المجمع العربي للمحاسبين القانونيين
Arab Society of Certified Accountants (ASCA)

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A regional professional society dedicated to the promotion of the highest accounting, auditing and ethical standards and to capacity building through the institution of globally recognized educational and examination qualification programs.

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ASCA News

ASCA Holds Its General Assembly Meeting

AMMAN – The Arab Society of Certifies Accountants (ASCA) held its ordinary general assembly meeting on March 31, 2010. The meeting was headed by Mr. Mahmoud Sa'adeh, first deputy president.

In this meeting, a number of financial and administrative issues were discussed through which ASCA's final results revealed positive indicators for the past years. During this meeting, membership fees were raised to JD 100 effective as of January 1st, 2011 in return of various specialized professional services including:

- Distribution of new professional publications to members who settle their financial obligations.
- 20% discount of study fees at Talal Abu-Ghazaleh College of Business.
- 10% discount of training courses fees conducted by ASCA.
- Members who settle their obligations will be provided with the latest updates on accounting standards.

It is worth mentioning that ASAC always seeks to update accounting and administration sciences and the principles derived therefrom that apply to all or some of the professional services. It also aspires to develop the level of proficiency, practice and conduct to the highest professional standards by maintaining accounting publications and following up the latest updates in the field of accounting and auditing.

The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs 2009)

The translated Arabic version of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), issued for the first time by the International Accounting Standards Board (IASB). The IFRS for SMEs aims at fulfilling the requirements and capabilities of small and medium-sized entities estimated to account for more than 95% of all companies around the world.

This Standard was found to be less complicated and more clarified than the International Financial Reporting Standards (IFRS) in many aspects:

- The Standard was written in a clear and translatable language.
- Issues irrelevant to small and medium-sized entities were omitted.
- While all IFRSs allow accounting policies options, the IFRS for SMEs allows the simplest option only.

This book includes one set of high quality, understandable and enforceable international accounting standards which require transparent, high quality and comparable information

New Members Join ASCA from Different Arab Countries:

1. Dr. Khaled Mohammad Kurdi from Lebanon
2. Mr. Peter Emil Bsharah Khuri from Palestine.
3. Cr. Hamdi Shehdeh Mahmoud Zaghrab from Palestine.
4. Mr. Ayed Mohammad Sayed Jabr Soudani from Saudi Arabia (Sudanese national)
5. Mr. Abdul Azez Mether Saed No'man from Malaysia (Yemeni national)
6. Mr. Ghassan Sameer Rida Sami from the UAE (Jordanian national)
7. Mahmoud Abed Khalaf Dawoodyeh from the UAE (Jordanian national)
8. Mr. Ala'a Faleh Khalaf from Iraq
9. Mr. Iyad Hassan Mohammad Bayoumi from Oman
10. Dr. Montasir Ali Tarqiyah Khalefeh from Libya
11. Dr. Zain Al Abedeen Ali Ahmad from Sudan

ACPA Exams for 2009ew Members

The Arab Society of Certified Accountants (ACPA) held the ACPA examinations during the period from December 5 – 12, 2009 at its examination centers all over the Arab world.

The examination process was conducted in accordance with the standards and specifications approved by Cambridge International Examinations in cooperation with ASCA.

A delegation from the University of Cambridge visited ASCA headquarters in Amman during the period from January 28-March 1, 2010. The process of auditing and periodical examination of the answer booklets followed the steps of the previous years and results were positive with relation to the examinations process and the methodology according to ASCA's organization, coordination and arrangement.

Training Courses

ASCA's administration seeks to achieve its future goals consistent with its professional mission manifested in preparing and qualifying cadres. It offers training activity and professional accounting qualification represented in ACPA courses related to the profession of accounting in the Arab countries.

Moreover, ASCA provides different training programs in cooperation with many international academic and professional agencies as well as programs, courses, seminars and workshops related to accounting and auditing in different Arab countries.

ASCA held qualifying training courses pertaining to the practice of accounting in Jordan JCPA. This course is held at Talal Abu-Ghazaleh College of Business and TAG-Academies in Amman and Irbid in cooperation with Dar Al Uloom Educational Center to meet the needs of a large number of participants and to serve the northern area.

Specialized training courses related to the latest amendments to the International Accounting Standards, accounting for non-accountants, advanced financial analysis and preparation and presentation of financial statements in accordance with the International Accounting Standards since the qualifying courses for ACPA are currently in progress.

International News

IASB Extends the Commenting Period on the Exposure Drafts “Measurement of Liabilities in the Accounting Standards)

The extension is to give respondents more time to understand the recognition requirements of the standard that will replace IAS 37 before they finalize their comments on the revised measurement proposals.

The Board is reviewing the requirements of IAS 37, which it intends to replace with a new IFRS.

On 3 March 2010, Robert Garnett, IASB member, and Joan Brown, project manager held a live webcast on IAS 37 including a question and answer session. The webcast focused on the revised measurement proposals but also addressed their interaction with the other requirements proposed in a working draft.

International Accounting Standards Board®

Article

The role of analytical review in reducing review threats according to ISA 520

Introduction

There is no doubt that reaching sound judgment about the fairness of financial statements by the auditor requires the performance of due diligence. Taking into consideration that auditing is not free of risks, reaching a conclusion is also not free of risks, which became a fact that threatens the auditor at all stages and affects the soundness of financial statements that the auditor acknowledges whether they are fair or not. Auditors try to reduce such risks to a minimum level by using appropriate review methods and techniques. These techniques include the analytical review that helps identify and diagnose the potential and relatively significant problems at minimum cost. This approach depends on the analysis of relations, rates, and vectors between the financial statements and financial and non- financial statements taken from the same period, or between comparative information for various periods or entities to identify any unexpected fluctuations while investigating the reasons for such unexpected fluctuations.

The auditor uses various methods in order to achieve that goal. These methods range from performing simple comparisons of the financial statements of the entity under review to performing complex analyses using advanced statistical techniques. Considering the significance of analytical review, the International Auditing Standards oblige auditors to use it in planning and final review of the financial statements for different purposes.

ISA 520 defined the analytical review, which is referred to as "analytical procedures" as the evaluations of financial information through analysis of plausible relationships among both financial and non- financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

First: stages of analytical review

The analytical review comprises three stages: Planning, Substantive Examination and Final Review.

1. Planning

The analytical procedures in this stage are used to plan the nature of review procedures, timing and scope thereof. This stage requires the auditor, while using analytical procedures, to focus on various points to improve his understanding to the client's work and of the event and activities performed since the last review in order to evaluate the risks specific to review process. The analytical procedures in this stage depend on the auditor's expertise and professional judgment.

2. Substantive Examination

In this stage, two categories of are relied upon that are detail testing of balances and transactions and the analytical review procedures. Analytical procedures include drawing conclusions based on anticipated amounts calculated by the auditor. Using such procedures at this stage indicates the need to determine various factors including suitability of using such procedures at this stage, reliability and comparability of the used data, the control systems of the preparation thereof, whether the anticipation of the account balance is sufficiently accurate and the difference between the carrying amounts and audits amounts.

3. Final Review

This stage is represented in reading the financial statements, notes and attached statements by the auditor for the following purposes:

1. Study the sufficiency of assertions gathered with regard to account balances that are considered unusual in the planning stage.
2. Reaching account balances that were not identified before.
3. Judge the fairness of the financial statements as a whole, the sufficiency of disclosure therein about the entity's activities, the results appearing during the in- process financial period, the reality of the financial position at the end of the period and consistency with the laws and regulations according to which the project operates.

Second: Levels of Analytical Procedures

Analytical procedures are divided into three levels. Each of these levels encompasses a variety of approaches to set anticipations and define unusual deviations. These levels are:

1. Non- quantitative Analytical Procedures (personal judgment)

These procedures are characterized by the low cost and easy application to all entities in addition to its ability to use any available data and the auditor reliance on his expertise and personal judgment. These procedures contain a number of methods including:

a. Inquiring the management, review committee, and workers of the entity about the issues related to auditor's work.
b. Expectations about the results of previous reviews.
c. Reviewing internal and external non- quantitative information of the entity.

2. Simple Quantitative Information

In this method, quantitative information is processed in a simple and easy ways to obtain meaningful assertions that are useful to the review process. Such methods include:

a. **Ratio analysis**

Ratio analysis includes comparing data within the account balances. This is performed in a time chain or in intervals (comparison of account balances of the entity with the ratios of other entities for the same period). They are often general ratios of the review process in the planning and final review stages (like using the ratio of trading of the current year and comparing the same to the same ratios last year). They are, however, more preferable for the substantive examination (such as calculating the ratio of a due expense to total expenses and comparing it to the same ratios in various previous periods)

b. **Vector analysis**

It takes the form of horizontal analysis of the entity's financial statements over many financial consecutive periods. The first year is used as a base year in order to present the value of each item in the financial statements in the form of percentages of their values in the base year.

c. **Vertical analysis**

In this analysis, the comparison is conducted between the numbers of financial statements of the same financial period, such as calculating the monetary assets ratios to the total assets.

d. **Predictive testing**

This testing includes the calculation of the expected amount of the account balance depending on non- financial data pertaining to the current financial period or previous periods such as referring to the number of sold units and the sale price of the product to determine the sales volume for more than a year.

e. **Reasonability tests**

They include the calculation of the expected amount of the account balance depending on non- financial data pertaining to the current financial period only, such as referring to sales commission and sales value to determine the sales commission's expense.

2. Advanced quantitative procedures

Advanced quantitative procedures depend on various advanced techniques that are characterized by concentration of the prediction of book values of financial statements items such as using simple or multi linear regression analysis to time- chains analysis or using computer programs.

Many studies have shown that analytical procedures used in statistical models are more effective and sufficient than non-statistical analytical procedures because many non- statistical procedures displayed high level of type 1 errors (the error of false rejection of audited financial statements) and type 2 errors (the error of false acceptance of audited financial statements to present the fairness of the entity's financial position).

Third: Steps of analytical review procedures application

Analytical review procedures application comprises the following steps:

1. Obtain data and information.
2. Expectation about the under - review balance.
3. Estimation of expectation accuracy.
4. Determination of deviations or differences between carrying amounts and expected amount of the account balance.
5. Determine and investigate the reasons of deviations.
6. Document the analytical procedures.

Fourth: Factors controlling the use of analytical review

The use of analytical review procedure is based on different factors that can be categorized as follows:

1. The auditor's evaluation of internal control risk. When the internal control system in the entity is effective, it gives the auditor a better opportunity to relay on analytical procedures because the strength of internal control indicates the remote possible existence of errors in the financial statements.
2. Previous experience with the entity: the auditor's previous experience with the entity supports his greater reliance on analytical procedures more than any other procedures.
3. Size of the entity: the bigger the entity is, the more powerful the internal control and size of operations and complexity thereof will be and consequently the reliance on the analytical procedure will be greater.
4. Accuracy and results of analytical procedures: if the analytical procedure results in expectations that are not noticeably different from unaudited values, then it will be more reliable than the procedure that results in expectations that are noticeably different from unaudited values.

Fifth: Review risks

Review risks are the risks of auditor expressing an appropriate opinion about the financial statements while in fact they contain false material misstatements. Scholars distinguished two of forms of review risks: Planned risks and Final risks. Planned risks are identified before studying and evaluating the internal control of the client. Final risks express the final form of risks that is estimated by the auditor after collecting evidences and performing review procedures.

Final risks count on three factors: the nature of balance, effectiveness of internal control procedures of the client and the effectiveness of analytical and detailed review procedures. As a result, final risks comprise three elements:

1. Associated risk: It is the ability of the account balance or a

certain type of transactions to significantly erroneous and this misstatement is the consequence of the poor internal control of the client.

2. Control risk: It is the risk of the existence of a misstatement in the account balance or certain types of transactions that cannot be prevented or discovered by the applicable internal control procedures.
3. Discovery risk: It is the risk of the auditor reaching a conclusion that certain balance or certain type of transactions are free of material misstatements while these misstatements exist and are material if combined with other misstatements in other balances or transactions.

The review risk results from the overlapping of those three risks. The American Institute of Certified Public Accountants established an equation that illustrates the relation between these risks. The equation is as follows:
Review risk = associated risk x control risk x discovery risk.

Studies have shown that the associated risk and control risk are directly proportional with the amount of evidences collected by the auditor. The more review evidences are collected the greater the associated and control risks are. The contrary occurs with regard to discovery risk. The more review evidences are collected the lesser the risk is and vice versa.

In order to decrease the risk to a minimum level, the auditor has to assess the risks after evaluating the information and factors affecting them. The first to begin with is assessing the associated risk that comes after performing the initial analytical procedures. There are many factors that affect the assessment such as discussion with the client to determine his field of business and office and factories visits in addition to other tests performed during the review. After that, the auditor assesses the control risk initially after forming a sufficient understanding about the structure of internal control by using different approaches such as, questionnaires and referring to written reports. The auditor has two choices; either he decides that it is impractical to perform additional internal control procedure and therefore he will assess the control risk depending only on the evidence obtained from understanding the structure of internal control; or he may decide that it is practical to obtain additional evidence about the internal control which will increase the planned tests to support the planned level of control risk. If the results reveal that internal control does not operate effectively and adequately, the auditor will modify the level of control risk. It should be noted that the associated risk and control risk exist in the entity and the auditor has no relation therewith and cannot reduce them. However, the auditor can control the assessment process based on his experience and professional judgment in addition to the applicable procedures in the review process. As for the discovery risk, the assessment and reduction of that risk is the job of the auditor because it is connected to his work. When assessing and reducing this risk, we must distinguish between the planned discovery risk and the inevitable discovery risk. The planned discovery risk depends on the estimation of the other three factors in the risk equation of review planning, which are acceptable review risk, control risk and inherent risk, where this risk's value can be changed by changing the value of any of the equation's elements. This equation is as follows:
Planned discovery risk = acceptable review risk ÷ inherent risk x control risk)

For example, if the associated risk is 100% and control risk is 100% and the acceptable review risk is 5%; then the planned discovery risk according to the equation will be 0.05%. This result means that the auditor has to plan for collecting evidences in order to reduce the risk of increasing deviations from the acceptable deviation to 5%.

This risk is inversely proportional with the amount of evidence the auditor plans to collect. While the inevitable discovery risk is evaluated by using the risk equation of result assessment which is as follows:

Inevitable review risk = inherent risk x control risk x inevitable discovery risk.
The reduction of this risk is done by referring either to collecting basic evidences or increasing the inherent risk or control risk or reducing the planned discovery risk by increasing the detailed tests and performing analytical procedures.

Sixth: The Role of analytical procedures in reducing review risks

ISA 520 states that the analytical review is used to achieve different purposes such as evaluating risks to obtain an understanding of the entity's structure and environment, and as fundamental procedures to reduce discovery risks when their use is effective and efficient more than detailed tests.
Analytical procedures may reduce the review risk by achieving the basic goals of review, which may vary according to each stage. They are represented as follows:

1. **Understanding the scope of entity's business and activity:**

The auditor who possess knowledge of the client and reviewed the client's entity in previous periods can, through implementing the analytical procedures, identify the changes that may represent significant trends of specific events. Consequently, he will be able to soundly and closely evaluate the associated and control risks and thereby plan the nature, timing and scope of other review procedures.

2. **Estimating the entity's ability to continue:**

Analytical procedures are used here as an indicator of financial difficulties the entity under review may encounter. There may be a lot of bankruptcies or insolvencies that can be avoided if the necessary financial analysis took place. Depending on indicator arising from analytical procedures reduces the risks, especially the discovery risk, because such indicators direct the auditor to areas of high risk and therefore he will work on increasing the evidences about such areas and this will reduce the discovery risk. The major indicators are:

- Indicators that specify the existence of material misstatements in the financial statements. The financial statement may contain some balances that require deep auditing, or the data therein is different from the industry rate. Rates' analysis is one way to clarify such deviations.
- Indicators of problems in liquidity.
- Indicators requiring sound disclosure.
- Indicators that specify the need to expand the review process. This requires the auditor to expand the scope of testing by modifying the review program or review procedures or use of accounting practices and thereby reducing the review risk.
- Indicators of untrustworthy management of the entity under review.

3. **Reduction of detailed tests**

When analytical procedures indicate the absence of material fluctuations between the anticipated value of the account value and the book value, this means that the possibility of a material or substantial misstatement is reduced and consequently the detailed tests are reduced. This in return leads to evaluating the control risk or associated risk at a low level which reflect the reduction of the overall risk of review.

4. **Indication of possible deviation or the so called "drawing attention"**

The analytical procedures are used to draw the attention of the auditor towards the material differences between the anticipated values and book value. Attention may take the form of increased detailed tests or the performance of additional analytical review procedure which mean more evidences and therefore a reduction in the discovery risk.

It must be noted that that the four previous elements are used in the planning stage of the review. Elements three and four only are used in the substantive testing stage. As for the final review stage, only elements two and four are used.

Seventh: Analytical procedures from the perspective of the Syrian project

There are no standards specific to the Syrian environment. The Syrian project disregarded this aspect, specially the analytical procedures. The International Standards on Auditing, however, are being relied upon currently by the practitioners of this profession in consistency with the Syrian laws and regulations. Recently, the necessary legislations that will regulate the professions of auditing and accounting in Syria are under preparation. This is represented in the form of issuing Law No. 33 of 2009 that stipulates the forming of an auditing and accounting council under the Minister of Finance. The council aims at supervising the accounting and auditing profession to elevate its level and ensure the quality of the work of auditors and auditing firms in Syria in addition to monitoring the financial and accounting works to solidify the confidence in accounting and auditing activities and introduce the advanced accounting techniques and concepts including the International Accounting Standards to the Syria accounting system.