performing audit procedures and evaluating the results thereof, the auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements. If adequate disclosure is made, the auditor should ordinarily express an unqualified opinion and modify the auditor’s report by adding an emphasis of a matter paragraph that highlights the going concern issue by adding note in the financial statements that discloses the matters.
If adequate disclosure is not made in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate.

**-ISA 22-Management Representations:**

The auditor should obtain appropriate representations from management. He should obtain evidence that management acknowledges its responsibility on the fair presentation of the financial statements in accordance with relevant financial reporting framework, and has approved the presentation. If the representation made by management is contradicted by other audit evidence, the auditor should investigate, and when necessary, reconsider the reliability of other representations.

If management refuses to provide a representation that the auditor considers necessary, this constitutes a scope limitation, and the auditor should express a qualified or a disclaimer of opinion.

**I-1-5 Using work of others:**

**-ISA 5- Using the work of other auditor:**

When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.

"Principal auditor "means the auditor with responsibility of reporting on the financial statements of an entity when those financial statements include financial information of one or more components audited by another auditor."
“Other auditor "means an auditor, other than the principal auditor, with responsibility of reporting on financial information of a component which is included in the financial statements audited by the principal auditor. Other auditors include affiliate firms, whether using the same name or not, and correspondents, as well as in related auditors.

When the principal auditor concludes that the work of the other auditor cannot be used, and that the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion, due to scope limitation.

-ISA 10- Considering the Work of Internal Auditing:

The external auditor should consider the activities of internal auditing and their effects, if any, on external audit procedures. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function’s objectives vary according to management’s requirements. Internal auditing is part of the entity irrespective of the degree of autonomy and objectivity of internal auditing it cannot achieve the same degree of independence as the external auditor.
The external auditor should obtain a sufficient understanding of internal audit activities to assist in planning the audit, and developing an effective audit approach. When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and test that work in order to confirm its adequacy for the external auditor’s purposes.
-ISA 18 -Using the Work of an Expert:

When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purpose of audit.

"Expert "means a person, or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing. For example: Valuations of certain types of assets, land and buildings, plant and machinery, works of art, and precious stones.

If the results of the expert's work do not provide sufficient, appropriate audit evidence, or if the results are not consistent with other audit evidence, the auditor should resolve the matter by engaging another expert or, modifying the auditor's report.

When issuing an unmodified auditor's report, the auditor should not refer to the work of the expert.

1-1-6 Audit Conclusions and Reporting:

-ISA 13 -The Auditor 's Report on Financial Statements:

The auditor should review and assess the conclusions reached from the audit evidence obtained as a basis of expression of an opinion on the financial statements. The auditor 's report should contain a clear-cut written expression of opinion on the financial statements taken as a whole.
The auditor’s report includes the following basic elements, ordinarily in the following layout:

- Title.

- Addressee.

- Opening or introductory paragraph.

- Scope paragraph (describing the nature of an audit).

- Opinion paragraph containing an expression of opinion on the financial statements.

- Date of the report.

- Auditor’s address.

- Auditor’s signature.

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects), in accordance with the identified financial reporting framework.
An auditor’s report is considered to be modified in the following situations:

A-Matters That Do Not Affect the Auditor’s Opinion

- Emphasis of a matter.

B-Matters that do affect the auditor’s opinion

- Qualified opinion.

- Disclaimer of opinion.

- Adverse opinion.

-ISA 14-Other information in documents containing audited financial statements:

The auditor should read other information to identify material inconsistencies with audited financial statements. Material inconsistency exists when other information contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions reached from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements.

I-1-7 Specialized Areas:

-ISA 24-The Auditor’s Report on Special Purpose Audit Engagements:

The auditor should review and assess the conclusion obtained from the audit evidence gathered during the special purpose audit engagement as the basis for an expression of opinion.
The report should contain a clear written expression of opinion. Before undertaking a special purpose audit engagement, the auditor should ensure that there is agreement with the client on the exact nature of the engagement and the form and content of the report to be issued.

We have several kinds of reports on special purpose audit engagement.

A-Reports on Financial Statements Prepared in Accordance with a Comprehensive Basis of Accounting other than International Accounting Standards, or National Standards.

B-Reports on Component of Financial Statements.

C-Reports on Compliance with Contractual Agreements.

D-Reports on Summarized Financial Statements.

-ISA 27-The Examination of Prospective Financial Information:

In an engagement of examining a prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:

-Management's best-estimate assumptions on which the prospective financial information is based, are not unreasonable and, in case of hypothetical assumptions, such assumptions are consistent with the purpose of the information.
-The prospective financial information is properly presented, and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions, or hypothetical assumptions.

- The prospective financial information is prepared on a consistent basis with historical statements, applying appropriate accounting principals.

1-1-8 Related services (RSs):

-ISA/ RS1&2- Engagements to Review Financial Statements:

The objective of a review of financial statements is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an identified financial reporting framework (negative assurance).

-ISA/RS3 -Engagements to Perform Agreed - Upon Procedures Regarding Financial Information:

The objective of an agreed - upon procedures' engagements is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed on and to report on factual findings.
-ISA/RS4 - Engagements to Compile Financial Information:

The objective of a compilation is for the accountant, to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information. An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework.
Chapter II

Historical background

II-1 The Lebanese Association Of Certified Public Accountants: (LACPA)

II-1-1 Before the passage of law 364/94:

The Lebanese Association of Certified Public Accountants (LACPA) was founded by resolution 518/1 issued by the minister of labor in 1963. The aims of the association were to develop the accounting profession, and to improve the quality of services rendered by practicing accountants.

Working towards those aims, the association has been trying to achieve its goals by:

- Joining different regional and international professional bodies, the most important was the International Federation of Accountants (IFAC).

- Bringing to its members all new technical pronouncements of the above professional bodies.

- Organizing many training sessions and seminars.

- Implementing disciplinary actions over those failing to comply with the ethical standards of the profession.
However, resolution 518/1 did not give the association the necessary authorities to enable it to achieve its aims; accountants were allowed to practice accounting without being members of the association, and thus were not obliged to abide by its regulations and resolutions.

In fact, the above situation lasted for a long time, until the passage of law 364/94 which aimed at “organizing and regulating the profession of certified public accountants (CPA) in Lebanon”.

II-1-2 Law 364/94:

Law 364/94 promulgated in August 1994 includes a set of provisions governing the incorporation of the Lebanese Association of Certified Public Accountants. Its organization, membership requirements and rights and obligations of its members. It also regulates the work of the association council and shows its related authorities.

Besides, the law contains specifications regarding discipline and relevant sanctions. It rules that any failure to comply with ethical requirements of the profession or the inability to justify any departures therefrom, may constitute a professional misconduct that could give rise to a disciplinary action.

Articles 55 through 59, contain a set of provisions governing the audit function in general, unless a member in the LACPA:

- No accountant is allowed to be registered in the list of experts constituted by the decree law 54/53.

- No auditor is allowed to practice auditing.
Articles 60 through 66 include a set of transitional provisions. According to these articles:

- The minister of finance together with the minister of economy, directly after the promulgation of this law in the official paper, should appoint an establishing committee. This committee is to practice the authorities of the association council before the latter is elected.

- The LACPA established by minister of labor resolution 518/1 in 1963 is to be dissolved directly after the assignment of the above committee.

In addition, these articles clearly determined a transitional period of one year, during which practitioners should apply to the membership of the LACPA.

Now, the transitional period has finished and a sum of 1627 practitioners has been accepted as members in the association. During the year 1996 the committee has published and approved the bylaws on Feb., 10, 1996, and it's discussing the code of ethics to be followed in LACPA. The association has to face further challenges.

In the following pages, two major problems regarding auditing practices are discussed; Auditing legal environment and the degree of compliance with the ISAs. These problems are, in our opinion, ones of the most important challenges facing the LACPA in the present time.
II-2 Auditing Legal Environment:

II-2-1 In Lebanon:

In Lebanon, few legislations govern the audit function. The most important are, Commercial law and code of money and credit, in addition to certain decrees issued by the Ministry of finance, and circulars, issued by the Banking Control Commission. However, the scope of application of these regulations differs when it is addressed to the auditors of the banking sector as stated in the following discussion.

Here, we will present the audit regulations (almost the only ones) regarding auditors of each kind of entities:

II-2-1-1 Joint Stock Companies:

Auditing of joint stock companies is governed by the provisions of Commercial law in its articles 172 through 178.

These articles state that the founders’ meeting and thereafter, the ordinary general assembly should appoint one or more auditors for a period of one year, in addition to one additional auditor appointed by the president of the court within the jurisdiction of the head office of the company. The law gives these auditors the right to maintain a constant control over the company’s activities and to pursue all deeds, documents and vouchers. It determines a period of fifty days before the shareholders meeting that the auditor should receive the financial statements prepared by the company’s management. The said auditors shall submit a report expressing a clear opinion on the financial statements submitted by the board of directors to the annual shareholders meeting and their recommendations concerning the distribution of dividends. They should also call for a meeting of shareholders every time the directors fail to do so or whenever the auditors deem necessary.
The said call shall be imperative when requested by a group of shareholders representing one fifth of the capital stock.

Finally, articles 177 and 178 forbid any relationship between auditors and any third party interested in affecting the company stock price in the bourse. They rule that the auditors are held responsible either individually or collectively for any default or fault in control and consultation.

II-2-1-2  **Stock Commandite Companies:**

Article 236 of commercial law determines the number of auditors in such companies to be at least three, including the auditor appointed by the court.

II-2-1-3  **Limited Liability Companies:**

The decree 35/67, in its articles 30 and 31 gives the partners the right to appoint one or more auditors. It rules that this appointment becomes imperative in case of:

- The number of partners is greater than twenty.

- The capital increases beyond certain limit.

- One or more partners representing one fifth of the company's capital asked for this appointment.

According to the above law, the said auditors must be registered in the schedule of experts and should not be:

- The directors or their close relatives.

- Partners who made contributions in kind.
-Persons earning periodic salaries from the company or from its directors, or their close relatives.

The decree 35/67 also decides that those auditors should abide by the provisions of Commercial law regarding auditors of joint-stock CO, as long as these provisions are applicable.

II-2-1-4 Off-Shore Companies And Holding Companies:

Decrees 45/83 and 46/83, governing the activities of holding Co. And off-shore Co., respectively, include provisions regarding the audit function in these companies.

Articles 5 and 3 of the two decree laws respectively, rule that each of the two companies should appoint at least one main Lebanese auditor, residing in Lebanon, for a period which may extend to three years.

Before continuing the discussion, it is worth saying that the provisions of Commercial law regarding auditors in joint-stock co. are to be applied to limited liability co. and stock commandite co. whenever no special provisions exist. In fact, article 234 of Commercial law amended by the decree 54/77 and article 31 of the decree 35/67 in its last part, both states that the provisions of Commercial law concerning auditors of joint-stock co. are to be applied to auditors of stock - commandite co. and limited liability co. when necessary.
II-2-1-5  Individual Establishments And Persons Companies:

Neither commercial law nor any other law, did mention the obligation of appointing auditors in individual establishments or persons' companies. But in case the owners decided to appoint such an auditor and if the latter accepted this appointment then the provisions of laws regarding auditors are to be applied.

II-2-1-6  Auditing in the banking sector:

In addition to what was mentioned in commercial law about auditors and the audit function, money and credit law in its Articles 185 through 191 contains a set of provisions regarding auditors in the banking sector, their appointment and additional responsibilities:

-Their appointment extends for a period of three years.

-They should prepare the usual report (177- Commercial law) with an additional one, explaining the details of their audit jobs, assessing the degree of conformity of the bank activities with applicable laws and regulations and disclosing any departures therefrom. They should also prepare a report showing the credits granted to the directors. Two copies of these reports are to be sent, one to the governor of the Central Bank, and another to the president of the Banking Control Commission.

-They should abide by the provisions of the Banking confidentiality law.

Article 191 of this law stated that the government would issue a decree setting further regulations on the auditing process in the banking sector.
Actually, the above decree was issued under the number 1983, dated 25/9/1971 containing details and specifications, the most important of which, are:

-Banks auditors are required to meet further specific qualifications.

-Persons related directly or indirectly to the bank are not allowed to audit its financial statements.

-Auditors may not only be held responsible under civil and penal laws, but may also be subjected to further disciplinary actions as well.

Article 12 of this law decides that bank auditors should issue the report of the article 175 of Commercial law with the following additional contents:

-General presentation of the financial statements.

-Observed states of non-compliance with laws.

-A clear statement that the auditors had checked the management’s assertions especially those related to:

1- Debited accounts and allowances for doubtful debts.

ii- Depreciation.

iii-Subsidiaries.

iv-Dividends proposed for distribution.
It is worth mentioning that the decree No 8089 dated March, 15, 1996 has obliged all companies whose revenues exceed 750 Million LBP or have more than 25 employees to submit audited financial statements to the ministry of finance with their income tax return schedule.

As a result, it is quite clear that in Lebanon legal and professional environments of auditing are not sufficient to provide a high quality audit profession in the country.

That in the absence of sufficient national standards and regulations, the Lebanese auditors have the obligation to comply with the ISA in order to ensure a high standard of the profession.
Chapter III

Methodology

III-1 Research design:

The research conducted is descriptive in nature. Its objective is to describe the audit practice in Lebanon and consider whether it complies with International Audit Standards. The research is also qualitative, since the data gathered is not quantifiable. It consists of facts to be presented rather than statistical data to be analyzed.

III-2 Data collection method:

Data was collected by means of:

-Secondary data:

Secondary or historical data are data previously collected and assembled for some project other than the one at hand.

Advantages of secondary data:

The primary advantage of secondary data is that obtaining, it is usually less expensive than acquiring primary data. In addition, secondary data can usually be obtained rapidly thus it helps saving time.
Disadvantages of secondary data:

The primary disadvantage of secondary data is that it was not designed specifically to meet the researcher’s needs. It may contain outdated information or variation in definition of terms. The secondary data in the research consists of books, articles, accounting and audit journals circulars and laws.

They are reliable enough because:

- They are issued by standard setters and professionals.

- They describe the most recent practices

-Questionnaire:

Relevance and accuracy are the two basic criteria to be met if the questionnaire is to achieve its purpose.

A questionnaire is relevant if no unnecessary information is collected, and if the information needed to solve the problem is obtained.

Accuracy means that the information is reliable and valid.

Advantages of questionnaires:

- Geographic flexibility: questionnaires can reach a geographically dispersed sample simultaneously, and at a relatively low cost.

- Respondent convenience: Questionnaires can be filled out whenever the respondent has time. Thus there is a better chance that respondents will take time to think about their replies.
-Cost: Questionnaires are relatively low cost compared with personal interviews.

**Disadvantages of questionnaires:**

- Speed of data collection: researcher has no control over the return of questionnaires.

- Respondent cooperation: using questionnaires, researcher may expect low response rate.

- Possibility for respondent misunderstanding: using questionnaires, the respondent will not have the interviewer assistance for any clarification.

The questionnaire used in the research is relevant because it is limited only to the main objective of the research which is International Audit standards.

To make sure that the information is reliable and valid, personal interviews were done in parallel with the questionnaires

**Advantages of personal interviews:**

- The opportunity of feedback: Personal interviews provide the opportunity for feedback to the respondent.

- Probing complex Answers: personal interviews provide the opportunity to probe. Probing refers to interviewers asking for clarification or expansion of answers to standardized questions.

- Length of interview: Personal interviews may be much longer than telephone interviews, and more preferable than lengthy questionnaires.
-Complete questionnaires: the social interaction between the interviewer and the respondent increases the likelihood that a response will be given to all items on the questionnaires.

Disadvantages of personal interviews:

-Confidentiality: in a personal interview, respondents are not anonymous and therefore may be reluctant to provide confidential information to another person.

-The rephrasing of a question: the interviewer's tone, and the interviewer's appearance may affect the respondent's answers.

-Personal interviews are generally more expensive than mail and telephone interviews.

III-3 Sampling:

Sampling involves any procedure using a small number of items or parts of the whole population to make conclusions regarding the whole population. A sample is a subset or some part of a larger population.

A population or universe, is any complete group of people, that share some set of characteristics. There are many pragmatic reasons for sampling. Sampling cuts costs, reduces manpower requirements, and gathers vital information quickly. When the population elements are largely homogeneous, samples are highly representative of the population.
III-4 Target population:

Target population is the specific complete group relevant to the research project.

In the research, the target population is practicing audit firms in Lebanon.

III-5 Sampling technique:

In the research, non probabilities sampling were used.
In the non probability sampling the probability of any particular member of the population chosen is unknown.

Two types of non probability sampling were used:

- Conveniencesampling: refers to the procedure of obtaining units or people who are most conveniently available. In the research, the firms selected were mainly situated in Beirut.

- Judgment or purposive sampling: is a non probability sampling technique in which experienced individual selects the sample based upon his or her judgment about some appropriate characteristic required of the sample members.

In the research, samples were chosen upon recommendation of professionals and practitioners in the audit.
**III-6 Interpretation of results:**

Since the research is descriptive and qualitative in nature, results were interpreted through:

1- comparison between data gathered from the questionnaires and interviews with data gathered concerning Lebanese audit requirements.

2- comparison between data gathered from questionnaires and interviews with secondary data concerning International Audit Standards.
Chapter IV

Results of the research

IV-1 As we have done in chapter I, we will present results following the same sequence:

IV-2 Responsibilities:

-ISA 1-Objective and General Principal Governing an Audit of Financial Statements:

The main subject tackled in this ISA was the compliance with the “Code of Ethics for Professional Accountants.” We find that 83% of the sample chosen communicates with the predecessor auditor before accepting a potential audit job. As for conducting the audit in accordance with International Standards on Auditing, we find and based on the interviews, that only the big firms that are subsidiaries of international companies comply and execute the audit according to ISA by the percentage of 90%. The others comply to some extent unknowing that they are applying ISA.
-ISA 31- Consideration Of Laws and Regulations In An Audit of Financial Statements:

The result of the questionnaire proves that 92% of the firms obtains an understanding of the legal and regulatory framework applicable to the audited entity. From Interviews, we find that around 42% rely completely on management representation for this ISA without performing any procedure to obtain audit evidence corroborating the information.

VI-3 Planning:

-ISA 4-Planning:

The result of the questionnaire proves that 50% of the sample (all the big firms and half of medium firms) plans the audit according to ISA - 4 while the others apply only part of it.

-ISA 30- Knowledge of the business:

The result of the questionnaire proves that 92% of the firms obtains an understanding of the business and it's accounting system. This information is mainly obtained by previous experience with the entity and it’s industry, and discussion with people in the entity such as: directors, seniors, and operating personnel.
-ISA 25-Audit Materiality:

The result of the questionnaire proves that 75% of the firms determines the preliminary estimate of materiality for the audit as a whole. The result of interviews proves that only the subsidiaries of international firms have an adequate formula for the materiality. Local firms use personal judgment in determining the materiality level.

IV-3 Internal Control:

-ISA 6- Risk Assessments and Internal Control:

The result of the questionnaire proves that 92% of the firms evaluates the client’s internal control system at the planning stage that only 25% rely on it depending on the previous study. For the others: 58% rely heavily on the internal control and these are mainly the small firms, how set the internal control and do the accounting, for the entity audited. 50% rely moderately on the internal control. 42% does not rely on it or has weak reliance these are mainly the big firms.

As for the Risk assessment, only 58% evaluate overall audit risk. The interviews prove that actually only 42% of the firms does really evaluate the audit risk and these are: 100% of the big firms and 25% of the medium firms.

-ISA 15- Auditing in a computer Information systems Environment:

The result of the questionnaire proves that 33% of the firms uses computer assisted audit techniques. Interviews prove that only 25% have such techniques and these are some of the big firms. 75% are assisted by specialist, some are advisors of the audit firm and some are the programmers of the audited entity. 17% use other approaches.
IV-4 Audit Evidence:

-ISA 8- Audit evidence: -ISA 12-Analytical procedures:

The result of the questionnaire proves that 58% of the firms perform analytical review procedures to obtain audit evidence; this percentage is divided between big and medium firms. Big firms apply it 100%, and medium 50%. Small firms do not have such procedures and most of them audit the entity's records on a 100% basis.

Part A: Attendance of Physical Inventory Counting:

The result of the questionnaire proves that 66% of the firms do attend the physical inventory counting.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Big firms</td>
<td>100%</td>
</tr>
<tr>
<td>Medium firms</td>
<td>75%</td>
</tr>
<tr>
<td>Small firms</td>
<td>25%</td>
</tr>
</tbody>
</table>

All the firms make sure of the valuation of the inventory.

Part B: Confirmation of accounts receivable:

The result of the questionnaire proves that 83% of the audit firms send direct positive confirmations of accounts receivable, and 50% send negative confirmations. We notice that all the big firms use both kinds depending on circumstances including the assessment of both inherent and control risks. While only 50% of medium firms use both kinds simultaneously. None of the small firms use negative confirmation and 50% of them do not apply this standard completely.
Part C: Inquiry Regarding litigation and Claims:

The result of the questionnaire proves that 66% of the firms does obtain a letter from the lawyer’s entity explaining the litigation and claims and the reasonableness of management’s assessments if there are any. The above percentage is distributed between firms as follows:

- Big firms 100%
- Medium firms 50%
- Small firms 50%

-ISA 19- Audit Sampling:

The result of the questionnaire proves that 75% of the firms decides the types of testing and samples during the planning stage. We notice from interviews that the small firms do not apply this procedure because they mainly execute 100% study of the records.

-ISA 17- Related parties:

The result of the questionnaire proves that 66% of the audit firms performs specific procedures to obtain audit evidence about related parties and related parties' transactions. From the interviews we notice that the big firms apply this ISA 100%. Medium firms 50% and small firms do not apply any specific procedures they do not know the difference between these accounts and any other account.
-ISA 21- Subsequent Events:

The result of the questionnaire proves that 92% of the audit firms performs procedures to obtain audit evidence regarding subsequent events. While the interviews prove that 42% relies only on management representations and that small firms do not consider subsequent events since they occur after the period end.

-ISA 23- Going Concern:

All the firms do apply this International Standards on Auditing because it is a part of the fundamental accounting assumptions.

-ISA 22- Management Representations:

The result of the questionnaire proves that 75% of the audit firms obtains management representations.
The interviews prove that only the big firms and 25% of the medium firms obtain such representations.

IV-5 Using Work of others:

-ISA 5- Using he Work of other auditor:

The research proves that 100% of the big and medium firms do consider the work of other auditors who audit the financial statements of an affiliated company, when auditing the financial statements of the mother company.
Small firms do not have big companies and thus this ISA is not applicable on their level.
-ISA 10- Considering the Work of Internal Auditing:

This ISA was discussed in ISA 6 -Risk assessment and Internal control in section IV-3 Internal control.

V-6  Audit conclusions and reporting:

-ISA 13- The Auditor’s Report on Financial statements:

The result of the questionnaire proves that 33% of the firms, mainly big and medium, does have all kinds of reports in their firms. But if we consider the reports by type we find that:

100% do issue unqualified reports

92% do include an emphasis of a matter when necessary

42% do issue a disclaimer of opinion

42% do issue adverse opinion

We notice from interviews that small firms do not understand the difference between letter to management emphasis of a matter and qualified opinion. Thus all their reports are unqualified since the major part does the accounting and auditing at the same time.
ISA 14- Other information in documents containing audited financial statements:

The questionnaire proves that 75% of the firms does read other information (operational reports, financial ratio, financial summaries or highlights ...) to detect states of inconsistencies between this information and the audited financial statements. From interviews we find that small firms do not have companies big enough to issue such reports so the answer must be for this category 0%.

IV-7 General:

We find that 83% of the firms assesses management integrity and reputation before accepting new audit assignment. From interviews we find that this is not applicable to all small firms and some of the medium firms because the client does not approach these firms unless he has a good relationship with the auditor (neighbors, friend...)

58% of the firms do update its library with new standards issued and communicate them to its staff.

The interviews prove that:

- Big firms apply 100%
- Medium firms apply 25%
- Small firms apply 0%
75% do comply with an optional external quality requirement. The interview proves that 75% of the medium firms and all the small firms apply only when requested by the company or any other institution.

Finally we must say that based on the sample chosen and categories: Big firms apply International Standards on Auditing completely more than 91%.

Medium firms do apply 70% of the standards although some do not know that they are applying International Audit Standards.

Small firms apply by less than 45% because their main activity relies on accounting and that they do not have the skill nor the capacity to acquire ISA and apply them.
Chapter V

Conclusion and Recommendations

V-1- Conclusion:

As a conclusion we could say that the application of ISA is far behind in Lebanon. The questionnaire proves that 69% is applying International Audit Standards. While interviews prove that less than 50% is applying these standards completely.

Projected to the population the percentage of compliance by firms becomes 51%.

This is due to inexistence of Lebanese standards, laws and regulations enforcing application, and lack of awareness of the importance of standards.

V-2- Recommendations:

In order to overcome the above mentioned problems we recommend the following:

- LACPA should issue Lebanese standards that must be in harmony with ISA and not conflicting with national laws.
- These standards must be legitimized by the issuance of a law enforcing them.

- LACPA should not accept any practitioner unless he is applying the Lebanese standards set above.

- A new candidate should set for an exam in these standards in order to become a member in LACPA

- LACPA should make available these standards to all its members with low costs.

- A center for lectures and practice should be available to train members and provide advice when necessary.

- Procedures should be taken by LACPA to prevent and punish noncompliance.

- Quality control procedures and peer review should be implemented to raise the level of profession.

Finally we must say that the application of Lebanese standards driven from international standards will give credibility to readers of the financial statements (especially foreign) and encourages investment in local companies.
APPENDIX I

"AUDITOR'S REPORT"

(APPROPRIATE ADDRESSEE)
We have audited the accompanying balance sheet of the ABC Company as of December 31, 19X1, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company 's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of December 31, 19X1, and of the results of its operations and its cash flow for the year then ended in accordance with International Audit Standards.

Auditor

Date
Address
### APPENDIX II

<table>
<thead>
<tr>
<th>Kind of company</th>
<th>Appointment</th>
<th>Number</th>
<th>Additional Auditor</th>
<th>Period</th>
<th>release</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint stock companies S.A.L</td>
<td>Founders meeting afterwards the general assembly</td>
<td>One or more with court expert</td>
<td>Expert from primary court</td>
<td>One year with option of renewal</td>
<td>Who appoints him</td>
<td>Appointment must be made each year after one month of general assembly for additional auditor</td>
</tr>
<tr>
<td>Stock commandite companies</td>
<td>Founders committee for one year after that the general committee</td>
<td>At least 3 with court expert</td>
<td>Expert from court</td>
<td>As per company rules the first one for one year</td>
<td>Who appoints him</td>
<td>Partners do not have the right to be auditors</td>
</tr>
<tr>
<td>Limited liability companies</td>
<td>Not obliged unless in certain cases it is appointed by the partners</td>
<td>In case he exists one or more</td>
<td>No laws concerning its existence</td>
<td>For 3 years</td>
<td>Partners</td>
<td>Must not be related to partners</td>
</tr>
<tr>
<td>Holding companies</td>
<td>the company</td>
<td>At least one</td>
<td>Exempt</td>
<td>May be for 3 years or less</td>
<td>The company</td>
<td>Must be Lebanese and resident</td>
</tr>
<tr>
<td>Off-Shore Companies</td>
<td>the company</td>
<td>At least one</td>
<td>Exempt</td>
<td>May be for 3 years or less</td>
<td>The company</td>
<td>Must be Lebanese and resident</td>
</tr>
<tr>
<td>Banks</td>
<td>Founders assembly then general assembly</td>
<td>One or more</td>
<td>Exempt</td>
<td>For 3 years</td>
<td>General assembly</td>
<td>When the assembly does not appoint an auditor the court should do so</td>
</tr>
</tbody>
</table>

In March 15, 1996
Decree number 8089 obliged all companies whose revenues exceed 750 Million or have more than 25 employees to submit audited financial statements to the ministry of finance
# APPENDIX III

## CODIFICATION OF INTERNATIONAL STANDARDS ON AUDITING (ISAs)

<table>
<thead>
<tr>
<th>Subject Matter Number and Document Title</th>
<th>Standard Chronological Number</th>
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### 200-299 Responsibilities

<table>
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<th>Objective and General Principals Governing an Audit of Financial Statements</th>
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<td>Terms of Audit Engagements</td>
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<td>240</td>
<td>Fraud and Error</td>
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<tr>
<td>250</td>
<td>Consideration of Laws and Regulations in an Audit of Financial Statements</td>
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#### ISA 1

### 300-399 Planning

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<td>Knowledge of the Business</td>
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<td>320</td>
<td>Audit Materiality</td>
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#### ISA 4

### 400-499 Internal Control

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<td>401</td>
<td>Auditing in a Computer Information Systems Environment</td>
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<td>402</td>
<td>Audit Considerations Relating to Entities Using Service Organization</td>
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</table>

#### ISA 6

#### ISA 15

#### Addendum 2 to ISA 6

### 500-599 Audit Evidence

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<th>Audit Evidence</th>
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<tbody>
<tr>
<td>501</td>
<td>Audit Evidence - Additional Considerations for Specific Items</td>
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#### ISA 8

#### Addendum to ISA 8
<table>
<thead>
<tr>
<th>Subject Matter Number</th>
<th>Standard Number</th>
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<tbody>
<tr>
<td>and Document Title</td>
<td>Chronological Number</td>
</tr>
<tr>
<td>510 Initial Engagements- Opening Balances</td>
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<td>560 Subsequent Events</td>
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<tr>
<td>570 Going Concern</td>
<td>ISA 23</td>
</tr>
<tr>
<td>580 Management Representations</td>
<td>ISA 22</td>
</tr>
<tr>
<td>600-699 Using Work of Others</td>
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</tr>
<tr>
<td>600 Using the Work of Another Auditor</td>
<td>ISA 5</td>
</tr>
<tr>
<td>610 Considering the Work of Internal Auditing</td>
<td>ISA 10</td>
</tr>
<tr>
<td>620 Using the work of an Expert</td>
<td>ISA 18</td>
</tr>
<tr>
<td>700-799 Audit Conclusions and Reporting</td>
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</tr>
<tr>
<td>700 The Auditor’s Report on Financial Statements</td>
<td>ISA 13</td>
</tr>
<tr>
<td>720 Other Information in Documents Containing audited Financial Statement</td>
<td>ISA 14</td>
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<tr>
<td>800-899 Specialized Areas</td>
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</tr>
<tr>
<td>800 The Auditor’s Report on Special Purpose Audit Engagements</td>
<td>ISA 24</td>
</tr>
<tr>
<td>810 The Examination of Prospective Financial Information</td>
<td>ISA 27</td>
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<tr>
<td>900-999 Related Services (Rss)</td>
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<tr>
<td>900 Engagements to Review Financial Statements</td>
<td>ISA/RS 1&amp; 2</td>
</tr>
<tr>
<td>920 Engagements to Perform Agreed - Upon Procedures Regarding Financial Information</td>
<td>ISA/RS 3</td>
</tr>
<tr>
<td>930 Engagements to Compile Financial Information</td>
<td>ISA/RS 4</td>
</tr>
</tbody>
</table>
APPENDIX IV

Dear Sirs

This research about International Audit Standards is a partial requirement for the fulfillment of M.B.A degree in business administration (Lebanese American University.)

Your participation in filling this questionnaire is very important and highly appreciated.

You may be assured of complete confidentiality. Your name will never be placed on the questionnaire.

Thank you for your assistance.

Samar JABER.
<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-</td>
<td>Does your firm assess management integrity and reputation before accepting new audit assignment?</td>
<td>......</td>
</tr>
<tr>
<td>2-</td>
<td>Do you communicate with the predecessor auditor before accepting a potential audit job?</td>
<td>......</td>
</tr>
<tr>
<td>3-</td>
<td>Does your firm issue an engagement letter before starting any audit?</td>
<td>......</td>
</tr>
<tr>
<td>4-</td>
<td>Do you consider the work of other auditors, who audit the financial statements of an affiliated company, when auditing the financial statements of the mother company?</td>
<td>......</td>
</tr>
</tbody>
</table>
| 5- | How far is your cooperation and reliance on the internal audit work?  
- Heavy  
- Moderate  
- Weak | ...... | ...... |
6- Do you plan the audit assignment by performing the following:
   - Understanding the terms of the engagement? .......
   - Understanding the business and its accounting systems? .......
   - Carrying out analytical review procedures? .......
   - Evaluating overall audit risk? .......
   - Determining the preliminary estimate of materiality for the audit as a whole? .......
   - Deciding the types of testing and samples? .......
   - Evaluating the client’s internal control? .......

7- In case intentional fraud or error is discovered during the audit, what do you do?
   a- Discuss the matter with management? .......
   b- Evaluate the effect on the financial statements? .......
   c- Consider withdrawal of engagement? .......

8- Do you participate in the year end physical inventory count and valuation? .......

9- Do you obtain direct confirmation of accounts receivable and payable?
   Positive confirmation? .......
   Negative confirmation? .......

10- Do you perform specific procedures to obtain audit evidence about related parties and related parties' transactions? .......

11- Do you perform procedures to obtain audit evidence regarding subsequent events? or do you rely on management representation? .......

66
<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-</td>
<td>Do you consider the appropriateness of going concern assumption underlying the preparation of the financial statements?</td>
<td>......</td>
</tr>
<tr>
<td>13-</td>
<td>Do you include in your report an explanatory paragraph, when necessary?</td>
<td>......</td>
</tr>
<tr>
<td>14-</td>
<td>Do you read other information (operational reports, financial ratios, financial summaries or highlights, ..., etc.) to detect states of inconsistencies between these information and the audited financial statements?</td>
<td>......</td>
</tr>
<tr>
<td>15-</td>
<td>Do you obtain an understanding of the legal and regulatory framework applicable to the audited entity?</td>
<td>......</td>
</tr>
<tr>
<td>16-</td>
<td>Do you obtain a letter from attorney?</td>
<td>......</td>
</tr>
<tr>
<td>17-</td>
<td>Do you obtain management representation?</td>
<td>......</td>
</tr>
<tr>
<td>18-</td>
<td>What kinds of opinions do you express, in your report?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a- Unqualified opinion</td>
<td>......</td>
</tr>
<tr>
<td></td>
<td>b- Qualified opinion</td>
<td>......</td>
</tr>
<tr>
<td></td>
<td>c- Disclaimer of opinion</td>
<td>......</td>
</tr>
<tr>
<td></td>
<td>d- Adverse opinion</td>
<td>......</td>
</tr>
<tr>
<td>19-</td>
<td>Do you communicate quality control policies and procedures to your personnel compared with the performance of the mother company?</td>
<td>......</td>
</tr>
</tbody>
</table>
20- Does your firm updates its library with new standards issued and communicate them to its staff? ...... ......

21- If an optional external quality requirement is to be applied do you comply with? ...... ......

22- When significant areas of the company's accounting records are processed by electronic data processing system, what is your audit approach to satisfy yourself that sufficient internal control exists:
   
a- Using computer assisted audit techniques? ...... ......

b- Be assisted by a specialist? ...... ......

c- Other? ...... ......
# Analysis of the questionnaire 1

## APPENDIX V

<table>
<thead>
<tr>
<th>Questions</th>
<th>Big Firms</th>
<th>Medium</th>
<th>Small</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Does your firm assess management integrity and reputation before accepting new audit assignment?</td>
<td>Y Y Y Y Y Y Y Y Y N Y N</td>
<td>10 83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-Do you communicate with the predecessor auditor before accepting a potential audit job?</td>
<td>Y Y Y Y Y N Y N Y Y Y Y</td>
<td>10 83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-Does your firm issue an engagement letter before starting any audit?</td>
<td>Y Y Y Y Y Y Y Y Y Y Y</td>
<td>11 92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-Do you consider the work of other auditors who audit the financial statements of an affiliated company, when auditing the financial statements of the mother company?</td>
<td>Y Y Y Y Y Y Y N/A N/A N</td>
<td>8 86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5- How far is your cooperation and reliance on the internal audit work?</td>
<td>Heavy</td>
<td>N Y Y N N N Y Y N Y Y Y</td>
<td>7 88</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moderate</td>
<td>Y Y Y N Y Y N N N N N Y N</td>
<td>6 80</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Weak</td>
<td>N Y Y Y N N N Y Y N Y N</td>
<td>5 42</td>
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<tr>
<td>6- Do you plan the audit by the following:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding the terms of the engagement?</td>
<td>Y Y Y Y Y Y Y Y Y Y Y Y</td>
<td>11 92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding the business and its accounting systems?</td>
<td>Y Y Y Y Y Y Y Y Y Y Y N</td>
<td>11 92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying out analytical review procedures?</td>
<td>Y Y Y Y Y Y Y Y N Y N N</td>
<td>7 58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishing overall audit risk?</td>
<td>Y Y Y Y Y Y Y N Y Y N N</td>
<td>7 58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determining the preliminary estimate of materiality for the audit as a whole?</td>
<td>Y Y Y Y Y Y Y Y Y N N N</td>
<td>9 75</td>
<td></td>
<td></td>
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<tr>
<td>Deciding the types of testing and sampling?</td>
<td>Y Y Y Y Y Y Y Y Y N N N</td>
<td>9 75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluating the client's internal control</td>
<td>Y Y Y Y Y Y Y Y Y Y Y Y</td>
<td>11 92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7- Do you participate in the year end physical inventory count and valuation?</td>
<td>Y Y Y Y Y N Y Y N N Y N</td>
<td>8 88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8- Do you obtain direct confirmation of accounts receivable and payable?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positive confirmation?</td>
<td>Y Y Y Y Y Y Y Y N N Y Y</td>
<td>10 83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative confirmation?</td>
<td>Y Y Y Y Y N Y N N N N N</td>
<td>6 50</td>
<td></td>
<td></td>
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<tr>
<td>Question</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<tr>
<td>-------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>10- Do you perform specific procedures to obtain audit evidence about related parties and related parties' transactions?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>12- Do you consider the appropriateness of going concern assumption underlying the preparation of the financial statements?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>13- Do you include in your report an explanatory paragraph when necessary?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>14- Do you read other information (operational reports, financial ratios, financial summaries or high lights...) to detect states of inconsistencies between these information and the audited financial statements?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>16- Do you obtain a letter from attorney?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>17- Do you obtain management representation?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>18- What kinds of opinions do you express in your report?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>a) Unqualified opinion</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>b) Qualified opinion</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>c) Disclaimer of opinion</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>d) Adverse opinion</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>19- Do you communicate quality control policies and procedures to your personnel concerned with the performance of the mother company?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N/A</td>
</tr>
<tr>
<td>20- Does your firm updates its library with new standards issued and communicates them to its staff?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>21- If optional internal quality evaluation is to be applied do you comply with the evaluation process?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>22- When significant areas of the company's accounting records are processed by electronic data processing system, what is your audit approach to satisfy yourself that sufficient internal control exists:</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>a- Using computer assisted audit techniques?</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>b- Be assisted by a specialist?</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>c- Other</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
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**TOTAL: 32**

**By kind of firms:**

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<tr>
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<th>4</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>NO (%)</th>
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<tr>
<td>84</td>
<td>87</td>
<td>97</td>
<td>95</td>
<td>63</td>
<td>63</td>
<td>87</td>
<td>68</td>
<td>47</td>
<td>37</td>
<td>55</td>
<td>42</td>
<td>69</td>
</tr>
</tbody>
</table>

Y = Yes positive answer
N = No negative answer
N/A = Not applicable
Big firms chart of positive answers
Medium firms chart of positive answers

<table>
<thead>
<tr>
<th>Firms</th>
<th>Percentages</th>
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<tbody>
<tr>
<td>1</td>
<td>63</td>
</tr>
<tr>
<td>2</td>
<td>63</td>
</tr>
<tr>
<td>3</td>
<td>87</td>
</tr>
<tr>
<td>4</td>
<td>68</td>
</tr>
</tbody>
</table>

Series 1
Small firms chart of positive answers

Percentage of firms with positive answers:

- Firm 1: 47%
- Firm 2: 37%
- Firm 3: 55%
- Firm 4: 42%
% of positive answers for each kind of firms
Percentage of positive answers for each firm
Appendix VI

Table of population

'The number of registered accountants in LACPA till AUG. 31,1995 is 1627 only 1249 are practicing audit and accounting.
'They are distributed between Big, Medium and Small firms as follows:

<table>
<thead>
<tr>
<th></th>
<th>BIG</th>
<th>MEDIUM</th>
<th>SMALL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of (LACPA)members in each kind</td>
<td>222</td>
<td>357</td>
<td>670</td>
<td>1249</td>
</tr>
<tr>
<td>Number of firms</td>
<td>31</td>
<td>143</td>
<td>670</td>
<td>844</td>
</tr>
<tr>
<td>Percentage of employees in each kind</td>
<td>18%</td>
<td>29%</td>
<td>53%</td>
<td>100%</td>
</tr>
<tr>
<td>Percentage of firms by kind to total</td>
<td>4%</td>
<td>17%</td>
<td>79%</td>
<td>100%</td>
</tr>
<tr>
<td>Number of firms sampled</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Percentage of firms sampled</td>
<td>13%</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Percentage of the sample chosen

Employees and Firms by kind

Employees and Firms by kind
Table of the population

Percentage of compliance at the population level based on the result of the questionnaire:
- By members: \[ \frac{(222 \times 91\%)+(357 \times 70\%)+(670 \times 45\%)}{1249} = 60\% \]
- By firms: \[ \frac{(31 \times 91\%)+(143 \times 70\%)+(670 \times 45\%)}{844} = 51\% \]

Percentage of firms sampled compared to total number of firms

Firms sampled compared to total number of firms
APPENDIX VII

GLOSSARY OF TERMS AT JUNE 1994

*Accounting estimate* -- An accounting estimate is an approximation of the amount of an item in the absence of a precise means of measurement.

*Accounting system* -- An accounting system is the series of tasks and records of an entity which transactions are processed as a means of maintaining financial records. Such systems identify, assemble, analyze, calculate, classify, record, summarize and report transactions and other events.

*Annual report* -- An entity ordinarily issues on an annual basis a document which includes its financial statements together with the audit report thereon. This document is frequently referred to as the annual "report".

*Assertions* -- Assertions are representations by management, explicit or otherwise that are embodied in the financial statements. (See Financial Statements Assertions).

*Assistants* -- assistants are personnel involved in an individual audit other than the auditor.

*Assurance* -- assurance refers to the auditor's satisfaction as to the reliability of assertion being made by one party for use by another party.

*Attendance* -- Attendance consists of being present during all or part of a process being performed by others: for example attending physical inventory taking will enable the auditor to inspect inventory to observe compliance of management's procedures to count quantities and record such counts and to test - count quantities.
Audit evidence -- Audit evidence is the information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence will comprise source documents and accounting records underlying the financial statements and corroborating information from other sources.

Audit firm -- Audit firm is either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate.

Audit program-- An audit program sets out the nature, timing and extent of planned audit procedures required to implement the overall audit plan. The audit program serves as a set of instructions to assistants involved in the audit and as a means to control the proper execution of the work.

Component--Component is a division, branch subsidiary, joint venture, associated company or other entity whose financial information is included in financial statements audited by the principal auditor.

Comprehensive basis of accounting -- A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support.

Computation -- Computation consists of checking the arithmetical accuracy of source documents and accounting records or of performing independent calculations.

Confirmation -- Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.

Control environment -- The control environment comprises the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance to the entity.

Control procedures -- Control procedures are those policies and procedures in addition to the control environment which management has established to achieve the entity’s specific objectives.
Documentation -- Documentation is the material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit.

Engagement Letter -- An engagement letter documents and confirms the auditor's acceptance of the appointment, the objectives and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

Financial statements -- The balance sheets, income statements or profit and loss accounts, statements of changes if financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.

Financial statements assertions-- are: existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure.

Forecast-- A forecast is prospective financial information prepared in the basis of assumptions as to future event which management expects to take place and the actions' management expects to take as of the date the information is prepared (best - estimate assumption).

Going Concern Assumption -- The going concern assumption is an assumption that an enterprise will continue in operation for the foreseeable future; that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations As a result assets are valued on the basis of continued use , such as historical cost or replacement cost rather than net realizable value or liquidation value.

Inquiry -- Inquiry consists of seeking information of knowledgeable persons inside or outside the entity.

Inspection-- Inspection consists of examining records, documents, or tangible assets.
Internal control system-- An internal control system consists of all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management’s objective of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies and the safeguarding of assets, the prevention and detection of fraud and error the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. The internal control system extends beyond these matters which relate directly to the functions of the accounting system.

Limitation on Scope -- A limitation on the scope of the auditor’s work may sometimes be imposed by the entity (for example when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). A scope limitation may be imposed by circumstances (for example, when the timing of the auditor’s appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity’s accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed desirable.

Management-- Management comprises officers and others who also perform senior managerial functions. Management includes directors and the audit committee only in those instances when they perform such function.

Management representations -- Representation made by management to the auditor during the course of an auditor, either unsolicited or in response to specific inquiries.

Material Weaknesses -- The weakness in internal control that could have a material effect on the financial statements.
Materiality -- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Misstatement -- A mistake in financial information which would arise from errors and fraud.

Observation -- Observation consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity’s personnel or by the performance of internal control procedures that leave no audit trail.

Opinion -- The auditor’s report contains a clear written expression of opinion on the financial statement as a whole.

Projection -- A projection is prospective financial information prepared on the basis of:

(a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operation; or

(b) A mixture of best-estimate and hypothetical assumptions

Prospective financial information-- Prospective financial information is financial information based on assumptions about events that may occur in the future and possible actions by an entity.

Scope of an Audit -- The term “scope of an audit” refers to the audit procedures deemed necessary in the circumstances to achieve the objective of the audit.
Tests of control -- Tests of control are performed to obtain audit evidence about the effectiveness of the:

(a) Design of the accounting and internal control systems, that is whether they are suitably designed to prevent or detect and correct material misstatements; and

(b) Operation of the internal controls throughout the period.

Tolerable error -- Tolerable error is the maximum error in the population that the auditor would be willing to accept and still conclude that the result from the sample has achieved the audit objective.

Uncertainty -- An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
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* Commercial law

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* Business Research Methods by William G. Zikmund
  3rd edition