



What is a Statutory Auditor and why is it important for my company?





J Del Río

Speakers



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Audit Partner

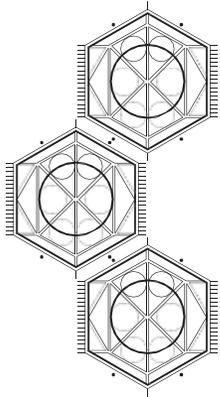


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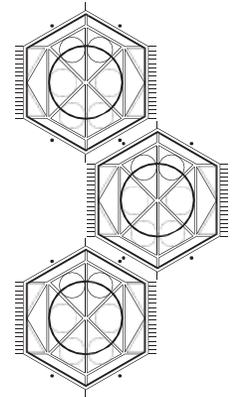


Alejandra Campero
Client Success

Agenda



1. What is a statutory audit?
2. How is it different from an external audit?
3. Who is required to have a statutory auditor?
4. Services that a statutory auditor can provide vs. independence
5. Audit work stages during the statutory audit.
6. Internal controls.
7. Conclusions and question session..





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What is a statutory audit?





Statutory Audit

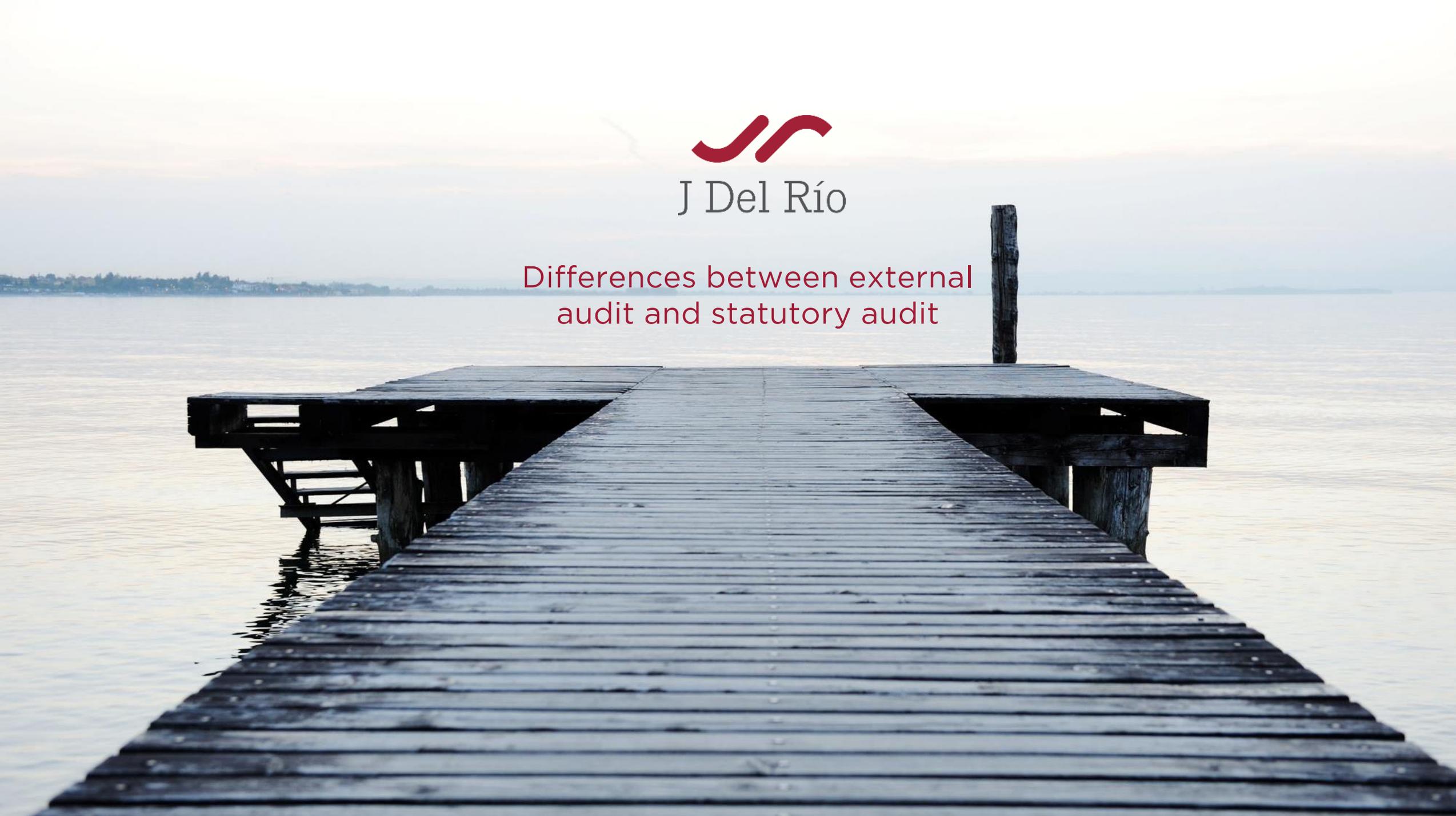
The statutory audit is a figure contemplated in article 203 of the Commercial Code, law 43 of 1990, and other laws that in a particular way contain the obligation to have a statutory audit.

It is an overlooking body which, in the interest of the community, under the direction and responsibility of the statutory auditor, and subject to generally accepted auditing standards, responsible for issuing an opinion on the financial statements and systematically reviewing and evaluating their components, as well as the elements that make up the internal control.



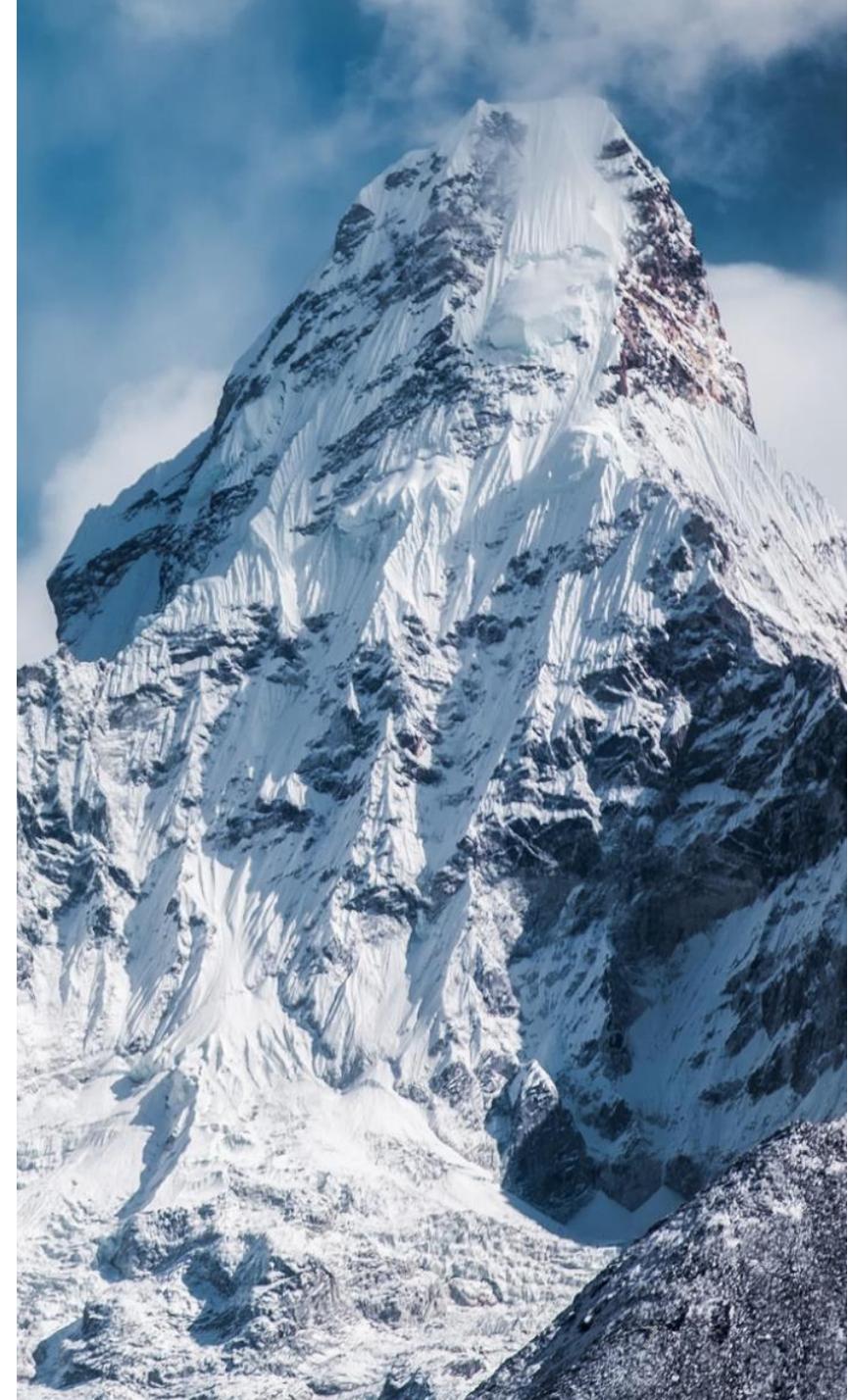
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Differences between external
audit and statutory audit



External Audit

- Merely voluntary nature on the part of the Board of Directors.
- Limited to the terms of the professional services contract.
- It operates in the interest of the Entity's Administrators.
- It is subordinated by the Organization's Administration.
- The scope of the work carried out in the external audit is limited in time and assesses a specific situation per the respective contract or agreement provisions.
- The report gives public faith in the reliability of the financial statements and the management's credibility that prepares them.
- With the issuance of the concepts contained in the reports, the audit is exposed to civil liability.
- It must issue an opinion on the reasonableness of the Financial Statements.



Statutory Audit

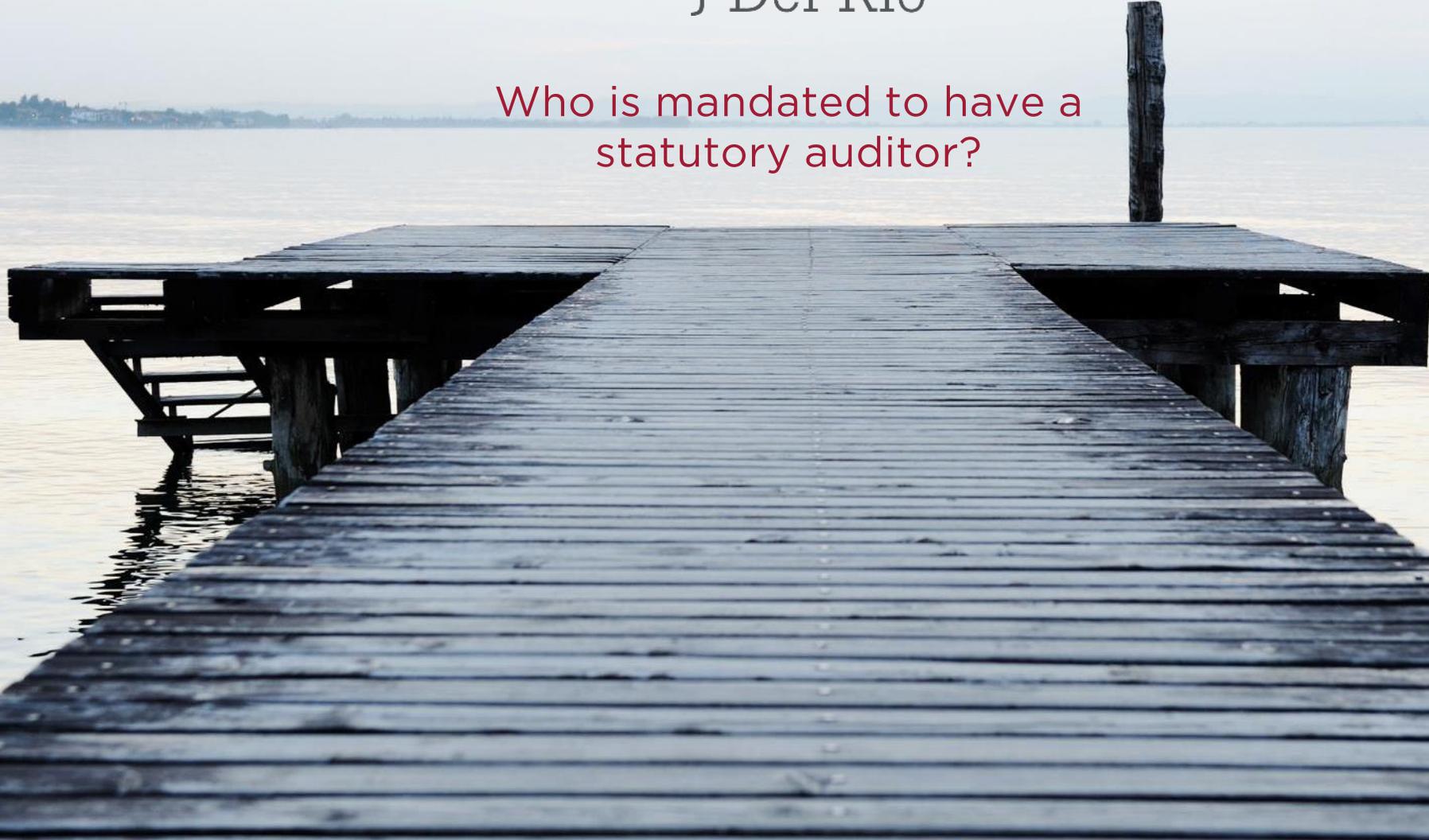
- It is compulsory and operates by the mandate of law.
- It is integral to all areas and operations of the Company.
- Safeguards the interests of associates.
- It is subject only to the Shareholders' Meeting.
- It has a broad and permanent scope according to what is prescribed by law.
- It has a much broader responsibility and is subject to civil, criminal, and legal consequences according to the opinions' information.
- It must determine the reasonableness of the financial statements and authorize them with the statutory auditor's signature, in addition to the responsibilities of article 207 of the Commercial Code.





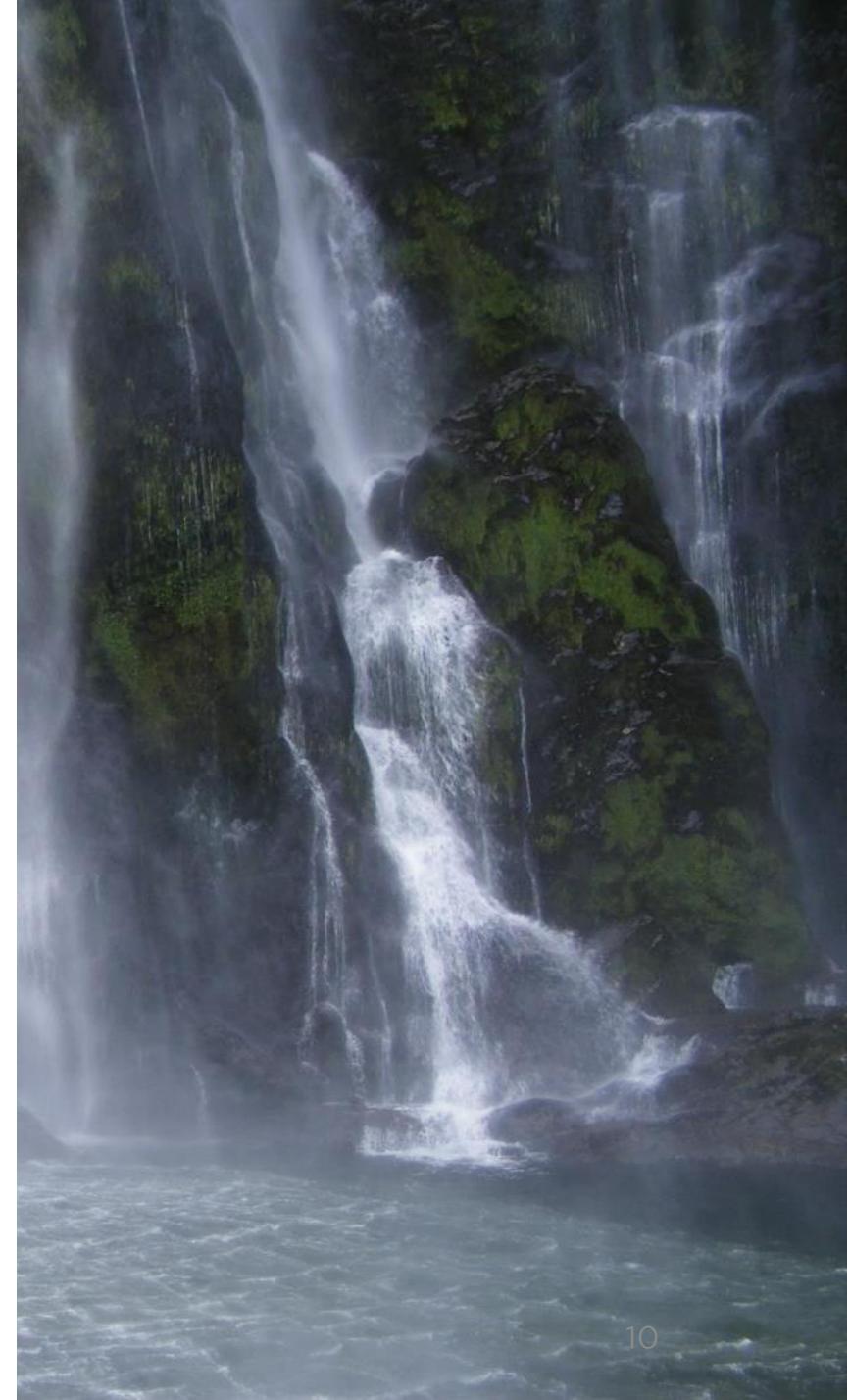
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Who is mandated to have a
statutory auditor?



Required to have a Statutory Auditor

- Gross assets as of December 31, 2020, equal to or greater than \$ 4,389,015,000 (5,000 x 877,803)
- Gross income as of December 31, 2020, equal to or greater than \$ 2,633,409,000 (3,000 * 877,803)
- Mixed economy companies
- Associations, foundations, and common utility institutions.
- Stock companies
- Branches of foreign companies
- Horizontal properties
- Family Compensation Funds.
- Trade associations, mutual funds, chambers of commerce.





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When should i appoint a
statutory auditor and what is
the scope of their work?





Appointment of the Statutory Auditor

- By the provision of article 204 of the Code of Commerce, "... The election of the Statutory Auditor will be made by an absolute majority of the Assembly or the Board of Partners ... In limited partnerships by shares, the Statutory Auditor will be elected by the majority of votes of the limited partners ... In the branches of foreign companies, it will be designated by the competent body per the statutes."
- The statutory auditor period will be annual, and his/her election will be verified in the first annual meeting of the corresponding ordinary general assembly.



Statutory Audit's scope

- Review the financial statements as established in number 7 of the commerce article.
- At the end of each fiscal year, the statutory auditor is obliged to issue his/her opinion, which includes the opinion on the financial statements' reasonableness.
- To comply with this obligation, the statutory auditor must obtain adequate knowledge of the entity, carry out a risk assessment, execute audit procedures and collect evidence. All these elements become the basis on which the reviewer can form an opinion regarding the financial statements' reasonableness.
- Usually, the Statutory Audit is on December 31 of each year.



What should the Statutory Auditor do?

- The statutory auditor must ensure that the entity complies with the provisions of the bylaws, the shareholders' assembly, and the board of directors.
- When the statutory auditor becomes aware of any irregularity in the entity's operation, he must report it in writing to the manager, the board of directors, or the shareholders' assembly, depending on the matter in question.
- The statutory auditor must collaborate with government entities exercising inspections and surveillance when they request reports. This, due to the social role that the statutory auditor fulfills in the entities.

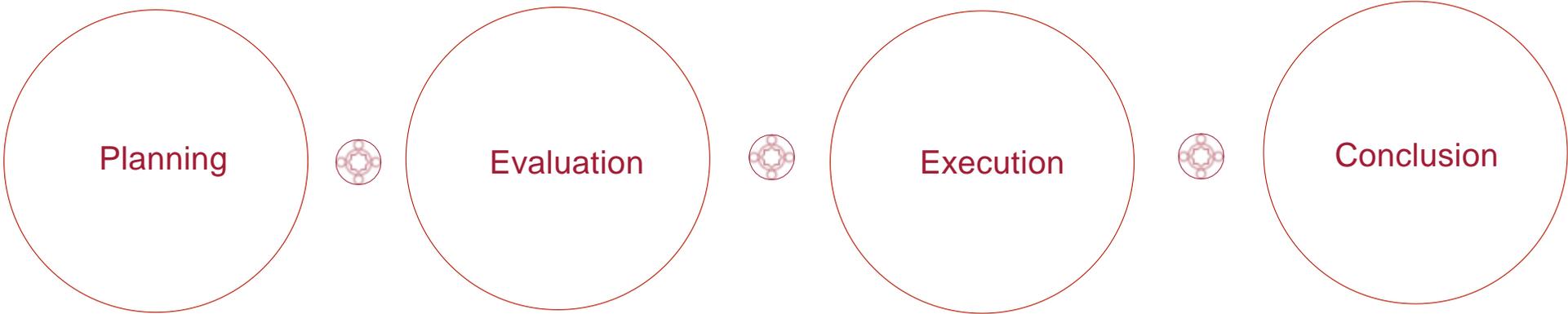
What should the Statutory Auditor do?

- The statutory auditor has the task of examining that the entity properly keeps the minutes of the meetings of the shareholders assembly and of the board of directors, as well as their correspondence.
- The statutory auditor has the obligation to call a shareholders' meeting when there are matters of such importance that they must be communicated to the members or shareholders, since they require immediate attention.
- The statutory auditor must also fulfill the other functions assigned to him by the laws or the statutes of the entity to which he/she provides his/her services. In the same way, he/ she must carry out the functions assigned to him/her by the assembly or board of partners, provided that these are compatible with the law and the statutes.

Statutory audit and external financial audit

Auditing your financial statements, considering the identification of risks, is a process that will give you a global vision of your company and will allow you to make strategic decisions with greater certainty.

Step by Step:



This audit is a highly useful instrument for different levels of your team and for different purposes, such as investment, credit, and compliance with legal and tax obligations, among others.

We provide rational arguments and reliability in its preparation and content.

* For legal reasons, this service is not available to clients for whom we provide accounting services.

Planning and Evaluation

Understand commitment

Make the stages' calendar

Resource allocation

Work plan

Survey of core company processes

Evaluation of technical issues (accounting, taxes, specialists)

Journal Entries initial review

Determination of significant accounts

Review of the company's last issued Financial Statement

Execution

Detail Tests

- Income
 - Expenses
 - Costs
-

Sending confirmations

Identification of control deficiencies and issuance of a recommendation letter to the administration

Work plan and anticipation of closing matters

Conclusion

Connection procedures Income Statement

Crossing of confirmations and supplementary procedures

Review of cumulative balance sheet accounts

Review of the Financial Statement as of December 31

Issuance of opinion - audit report

Issuance of letter of recommendations to management



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Internal control



Internal Control

- ❁ Internal Control is a process that must be executed by the board of directors, management and staff, that is, by the entire company. It is designed primarily to provide reasonable assurance about the entity's operational reporting and compliance objectives.
- ❁ One of the main reference models is the COSO Framework, which generates a common definition of Internal Control and provides a structured model that helps companies move towards an effective implementation of Internal Control.
- ❁ The implementation of an internal control system allows companies to strengthen and encourages them to achieve their objectives, prevents loss of resources, improves ethics, facilitates the assurance of reports, increases investor confidence, reduces risks and is applicable regardless of size or type of business.



Internal Control Components

Per ISA 315, identifying and assessing the risks of material misstatement through knowledge of the entity and its environment, the auditor will obtain knowledge of the internal control relevant to the audit.



This internal control evaluation allows us to obtain an understanding of the companies and inform the administration or those responsible for corporate governance about failures or weaknesses in the internal control system, which have been identified in the course of our audit; This will provide added value to the client when hiring our services.



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Independence:
key elements in the services
to be provided



Why is independence important?

- Required by standards and regulators
- Expected by users of financial information (stakeholders and shareholders)
- Potential risks if independence is not maintained
- Assurance services are only of value if users of the information believe that the auditor has:
 - Integrity
 - Objectivity
 - Professional skepticism
 - Independence



Types of independence

- Mental
 - Integrity
 - Objectivity
 - Professional skepticism



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Types of independence

- Appearance
 - Facts
 - Circumstances

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Independence:
rules scope





Period covered

- **Time in which the audit work is performed**
 - From: Start of work
 - Until: the date of issuance of the Report
 - For example, from September 10, 2019 to March 31, 2020
 - Continuous for recurring jobs
 - For example, for clients where we have provided services in previous years
- **Financial statement period**
 - For example: from January 1 to December 31, 2019



Business relationships

- Have a financial interest in a joint venture either with the client or with a controlling owner, a member of the board of directors, an officer, or another person who exercises senior management activities for that client.
- Have agreements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and market said products or services with reference to both parties.
- Have distribution or marketing agreements under which the firm or a network firm distributes or markets the client's products or services, or the client distributes or markets the products or services of the firm or a network firm.

Are we independent?



Assurance and
Audit Services



Accounting



Tax and
Consulting



Labor



International trade and legal services are provided by our allies.

Our staff, a select group of professionals with extensive experience, provide personalized attention to all our clients, from small companies to large transnational companies.

Other independence matters

- **Financial interests**
- **Family relationships.** Factors relevant for assessing the level of such threats include:
 - The audit member's responsibilities.
 - The relative or the person's role within the client's organization and the closeness of the relationship.
- **Close relationships.** Factors that are relevant to assessing the level of self-interest, familiarity, or intimidation threat created by such a relationship include:
 - The nature of the relationship between the person and the member of the audit team.
 - The position the person has within the client's organization.
 - The audit team member's role.





Other considerations

- **Public clients (listed on the stock exchange)** - all related parties regardless of their materiality.
- **Non-public clients** – those related parties in which control is exercised directly or indirectly and, in some cases, another related entity of the client that the auditor considers is relevant for the evaluation of the independence of the firm concerning the client.



Let's talk!

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