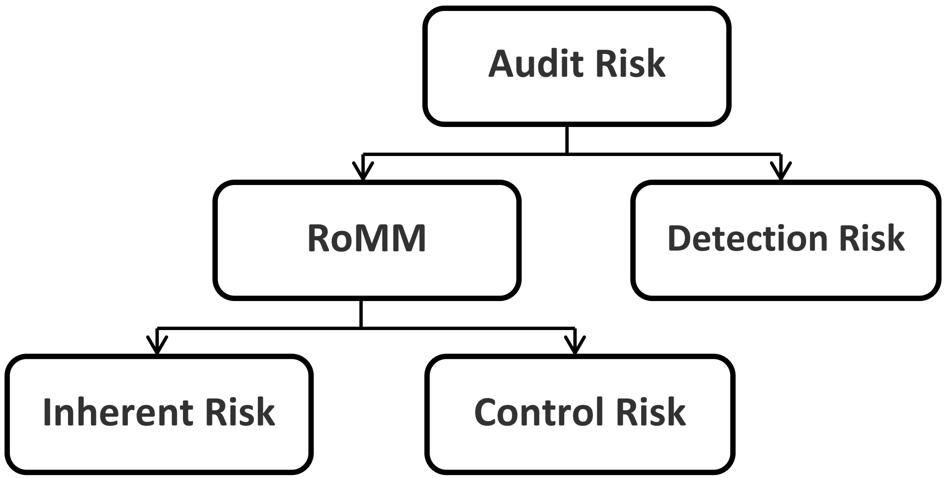
STANDARDS ON AUDITING

(SA 200 to SA 620)

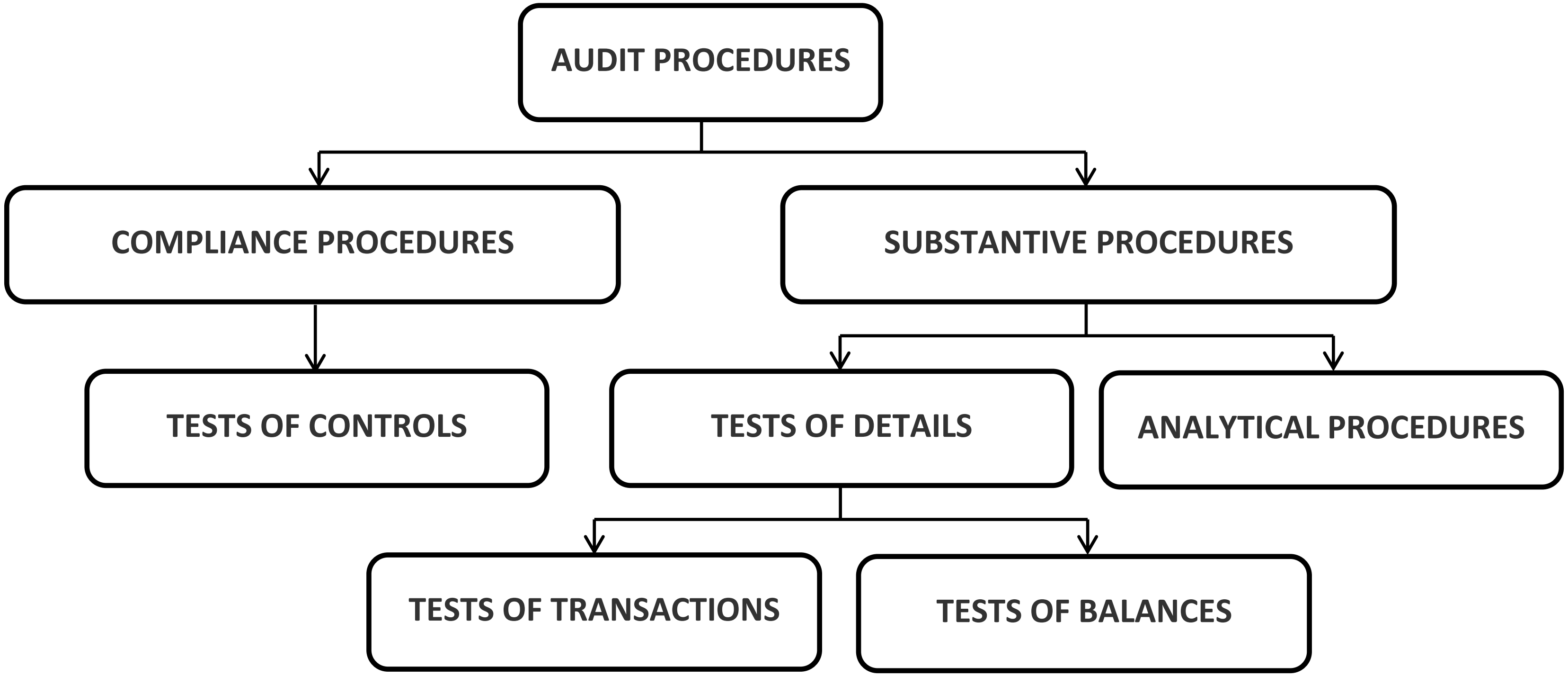
BACKGROUND

- There is inherent risk that the financial statements (FS) are materially misstated.
- Controls are put in place by the management to reduce inherent risk. The risk of control failing is Control Risk.
- The risk that the FS are materially misstated before audit is known as the Risk of Material Misstatement (RoMM)
- To further reduce the risk of RoMM, audit is conducted. The risk that the auditor's procedures will fail to detect misstatements is Detection Risk.
- Finally, the risk that the auditor will end up giving a clean opinion on materially misstated FS is the Audit Risk.

Inherent Risk 80%	×	Control Risk 70%	=	RoMM 80% x 70% = 56%
RoMM 80% x 70% = 56%	×	Detection Risk 25%	=	Audit Risk 56% x 25% = 14%



AUDIT PROCEDURES



TECHNIQUES USED TO PERFORM ABOVE PROCEDURES

1. Inspection	**2. Observation**	**3. Inquiry**	**4. Confirmation**
5. Analytical Review	**6. Re-performance**	**7. Re-calculation**	

Compliance Procedures – Tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. They test the existence, effectiveness and continuity of the controls.
Substantive Procedures – Tests designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system. They test the various assertions like completeness, existence, accuracy, valuation, presentation etc. relating to transactions, account balances and disclosures.

SA 200 – "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"

- **Premises on which an audit is conducted/Pre-conditions for an audit**:
  The Management is responsible for:
  - The preparation and presentation of FS in accordance with the applicable financial reporting framework (FRF) and the design, implementation and maintenance of internal controls (IC). **[D.I.M.-IC]**
  - To provide the auditor with:
    (a) All information (records, documentation and other matters) relevant to the preparation and presentation of the FS,
    (b) Additional information as requested by the auditor from the management and those charged with governance(TCWG) and
    (c) Unrestricted access to those within the entity.
- **Overall Objectives of the auditor**
  - To obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the FS are prepared, in all material respects, in accordance with an applicable FRF.
    - For this, the auditor obtains sufficient appropriate audit evidence (SAAE) to reduce the audit risk to an acceptable low level. However, reasonable assurance is not absolute assurance. This is due to inherent limitations of an audit.
  - To report on the FS, and communicate as required by the SAs, in accordance with the auditor's findings.
  - In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report (AR) is insufficient in the circumstances for purposes of reporting to the intended users of the FS, the SAs require the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.
- **Requirements**
  - **Ethical requirements**: The auditor shall comply with all relevant ethical requirements (Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional behavior **[I-O-P-C-P]**) including those pertaining to Independence.
  - **Professional Skepticism**: The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.
  - **Professional Judgement**: The auditor shall exercise professional judgment in planning and performing an audit of FS.
  - **SAAE**: To obtain SAAE to reduce audit risk to an acceptable low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
  - **Conduct of an audit in accordance with SAs**.
    - In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

SA 210 – "Agreeing the Terms of Audit Engagements"

- **Objective**: The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:
  - Establishing whether the preconditions for an audit are present; and
  - Confirming that there is common understanding between the auditor and management and, where appropriate, TCWG of the terms of the audit engagement.
- **Requirements**
  - **Preconditions for an audit**
    - In order to establish whether the preconditions for an audit are present, the auditor shall:
      (a) Determine whether the FRF to be applied in the preparation of the FS is acceptable; and
      (b) Obtain the agreement of management that it acknowledges and understands its responsibility for those preconditions as specified under SA 200.
    - If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement
    - If management or TCWG impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the FS, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.
  - **Agreement on audit engagement terms**
    The auditor shall agree the terms of the audit engagement with management or TCWG, as appropriate. As per the SA, the agreed terms of the audit engagement shall be recorded in an audit engagement letter and shall include:
    (a) The objective and scope of the audit of the FS;
    (b) The responsibilities of the auditor;
    (c) The responsibilities of management;
    (d) Identification of the applicable FRF for the preparation of the FS; and
    (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
  - **Recurring audits**: On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. The auditor may decide not to send a new audit engagement letter or other written agreement each period.

- The following factors may make it appropriate to revise the terms of the engagement or to remind the entity of existing terms:
  - i) Any indication that the entity misunderstands the objective and scope of the audit.
  - ii) Any revised or special terms of the audit engagement.
  - iii) A recent change of senior management.
  - iv) A significant change in ownership.
  - v) A significant change in nature or size of the entity's business.
  - vi) A change in legal or regulatory requirements.
  - vii) A change in the FRF adopted in the preparation of the FS.
  - viii) A change in other reporting requirements.
- **Acceptance of a change in the terms of the audit engagement**
  - The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.
  - If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.
  - If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
  - If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
    - (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
    - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.

SA 220 – "Quality Control for an Audit of Financial Statements"

- **Requirements**: **[E.P.I.C.-M.A.D.]**
  - **E**thical Requirements
  - **I**ndependence
  - **C**lient relationship - Acceptance and continuance
  - **A**ssignment of engagement teams
  - **P**erformance: Direction, Supervision and performance; Review; Consultation; and Engagement quality control review
  - **M**onitoring
  - **D**ocumentation

SA 230 – "Audit Documentation"

- **Nature and Purposes of Audit Documentation**
  - Audit documentation that meets the requirements of SA provides:
    (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
    (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
  - Audit documentation serves a number of additional purposes, including the following:
    - Assisting the engagement team to plan and perform the audit.
    - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220.
    - Enabling the engagement team to be accountable for its work.
    - Retaining a record of matters of continuing significance to future audits.
    - Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
    - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
- **Objective**
  - The objective of the auditor is to prepare documentation that provides:
    (a) A sufficient and appropriate record of the basis for the AR; and
    (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- **Documentation of the audit procedures performed and audit evidence obtained**
  - **Form, Content and Extent of Audit Documentation**: The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
    (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
    (b) The results of the audit procedures performed, and the audit evidence obtained; and
    (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
  - In documenting the nature, timing and extent (NTE) of audit procedures performed, the auditor shall record:
    (a) The identifying characteristics of the specific items or matters tested;
    (b) Who performed the audit work and the date such work was completed; and
    (c) Who reviewed the audit work performed and the date and extent of such review.

- **Certain matters to be documented as specifically provided by the SA:**
  - The auditor shall document discussions of significant matters with management, TCWG, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
  - If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.
  - **Departure from a Relevant Requirement**: If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.
  - **Matters arising after the date of the AR**: If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the AR, the auditor shall document:

    (a) The circumstances encountered;

    (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the AR; and

    (c) When and by whom the resulting changes to audit documentation were made and reviewed.
  - In circumstances other than those envisaged above where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:

    (a) The specific reasons for making them; and

    (b) When and by whom they were made and reviewed.
- The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the AR.
  - SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the AR.
- After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
  - SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the AR, or, if later, the date of the group AR.
- SQC 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

SA 240 – "The Auditor's Responsibilities Relating to Fraud In An Audit of Financial Statements"

- Two types of intentional misstatements (fraud) are relevant to the auditor–
  (a) misstatements resulting from fraudulent financial reporting and
  (b) misstatements resulting from misappropriation of assets.
- The primary responsibility for the prevention and detection of fraud rests with both TCWG of the entity and management.
- **Responsibilities of the auditor**:
  - An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the FS taken as a whole are free from material misstatement, whether caused by fraud or error.
  - When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.
- **Objectives**:
  (a) To identify and assess the RoMM in the FS due to fraud;
  (b) To obtain SAAE about the assessed RoMM due to fraud, through designing and implementing appropriate responses; and
  (c) To respond appropriately to identified or suspected fraud.
- **Requirements**
  - **Professional skepticism**
    In accordance with SA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and TCWG.
    Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.
    Where responses to inquiries of management or TCWG are inconsistent, the auditor shall investigate the inconsistencies.
  - **Discussion among the engagement team**
    SA 315 requires a discussion among the engagement team members and a determination by the engagement partner of matters which are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's FS may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur notwithstanding the engagement team members' beliefs that management and TCWG are honest and have integrity.

- **Risk assessment procedures (RAP) and related activities**
  When performing RAP and related activities to obtain an understanding of the entity and its environment, including the entity's IC, required by SA 315, the auditor shall perform the following procedures:
  - **Management and others within the entity**
    - The auditor shall make inquiries of management regarding:
      (a) Management's assessment of the RoMM due to fraud, including the nature, extent and frequency of such assessments;
      (b) Management's process for identifying and responding to the risks of fraud in the entity
      (c) Management's communication, if any, to TCWG regarding its processes for identifying and responding to the risks of fraud in the entity; and
      (d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.
    - The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
    - For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.
  - **TCWG**
    - Unless all of TCWG are involved in managing the entity, the auditor shall obtain an understanding of how TCWG exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the IC that management has established to mitigate these risks.
    - The auditor shall make inquiries of TCWG to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.
  - **Unusual or unexpected relationships identified**
    The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate RoMM due to fraud.
  - **Other information**
    The auditor shall consider whether other information obtained by the auditor indicates RoMM due to fraud.
  - **Evaluation of fraud risk factors**
    The auditor shall evaluate whether the information obtained from the other RAP and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate RoMM due to fraud.

- **Identification and assessment of the RoMM due to fraud**
  - In accordance with SA 315, the auditor shall identify and assess the RoMM due to fraud at the FS level, and at the assertion level for classes of transactions, account balances and disclosures.
  - When identifying and assessing the RoMM due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.
  - The auditor shall treat those assessed RoMM due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.
- **Responses to the assessed RoMM due to fraud**
  - **Overall responses**

    In determining overall responses to address the assessed RoMM due to fraud at the FS level, the auditor shall:

    (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the RoMM due to fraud for the engagement;

    (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

    (c) Incorporate an element of unpredictability in the selection of the NTE of audit procedures.
  - **Audit procedures responsive to assessed RoMM due to fraud at the assertion level**
    - In accordance with SA 330, the auditor shall design and perform further audit procedures whose NTE are responsive to the assessed RoMM due to fraud at the assertion level.
  - **Audit procedures responsive to risks related to management override of controls**
    - Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent FS by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a RoMM due to fraud and thus a significant risk.
    - Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform substantive audit procedures.

- **Auditor unable to continue the engagement**
  If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:
  (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
  (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
  (c) If the auditor withdraws:
    (i) Discuss with the appropriate level of management and TCWG, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
    (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.
- **Management representations**
  The auditor shall obtain written representations (WR) from management and, where applicable, TCWG that:
  (a) They acknowledge their responsibility for the design, implementation and maintenance of IC to prevent and detect fraud;
  (b) They have disclosed to the auditor the results of management's assessment of the risk that the FS may be materially misstated as a result of fraud;
  (c) They have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:
    (i) Management;
    (ii) Employees who have significant roles in IC; or
    (iii) Others where the fraud could have a material effect on the FS; and
  (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's FS communicated by employees, former employees, analysts, regulators or others.

SA 250 – "Consideration of Laws and Regulations in an Audit of Financial Statements"

- **The objectives of the auditor are**:
  (a) To obtain SAAE regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the FS;
  (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the FS; and
  (c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

- This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
  (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the FS such as tax and labour laws; and
  (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the FS, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the FS.
- **Requirements**
  - **The Auditor's Consideration of Compliance with Laws and Regulations**
    - As part of obtaining an understanding of the entity and its environment in accordance with SA 315, the auditor shall obtain a general understanding of:
      (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
      (b) How the entity is complying with that framework.
    - The auditor shall obtain SAAE regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the FS.
    - The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the FS:
      a) Inquiring of management and, where appropriate, TCWG, as to whether the entity is in compliance with such laws and regulations; and
      b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
    - During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.
    - The auditor shall request management and, where appropriate, TCWG to provide WR that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing FS have been disclosed to the auditor.
  - **Audit Procedures When Non-Compliance is Identified or Suspected**
    - If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:
      a) An understanding of the nature of the act and the circumstances in which it has occurred; and
      b) Further information to evaluate the possible effect on the FS.

- If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, TCWG. If management or, as appropriate, TCWG do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgement, the effect of the suspected noncompliance may be material to the FS, the auditor shall consider the need to obtain legal advice.
- If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of SAAE on the auditor's opinion.
- The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of WR, and take appropriate action.

- **Reporting of identified or suspected non-compliance**
  - **Reporting non-compliance to TCWG**
    - Unless all of TCWG are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor, the auditor shall communicate with TCWG matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.
    - If, in the auditor's judgement, the non-compliance is believed to be intentional and material, the auditor shall communicate the matter to TCWG as soon as practicable.
    - If the auditor suspects that management or TCWG are involved in noncompliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board.
    - Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.
  - **Reporting non-compliance in the AR on the FS**
    - If the auditor concludes that the non-compliance has a material effect on the FS, and has not been adequately reflected in the FS, the auditor shall, in accordance with SA 705, express a qualified or adverse opinion on the FS.
    - If the auditor is precluded by management or TCWG from obtaining SAAE to evaluate whether non-compliance that may be material to the FS has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the FS on the basis of a limitation on the scope of the audit in accordance with SA 705.
    - If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or TCWG, the auditor shall evaluate the effect on the auditor's opinion in accordance with SA 705.
  - **Reporting non-compliance to regulatory and enforcement authorities**
    - If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

SA 260- "Communication with Those Charged with Governance"

- **The objectives of the auditor are to**:
  (a) Communicate clearly with TCWG the responsibilities of the auditor in relation to the FS audit, and an overview of the planned scope and timing of the audit;
  (b) Obtain from TCWG information relevant to the audit;
  (c) Provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
  (d) Promote effective two-way communication between the auditor and TCWG.
- **Matters to be communicated** (Independence, Findings, Responsibilities and Scope **[I.F.R.S.]**)
  - **The Auditor's responsibilities in relation to the FS audit**
    The auditor shall communicate with TCWG the responsibilities of the auditor in relation to the FS audit, including that:
    (a) The auditor is responsible for forming and expressing an opinion on the FS that have been prepared by management with the oversight of TCWG; and
    (b) The audit of the FS does not relieve management or TCWG of their responsibilities.
  - **Planned scope and timing of the audit**
    The auditor shall communicate with TCWG an overview of the planned scope and timing of the audit.
  - **Significant findings from the audit**
    The auditor shall communicate with TCWG
    (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and FS disclosures. When applicable, the auditor shall explain to TCWG why the auditor considers a significant accounting practice, that is acceptable under the applicable FRF, not to be most appropriate to the particular circumstances of the entity;
    (b) Significant difficulties, if any, encountered during the audit;
    (c) Unless all of TCWG are involved in managing the entity:
    (i) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management;
    (ii) WR the auditor is requesting; and
    (d) Other matters, if any, arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.
  - **Auditor independence**

SA 265 – "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management"

- **Deficiency in IC** – This exists when:
  i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the FS on a timely basis; or
  ii) A control necessary to prevent, or detect and correct, misstatements in the FS on a timely basis is missing.
- **Significant deficiency in IC** – A deficiency or combination of deficiencies in IC that, in the auditor's professional judgement, is of sufficient importance to merit the attention of TCWG.
- **Objective**
  The objective of the auditor is to communicate appropriately to TCWG and management deficiencies in IC that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.
- **Requirements**
  - The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in IC.
  - If the auditor has identified one or more deficiencies in IC, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.
  - The auditor shall communicate in writing significant deficiencies in IC identified during the audit to TCWG on a timely basis.
  - The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:
    (a) In writing, significant deficiencies in IC that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to management in the circumstances; and
    (b) Other deficiencies in IC identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgement, are of sufficient importance to merit management's attention.
  - The auditor shall include in the written communication of significant deficiencies in IC:
    (a) A description of the deficiencies and an explanation of their potential effects; and
    (b) Sufficient information to enable TCWG and management to understand the context of the communication. In particular, the auditor shall explain that:
      (i) The purpose of the audit was for the auditor to express an opinion on the FS;
      (ii) The audit included consideration of IC relevant to the preparation of the FS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IC; and
      (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.

SA 299 – "Responsibility of Joint Auditors"

- **Division of work**
  - Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in terms of audit of identifiable units or specified areas. In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure or with reference to periods of time. Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.
  - The division of work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.
- **Coordination and relationship among joint auditors**
  - Where, in the course of his work, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgement by, other joint auditors, he should communicate the same to all the other joint auditors in writing. This should be done by the submission of a report or note prior to the finalisation of the audit.
  - If any matters of the nature referred to in above, are brought to the attention of the entity or other joint auditors by an auditor after the AR has been submitted, the other joint auditors would not be responsible for those matters.
  - In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible –

    (a) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;

    (b) in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;

    (c) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

    (d) for examining that the FS of the entity comply with the disclosure requirements of the relevant statute; and

    (e) for ensuring that the AR complies with the requirements of the relevant statute.

- Subject to point (b) above, it is the responsibility of each joint auditor to determine the NTE of audit procedures to be applied in relation to the area of work allocated to him. The issues such as appropriateness of using test checks or sampling should be decided by each joint auditor in relation to his own area of work. This responsibility is not shared by the other joint auditors. Thus, it is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of IC relating to the work allocated to him. Similarly, the NTE of the enquiries to be made in the course of audit as well as the other audit procedures to be applied are solely the responsibility of each joint auditor.
- In the case of audit of a large entity with several branches, including those required to be audited by branch auditors, the branch ARs/returns may be required to be scrutinised by different joint auditors in accordance with the allocation of work. In such cases, it is the specific and separate responsibility of each joint auditor to review the ARs/returns of the divisions/branches allocated to him and to ensure that they are properly incorporated into the accounts of the entity. In respect of the branches which do not fall within any divisions or zones which are separately assigned to the various joint auditors, they may agree among themselves as regards the division of work relating to the review of such branch returns. It is also the separate and specific responsibility of each joint auditor to exercise his judgement with regard to the necessity of visiting such divisions/branches in respect of which the work is allocated to him.
- A significant part of the audit work involves obtaining and evaluating information and explanations from the management. This responsibility is shared by all the joint auditors unless they agree upon a specific pattern of distribution of this responsibility. In cases where specific divisions, zones or units are allocated to different joint auditors, it is the separate and specific responsibility of each joint auditor to obtain appropriate information and explanations from the management in respect of such divisions/zones/units and to evaluate the information and explanations so obtained by him.
- Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures. It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner. Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.
- Where separate FS of a division/branch are audited by one of the joint auditors, the other joint auditors are entitled to proceed on the basis that such FS comply with all the legal and professional requirements regarding the disclosures to be made and present a true and fair view of the state of affairs and of the working results of the division/branch concerned, subject to such observations as may be communicated by the joint auditor concerned.

- **Reporting responsibilities**
  - Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

SA 300 – "Planning an Audit of Financial Statements"

- The objective of the auditor is to plan the audit so that it will be performed in an effective manner.
- **Requirements**
  - **Involvement of key engagement team members**
    The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.
  - **Preliminary engagement activities**
    The auditor shall undertake the following activities at the beginning of the current audit engagement:
    (a) Performing procedures as per SA 220 regarding the continuance of the client relationship & the specific audit engagement;
    (b) Evaluating compliance with ethical requirements, including independence, as required by SA 220; and
    (c) Establishing an understanding of the terms of the engagement, as required by SA 210.
  - **Planning activities**
    - The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. In establishing the overall audit strategy, the auditor shall:
      (a) Identify the characteristics of the engagement that define its scope;
      (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
      (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the team's efforts;
      (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
      (e) Ascertain the NTE of resources necessary to perform the engagement.
    - The auditor shall develop an audit plan that shall include a description of:
      (a) The NTE of planned risk assessment procedures, as determined under SA 315
      (b) The NTE of planned further audit procedures at the assertion level, as determined under SA 330
      (c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
    - The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.
    - The auditor shall plan the NTE of direction and supervision of engagement team members and the review of their work.
  - **Additional considerations in initial audit engagements**
    - The auditor shall undertake the following activities prior to starting an initial audit:
      - Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement; and
      - Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

SA 315 – "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment"

- **Objective**

  The objective of the auditor is to identify and assess the RoMM, whether due to fraud or error, at the FS and assertion levels, through understanding the entity and its environment, including the entity's IC, thereby providing a basis for designing and implementing responses to the assessed RoMM. This will help the auditor to reduce the RoMM to an acceptably low level.
- **Requirements**
  - **RAP and related activities**
    - The auditor shall perform RAP to provide a basis for the identification and assessment of RoMM at the FS and assertion levels. RAP by themselves, however, do not provide SAAE on which to base the audit opinion. The RAP shall include the following:

      (a) Inquiries of management and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying RoMM due to fraud or error.

      (b) Analytical procedures.

      (c) Observation and inspection.
    - The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying RoMM.
    - Where the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying RoMM.
    - When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit.
    - The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's FS to material misstatement, and the application of the applicable FRF to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.

- **The Required Understanding of the Entity and Its Environment, Including the Entity's IC**
  - **The entity and Its environment**

    The auditor shall obtain an understanding of the following:

    (a) Relevant industry, regulatory, and other external factors including the applicable FRF.

    (b) The nature of the entity, including:

    (i) its operations;

    (ii) its ownership and governance structures;

    (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and the way that the entity is structured and how it is financed; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the FS.

    (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable FRF and accounting policies used in the relevant industry.

    (d) The entity's objectives and strategies, and those related business risks that may result in RoMM.

    (e) The measurement and review of the entity's financial performance.
  - **The entity's IC**

    The auditor shall obtain an understanding of IC relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.
  - **Nature and extent of the understanding of relevant controls**

    When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.
- **Components of IC [C-R-I-C-M]**
  - **Control environment (C)**

    The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:

    (a) Management, with the oversight of TCWG, has created and maintained a culture of honesty and ethical behavior; and

    (b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of IC, and whether those other components are not undermined by deficiencies in the control environment.

- **The entity's risk assessment process (R)**
  - ➢ The auditor shall obtain an understanding of whether the entity has a process for:
    - (a) Identifying business risks relevant to financial reporting objectives;
    - (b) Estimating the significance of the risks;
    - (c) Assessing the likelihood of their occurrence; and
    - (d) Deciding about actions to address those risks.
  - ➢ If the entity has established such a process, the auditor shall obtain an understanding of it, and the results thereof. Where the auditor identifies RoMM that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in IC with regard to the entity's risk assessment process.
  - ➢ If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in IC.
- **The information system, including the related business processes, relevant to financial reporting, and communication. (I)**
  - ➢ The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:
    - (a) The classes of transactions in the entity's operations that are significant to the FS;
    - (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the FS;
    - (c) The related accounting records, supporting information and specific accounts in the FS that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
    - (d) How the information system captures events and conditions, other than transactions, that are significant to the FS;
    - (e) The reporting process used to prepare the entity's FS, including significant accounting estimates and disclosures;
    - (f) Controls surrounding journal entries, including non-standard journal entries used to record nonrecurring, unusual transactions or adjustments.
  - ➢ The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:
    - (a) Communications between management and TCWG; and
    - (b) External communications, such as those with regulatory authorities.

- **Control activities relevant to the audit (C)**
  - ➢ The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the RoMM at the assertion level and design further audit procedures responsive to assessed risks. An audit requires an understanding of only those control activities related to significant class of transactions, account balance, and disclosure in the FS and the assertions which the auditor finds relevant in his risk assessment process.
  - ➢ In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.
- **Monitoring of controls (M)**
  - ➢ The auditor shall obtain an understanding of the major activities that the entity uses to monitor IC over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.
  - ➢ If the entity has an internal audit function,1 the auditor shall obtain an understanding of the following in order to determine whether the internal audit function is likely to be relevant to the audit:
    - (a) The nature of the internal audit function's responsibilities and how the internal audit function fits in the entity's organisational structure; and
    - (b) The activities performed, or to be performed, by the internal audit function.
  - ➢ The auditor shall obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose.

○ **Identifying and assessing the RoMM**

- The auditor shall identify and assess the RoMM at:
  (a) the FS level; and
  (b) the assertion level for classes of transactions, account balances, and disclosures;
  to provide a basis for designing and performing further audit procedures.
- For this purpose, the auditor shall:
  - (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the FS;
  - (b) Assess the identified risks, and evaluate whether they relate more pervasively to the FS as a whole and potentially affect many assertions;
  - (c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
  - (d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

- **Risks that require special audit consideration**
  - As part of the risk assessment as described above, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.
  - In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

  (a) Whether the risk is a risk of fraud;

  (b) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention;

  (c) The complexity of transactions;

  (d) Whether the risk involves significant transactions with related parties;

  (e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and

  (f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

  - When the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.
- **Risks for which substantive procedures alone do not provide SAAE**

  In respect of some risks, the auditor may judge that it is not possible or practicable to obtain SAAE only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.
- **Revision of risk assessment**

  The auditor's assessment of the RoMM at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

SA 320 – "Materiality in Planning and Performing an Audit"

- **Objective**
  The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.
- For purposes of the SAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the FS as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the FS as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.
- **Materiality in the context of an audit**
  - FRFs often discuss the concept of materiality in the context of the preparation and presentation of FS. Although FRFs may discuss materiality in different terms, they generally explain that:
  - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the FS;
  - Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
  - Judgments about matters that are material to users of the FS are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
  - The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the FS.
  - The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the FS and in forming the opinion in the AR.
  - In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:
    (a) Determining the NTE of risk assessment procedures;
    (b) Identifying and assessing the RoMM; and
    (c) Determining the NTE of further audit procedures.
  - The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although, it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the FS

- **Requirements**
  - **Determining materiality and performance materiality when planning the audit**
    - When establishing the overall audit strategy, the auditor shall determine materiality for the FS as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the FS as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the FS, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.
    - The auditor shall determine performance materiality for purposes of assessing the RoMM and determining the NTE of further audit procedures.
  - **Revision as the audit progresses**
    - The auditor shall revise materiality for the FS as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.
    - If the auditor concludes that a lower materiality for the FS as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the NTE of the further audit procedures remain appropriate.

SA 330 – "The Auditor's Responses to Assessed Risks"

- **Objective**

  The objective of the auditor is to obtain SAAE about the assessed RoMM, through designing and implementing appropriate responses to those risks.
- **Requirements**
  - **Overall responses -** The auditor shall design and implement overall responses to address the assessed RoMM at the FS level.
  - **Audit procedures responsive to the assessed RoMM at the assertion level**
    - The auditor shall design and perform further audit procedures whose NTE are based on and are responsive to the assessed RoMM at the assertion level. In designing the further audit procedures to be performed, the auditor shall:

      (a) Consider the reasons for the assessment given to the RoMM at each assertion level, including:

        i) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and

        ii) Whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the NTE of substantive procedures); and

      (b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

- **Tests of controls**
  - The auditor shall design and perform tests of controls to obtain SAAE as to the operating effectiveness of relevant controls when:
    (a) The auditor's assessment of RoMM at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the NTE of substantive procedures); or
    (b) Substantive procedures alone cannot provide SAAE at the assertion level.
  - In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.
  - **Nature and extent of tests of controls**
    In designing and performing tests of controls, the auditor shall:
    (a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
      i) How the controls were applied at relevant times during the period under audit.
      ii) The consistency with which they were applied.
      iii) By whom or by what means they were applied.
    (b) Determine whether the controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.
  - **Timing of tests of controls**
    The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls, subject to paragraphs below, in order to provide an appropriate basis for the auditor's intended reliance.
  - **Using audit evidence obtained during an interim period**
    When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall:
    (a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and
    (b) Determine the additional audit evidence to be obtained for the remaining period.
  - **Using audit evidence obtained in previous audits**
    - In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

(a) The effectiveness of other elements of IC, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process;
(b) The risks arising from the characteristics of the control, including whether it is manual or automated;
(c) The effectiveness of general IT-controls;
(d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control;
(e) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and
(f) The RoMM and the extent of reliance on the control.

- If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:
  (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit.
  (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods.

- **Controls over significant risks**

  When the auditor plans to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.

- **Evaluating the operating effectiveness of controls**
  - When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.
  - When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:
    (a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;
    (b) Additional tests of controls are necessary; or
    (c) The potential risks of misstatement need to be addressed using substantive procedures.

- **Substantive Procedures**
  - Irrespective of the assessed RoMM, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.
  - The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures.
  - **Substantive procedures related to the FS closing process**
    The auditor's substantive procedures shall include the following audit procedures related to the FS closing process:
    (a) Agreeing or reconciling the FS with the underlying accounting records; and
    (b) Examining material journal entries and other adjustments made during the course of preparing the FS.
  - **Substantive procedures responsive to significant risks**
    When the auditor has determined that an assessed RoMM at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.
  - **Timing of substantive procedures**
    - When substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:
      (a) substantive procedures, combined with tests of controls for the intervening period; or
      (b) if the auditor determines that it is sufficient, further substantive procedures only;
      that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.
    - If misstatements that the auditor did not expect when assessing the RoMM are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing, or extent of substantive procedures covering the remaining period need to be modified.
- **Adequacy of presentation and disclosure**
  The auditor shall perform audit procedures to evaluate whether the overall presentation of the FS, including the related disclosures, is in accordance with the applicable FRF.
- **Evaluating the sufficiency and appropriateness of audit evidence**
  - Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the RoMM at the assertion level remain appropriate.
  - The auditor shall conclude whether SAAE has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the FS.
  - If the auditor has not obtained SAAE as to a material FS assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain SAAE, the auditor shall express a qualified opinion or a disclaimer of opinion.

SA 402 – "Audit Considerations relating to an Entity Using a Service Organisation"

- Services provided by a service organisation (SO) are relevant to the audit of a user entity's (UE) FS when those services, and the controls over them, are part of the UE's information system, including related business processes, relevant to financial reporting. Most controls at the SO are likely to relate to financial reporting. There may be other controls that may also be relevant to the audit, such as controls over the safeguarding of assets. A SO's services are part of a UE's information system, including related business processes, relevant to financial reporting if these services affect any of the following:
  (a) The classes of transactions in the UE's operations that are significant to the UE's FS;
  (b) The procedures, within both information technology (IT) and manual systems, by which the UE's transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the FS;
  (c) The related accounting records, either in electronic or manual form, supporting information and specific accounts in the UE's FS that are used to initiate, record, process and report the UE's transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;
  (d) How the UE's information system captures events and conditions, other than transactions, that are significant to the FS;
  (e) The financial reporting process used to prepare the UE's FS, including significant accounting estimates and disclosures; and
  (f) Controls surrounding journal entries, including non-standard journal entries used to record nonrecurring, unusual transactions or adjustments.
- **Type 1 report**: Report on the description and design of controls at a SO – A report that comprises:
  (i) A description, prepared by management of the SO, of the SO's system, control objectives and related controls that have been designed and implemented as at a specified date; and
  (ii) A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the SO's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.
- **Type 2 report**: Report on the description, design, and operating effectiveness of controls at a SO – A report that comprises:
  (i) A description, prepared by management of the SO, of the SO's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and
  (ii) A report by the service auditor with the objective of conveying reasonable assurance that includes:
    a. The service auditor's opinion on the description of the SO's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and
    b. A description of the service auditor's tests of the controls and the results thereof.

- **Objectives**

  The objectives of the user auditor, when the UE uses the services of a SO, are:

  (a) To obtain an understanding of the nature and significance of the services provided by the SO and their effect on the UE's IC relevant to the audit, sufficient to identify and assess the RoMM; and

  (b) To design and perform audit procedures responsive to those risks.

- **Requirements**
  - **Obtaining an understanding of the services provided by a SO, including IC**
    - When obtaining an understanding of the UE in accordance with SA 315, the user auditor shall obtain an understanding of how a UE uses the services of a SO in the UE's operations, including:

      (a) The nature of the services provided by the SO and the significance of those services to the UE, including the effect thereof on the UE's IC;

      (b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the SO;

      (c) The degree of interaction between the activities of the SO and those of the UE; and

      (d) The nature of the relationship between the UE and the SO, including the relevant contractual terms for the activities undertaken by the SO.
    - When obtaining an understanding of IC relevant to the audit in accordance with SA 315, the user auditor shall evaluate the design and implementation of relevant controls at the UE that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation.
    - The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the UE's IC relevant to the audit has been obtained to provide a basis for the identification and assessment of RoMM.
    - If the user auditor is unable to obtain a sufficient understanding from the UE, the user auditor shall obtain that understanding from one or more of the following procedures:

      (a) Obtaining a Type 1 or Type 2 report, if available;

      (b) Contacting the SO, through the UE, to obtain specific information;

      (c) Visiting the SO and performing procedures that will provide the necessary information about the relevant controls; or

      (d) Using another auditor to perform procedures that will provide the necessary information about the relevant.
  - **Responding to the assessed RoMM**

    In responding to assessed risks in accordance with SA 330, the user auditor shall:

    (a) Determine whether SAAE concerning the relevant FS assertions is available from records held at the UE; and, if not,

    (b) Perform further audit procedures to obtain SAAE or use another auditor to perform those procedures at the SO on the user auditor's behalf.

- **Using a Type 1 or Type 2 report to support the user auditor's understanding of the service organisation**
    - In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, the user auditor shall be satisfied as to:
        (c) The service auditor's professional competence (except where the service auditor is a member of the ICAI) and independence from the SO; and
        (d) The adequacy of the standards under which the Type 1 or Type 2 report was issued.
    - If the user auditor plans to use a Type 1 or Type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the SO, the user auditor shall:
        (a) Evaluate whether the description and design of controls at the SO is at a date or for a period that is appropriate for the user auditor's purposes;
        (b) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the UE's IC relevant to the audit; and
        (c) Determine whether complementary UE controls identified by the SO are relevant to the UE and, if so, obtain an understanding of whether the UE has designed and implemented such controls.
- **Tests of controls**
    - When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:
        (a) Obtaining a Type 2 report, if available;
        (b) Performing appropriate tests of controls at the service organisation; or
        (c) Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor.
- **Type 1 and Type 2 reports that exclude the services of a subservice organisation**
    - If the user auditor plans to use a Type 1 or a Type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the UE's FS, the user auditor shall apply the requirements of this SA with respect to the services provided by the subservice organisation.
- **Referring to the work of the service auditor in the user auditor's report**
    - The user auditor shall not refer to the work of a service auditor in the user AR containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user AR shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.
    - If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user AR shall indicate that such reference does not diminish the user auditor's responsibility for that opinion.

SA 450 – "Evaluation of Misstatements Identified during the Audit"

- **Objective**

  The objective of the auditor is to evaluate:

  (a) The effect of identified misstatements on the audit; and

  (b) The effect of uncorrected misstatements, if any, on the FS.

- **Requirements**
  - **Accumulation of identified misstatements**

    The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.
  - **Consideration of identified misstatements as the audit progresses**
    - The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:

      (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or

      (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.
    - If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.
  - **Communication and correction of misstatements**
    - The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements.
    - If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the FS as a whole are free from material misstatement.
  - **Evaluating the effect of uncorrected misstatements**
    - Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial results.
    - The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

      (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the FS as a whole, and the particular circumstances of their occurrence; and

      (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the FS as a whole.

- **Communication with those charged with governance**
  - The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the AR, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.
  - The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the FS as a whole.
- **WR**
  - The auditor shall request a WR from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the FS as a whole. A summary of such items shall be included in or attached to the WR.

SA 500 – "Audit Evidence"

- **Objective**
  The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain SAAE to be able to draw reasonable conclusions on which to base the auditor's opinion.
- **Appropriateness (of audit evidence)** – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based
- **Sufficiency (of audit evidence)** – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the RoMM and also by the quality of such audit evidence
- **Management's expert** – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the FS.
- **Requirements**
  - The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining SAAE.
  - **Information to Be Used as Audit Evidence**
    - When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.
    - When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:
      (a) Evaluate the competence, capabilities and objectivity of that expert;
      (b) Obtain an understanding of the work of that expert; and
      (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

- When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:
  (a) Obtaining audit evidence about the accuracy and completeness of the information; and
  (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

- **Inconsistency in, or Doubts over Reliability of, Audit Evidence**
  (a) audit evidence obtained from one source is inconsistent with that obtained from another; or
  (b) the auditor has doubts over the reliability of information to be used as audit evidence,
  The auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

SA 501 – "Audit Evidence—Specific Considerations for Selected Items"

- **Objective**
  The objective of the auditor is to obtain SAAE regarding the:
  (a) Existence and condition of inventory;
  (b) Completeness of litigation and claims involving the entity; and
  (c) Presentation and disclosure of segment information in accordance with the applicable FRF.
- **Requirements - Inventory**
  - When inventory is material to the FS, the auditor shall obtain SAAE regarding the existence and condition of inventory by:
    (a) Attendance at physical inventory counting, unless impracticable, to:
      (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
      (ii) Observe the performance of management's count procedures;
      (iii) Inspect the inventory; and
      (iv) Perform test counts; and
    (b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.
  - If physical inventory counting is conducted at a date other than the date of the FS, the auditor shall, in addition to the procedures required as above, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the FS are properly recorded.
  - If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.
  - If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the AR in accordance with SA 705.

- When inventory under the custody and control of a third party is material to the FS, the auditor shall obtain SAAE regarding the existence and condition of that inventory by performing one or both of the following:
  (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
  (b) Perform inspection or other audit procedures appropriate in the circumstances.

- **Requirements - Litigation and Claims**
  - The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a RoMM, including:
    (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;
    (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and
    (c) Reviewing legal expense accounts.
  - If the auditor assesses a RoMM regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures.
  - The auditor shall modify the opinion in the AR in accordance with SA 705 If,
    (a) management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and
    (b) the auditor is unable to obtain SAAE by performing alternative audit procedures,
  - The auditor shall request management and, where appropriate, those charged with governance to provide WR that all known actual or possible litigation and claims whose effects should be considered when preparing the FS have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable FRF.

- **Requirements - Segment Information**
  - The auditor shall obtain SAAE regarding the presentation and disclosure of segment information in accordance with the applicable FRF by:
    (a) Obtaining an understanding of the methods used by management in determining segment information, and
      (i) Evaluating whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
      (ii) Where appropriate, testing the application of such methods; and
    (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

SA 505 – "External Confirmations"

- **Objective**

  The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.
- **External confirmation** – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
- **Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
- **Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
- **Requirements**
  - **External confirmation procedures**

    When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

    (a) Determining the information to be confirmed or requested;

    (b) Selecting the appropriate confirming party;

    (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and

    (d) Sending the requests, including follow-up requests when applicable, to the confirming party.
- **Management's refusal to allow the auditor to send a confirmation request**
  - If management refuses to allow the auditor to send a confirmation request, the auditor shall:

    (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;

    (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant RoMM, including the risk of fraud, and on the NTE of other audit procedures; and

    (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.
  - If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260. The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

- **Results of the external confirmation procedures**
  - **Reliability of responses to confirmation requests**
    - If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts.
    - If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant RoMM, including the risk of fraud, and on the related NTE of other audit procedures.
  - **Non-responses**

    In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.
  - **When a response to a positive confirmation request is necessary to obtain SAAE**

    If the auditor has determined that a response to a positive confirmation request is necessary to obtain SAAE, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.
  - **Exceptions**

    The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements.
- **Negative Confirmations**

  Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed RoMM at the assertion level unless all of the following are present:

  (a) The auditor has assessed the RoMM as low and has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion;

  (b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;

  (c) A very low exception rate is expected; and

  (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.
- **Evaluating the evidence obtained**

  The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary.

SA 510 – "Initial Audit Engagements—Opening Balances"

- **Objective**

  In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain SAAE about whether:

  (a) Opening balances contain misstatements that materially affect the current period's FS; and

  (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's FS, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable FRF.

- **Requirements**
  - **Audit Procedures**
    - **Opening Balances**
      - ➢ The auditor shall read the most recent FS, if any, and the predecessor AR thereon, if any, for information relevant to opening balances, including disclosures.
      - ➢ The auditor shall obtain SAAE about whether the opening balances contain misstatements that materially affect the current period's FS by:

        (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;

        (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and

        (c) Performing one or more of the following:

        (i) Where the prior year FS were audited, perusing the copies of the audited FS including the other relevant documents relating to the prior period FS;

        (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or

        (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.
      - ➢ If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's FS, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's FS. If the auditor concludes that such misstatements exist in the current period's FS, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with SA 450.

- **Consistency of Accounting Policies**
  The auditor shall obtain SAAE about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's FS, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable FRF.
- **Relevant Information in the Predecessor AR**
  If the prior period's FS were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the RoMM in the current period's FS in accordance with SA 315.

○ **Audit Conclusions and Reporting**

- **Opening Balances**
  - If the auditor is unable to obtain SAAE regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
  - If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's FS, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705.
- **Consistency of Accounting Policies**
  - If the auditor concludes that:
    (a) the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable FRF; or
    (b) a change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRF,

    the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with SA 705.
- **Modification to the Opinion in the Predecessor AR**
  If the predecessor auditor's opinion regarding the prior period's FS included a modification to the auditor's opinion that remains relevant and material to the current period's FS, the auditor shall modify the auditor's opinion on the current period's FS in accordance with SA 705 and SA 710.

SA 520 – "Analytical Procedures"

- **Scope of this SA**
  This SA deals with the auditor's use of analytical procedures as substantive procedures, and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the FS. The use of analytical procedures as RAP is dealt with in SA 315. SA 330 includes requirements and guidance regarding the NTE of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

- **Analytical procedures** - means 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.
- The auditor's choice of procedures, methods and level of application is a matter of professional judgement.
- **Objectives**

  The objectives of the auditor are:

  (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and

  (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the FS are consistent with the auditor's understanding of the entity.
- **Requirements**
  - **Substantive Analytical Procedures**

    When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall:

    (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed RoMM and tests of details, if any, for these assertions;

    (b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;

    (c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the FS to be materially misstated; and

    (d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.
  - **Analytical Procedures that Assist When Forming an Overall Conclusion**

    The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the FS are consistent with the auditor's understanding of the entity.
  - **Investigating Results of Analytical Procedures**

    If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

    (a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and

    (b) Performing other audit procedures as necessary in the circumstances.

SA 530 – "Audit Sampling"

- **Scope of this SA**
  - This SA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.
  - This SA complements SA 500, which deals with the auditor's responsibility to design and perform audit procedures to obtain SAAE to be able to draw reasonable conclusions on which to base the audit opinion. SA 500 provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.
- **Objective**

  The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.
- **Definitions**

  For purposes of the SAs, the following terms have the meanings attributed below:
  - **Audit sampling (sampling)** – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
  - **Population** – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
  - **Sampling risk** – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

    (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

    (ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.
  - **Non-sampling risk** – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
  - **Statistical sampling** – An approach to sampling that has the following characteristics:

    (i) Random selection of the sample items; and

    (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.
    - A sampling approach that does not have characteristics (i) and (ii) is considered **non-statistical sampling**.
  - **Stratification** – The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

- **Tolerable misstatement** – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.
- **Tolerable rate of deviation** – A rate of deviation from prescribed IC procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

- **Requirements**
  - **Sample design, size and selection of items for testing**
    - When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.
    - The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.
    - The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.
  - **Performing audit procedures**
    - The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.
    - If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.
    - If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
  - **Nature and cause of deviations and misstatements**
    - The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.
    - In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain SAAE that the misstatement or deviation does not affect the remainder of the population.
  - **Projecting misstatements**
    - For tests of details, the auditor shall project misstatements found in the sample to the population.
  - **Evaluating results of audit sampling**
    - The auditor shall evaluate:
      (a) The results of the sample; and
      (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

- **Sample Selection Methods**

  There are many methods of selecting samples. The principal methods are as follows:

  (a) **Random selection** (applied through random number generators, for example, random number tables).

  (b) **Systematic selection**, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

  (c) **Monetary Unit Sampling** is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.

  (d) **Haphazard selection**, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.

  (e) **Block selection** involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

SA 540 – "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures"

- **Scope of this SA**
  This SA deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures in an audit of FS. Specifically, it expands on how SA 315 and SA 330 and other relevant SAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.
- **Objective**
  The objective of the auditor is to obtain SAAE whether in the context of the applicable FRF:
  (a) accounting estimates, including fair value accounting estimates, in the FS, whether recognised or disclosed, are reasonable; and
  (b) related disclosures in the FS are adequate.
- **Requirements**
  - **RAP and related activities**
    - When performing RAP and related activities to obtain an understanding of the entity and its environment, including the entity's IC, as required by SA 315, the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the RoMM for accounting estimates:
      (a) The requirements of the applicable FRF relevant to accounting estimates, including related disclosures.
      (b) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the FS. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
      (c) How management makes the accounting estimates, and an understanding of the data on which they are based, including:
        (i) The method, including where applicable the model, used in making the accounting estimate;
        (ii) Relevant controls;
        (iii) Whether management has used an expert;
        (iv) The assumptions underlying the accounting estimates;
        (v) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and
        (vi) Whether and, if so, how management has assessed the effect of estimation uncertainty.

- The auditor shall review the outcome of accounting estimates included in the prior period FS, or, where applicable, their subsequent re-estimation for the purpose of the current period. The nature and extent of the auditor's review takes account of the nature of the accounting estimates, and whether the information obtained from the review would be relevant to identifying and assessing RoMM of accounting estimates made in the current period FS.

- **Identifying and assessing the RoMM**
  - In identifying and assessing the RoMM, as required by SA 315, the auditor shall evaluate the degree of estimation uncertainty associated with an accounting estimate.
  - The auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks.
- **Responses to the assessed RoMM**
  - Based on the assessed RoMM, the auditor shall determine:
    (a) Whether management has appropriately applied the requirements of the applicable FRF relevant to the accounting estimate; and
    (b) Whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether changes, if any, in accounting estimates or in the method for making them from the prior period are appropriate in the circumstances.
  - In responding to the assessed RoMM, as required by SA 330, the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate:
    (a) Determine whether events occurring up to the date of the AR provide audit evidence regarding the accounting estimate.
    (b) Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether:
      (i) The method of measurement used is appropriate in the circumstances; and
      (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable FRF.
    (c) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
    (d) Develop a point estimate or a range to evaluate management's point estimate. For this purpose:
      (i) When the auditor uses assumptions or methods that differ from management's, the auditor shall obtain an understanding of management's assumptions or methods sufficient to establish that the auditor's point estimate or range takes into account relevant variables and to evaluate any significant differences from management's point estimate.
      (ii) When the auditor concludes that it is appropriate to use a range, the auditor shall narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable.

- In determining the matters identified while assessing RoMM or in responding to the assessed RoMM, the auditor shall consider whether specialised skills or knowledge in relation to one or more aspects of the accounting estimates are required in order to obtain SAAE.

- **Evaluating the reasonableness of the accounting estimates, and determining misstatements**
  The auditor shall evaluate, based on the audit evidence, whether the accounting estimates in the FS are either reasonable in the context of the applicable FRF, or are misstated.
- **Disclosures related to accounting estimates**
  - The auditor shall obtain SAAE about whether the disclosures in the FS related to accounting estimates are in accordance with the requirements of the applicable FRF.
  - For accounting estimates that give rise to significant risks, the auditor shall also evaluate the adequacy of the disclosure of their estimation uncertainty in the FS in the context of the applicable FRF.
- **Indicators of possible management bias**
  The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates.
- **WR**
  The auditor shall obtain WR from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

SA 550 – "Related Parties"

- **Objectives**

The objectives of the auditor are:

(a) Irrespective of whether the applicable FRF establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

(i) To recognise fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the RoMM due to fraud; and

(ii) To conclude whether the FS, insofar as they are affected by those relationships and transactions:

a. Achieve a true and fair presentation (for fair presentation frameworks); or

b. Are not misleading (for compliance frameworks); and

(b) In addition, where the applicable FRF establishes related party requirements, to obtain SAAE about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the FS in accordance with the framework.

- **Requirements**
  - **RAP and related activities**

    As part of the RAP and related activities that SA 315 and SA 240 require the auditor to perform during the audit, the auditor shall perform the audit procedures and related activities set out hereunder to obtain information relevant to identifying the RoMM associated with related party relationships and transactions.

    - **Understanding the entity's related party relationships and transactions**
      - The engagement team discussion that SA 315 and SA 240 require shall include specific consideration of the susceptibility of the FS to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions.
      - The auditor shall inquire of management regarding:

        (a) The identity of the entity's related parties, including changes from the prior period;

        (b) The nature of the relationships between the entity and these related parties; and

        (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.
      - The auditor shall inquire of management and others within the entity, and perform other RAP considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

        (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable FRF;

        (b) Authorise and approve significant transactions and arrangements with related parties; and

        (c) Authorise and approve significant transactions and arrangements outside the normal course of business.
    - **Maintaining alertness for related party information when reviewing records or documents**
      - During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.
      - In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

        (a) Bank, legal and third party confirmations obtained as part of the auditor's procedures;

        (b) Minutes of meetings of shareholders and of those charged with governance; and

        (c) Such other records or documents as the auditor considers necessary in the circumstances of the entity.
      - If the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures as above or through other audit procedures, the auditor shall inquire of management about:

        (a) The nature of these transactions; and

        (b) Whether related parties could be involved.

- **Sharing related party information with the engagement team**
  The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

○ **Identification and assessment of the RoMM associated with related party relationships and transactions**

- In meeting the SA 315 requirement to identify and assess the RoMM, the auditor shall identify and assess the RoMM associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.
- If the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the RAP and related activities in connection with related parties, the auditor shall consider such information when identifying and assessing the RoMM due to fraud in accordance with SA 240.

○ **Responses to the RoMM associated with related party relationships and transactions**

As part of the SA 330 requirement that the auditor respond to assessed risks, the auditor designs and performs further audit procedures to obtain SAAE about the assessed RoMM associated with related party relationships and transactions. These audit procedures shall include those required as under.

- **Identification of previously unidentified or undisclosed related parties or significant related party transactions**
  - ➢ If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.
  - ➢ If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

    (a) Promptly communicate the relevant information to the other members of the engagement team;

    (b) Where the applicable FRF establishes related party requirements:

    (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and

    (ii) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;

    (c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;

    (d) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and

    (e) If the non-disclosure by management appears intentional (and therefore indicative of a RoMM due to fraud), evaluate the implications for the audit.

- **Identified significant related party transactions outside the entity's normal course of business**
  For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
  (a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
    (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
    (ii) The terms of the transactions are consistent with management's explanations; and
    (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable FRF; and
  (b) Obtain audit evidence that the transactions have been appropriately authorised and approved.
- **Assertions that related party transactions were conducted on terms equivalent to those prevailing in an arm's length transaction** - When management has made an assertion in the FS to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain SAAE about the assertion.

○ **Evaluation of the accounting for and disclosure of identified related party relationships and transactions**
In forming an opinion on the FS in accordance with SA 700, the auditor shall evaluate:
(a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable FRF; and
(b) Whether the effects of the related party relationships and transactions:
  (i) Prevent the FS from achieving true and fair presentation (for fair presentation frameworks); or
  (ii) Cause the FS to be misleading (for compliance frameworks).

○ **WR**
Where the applicable FRF establishes related party requirements, the auditor shall obtain WR from management and, where appropriate, those charged with governance that:
(a) They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
(b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

○ **Communication with those charged with governance**
Unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.

SA 560 – "Subsequent Events"

- **Scope of this SA**
  - This SA deals with the auditor's responsibilities relating to subsequent events in an audit of FS.
  - FS may be affected by certain events that occur after the date of the FS. Many FRFs specifically refer to such events. Such FRFs ordinarily identify two types of events:
    (a) Those that provide evidence of conditions that existed at the date of the FS; and
    (b) Those that provide evidence of conditions that arose after the date of the FS.
  - SA 700 explains that the date of the AR informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.
- **Objectives**
  The objectives of the auditor are to:
  (a) Obtain SAAE about whether events occurring between the date of the FS and the date of the AR that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS; and
  (b) Respond appropriately to facts that become known to the auditor after the date of the AR, that, had they been known to the auditor at that date, may have caused the auditor to amend the AR.
- **Requirements**
  - **Events occurring between the date of the FS and the date of the AR**
    - The auditor shall perform audit procedures designed to obtain SAAE that all events occurring between the date of the FS and the date of the AR that require adjustment of, or disclosure in, the FS have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.
    - The auditor shall perform the procedures required as above so that they cover the period from the date of the FS to the date of the AR, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:
      (a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
      (b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the FS.
      (c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the FS and inquiring about matters discussed at any such meetings for which minutes are not yet available.
      (d) Reading the entity's latest subsequent interim FS, if any.
    - When, as a result of the procedures performed as above, the auditor identifies events that require adjustment of, or disclosure in, the FS, the auditor shall determine whether each such event is appropriately reflected in those FS.

- **Facts which become known to the auditor after the date of the AR but before the date the FS are issued**
  - The auditor has no obligation to perform any audit procedures regarding the FS after the date of the AR. However, when, after the date of the AR but before the date the FS are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the AR, may have caused the auditor to amend the AR, the auditor shall:
    (a) Discuss the matter with management and, where appropriate, those charged with governance.
    (b) Determine whether the FS need amendment and, if so,
    (c) Inquire how management intends to address the matter in the FS.
  - If management amends the FS, the auditor shall:
    (a) Carry out the audit procedures necessary in the circumstances on the amendment.
    (b) Unless the circumstances mentioned in the next paragraph apply:
      (i) Extend the audit procedures to the date of the new AR; and
      (ii) Provide a new AR on the amended FS. The new AR shall not be dated earlier than the date of approval of the amended FS.
  - When law, regulation or the FRF does not prohibit management from restricting the amendment of the FS to the effects of the subsequent events or events causing that amendments and those responsible for approving the FS are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events to that amendment. In such cases, the auditor shall either:
    (a) Amend the AR to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the FS described in the relevant note to the FS; or
    (b) Provide a new or amended AR that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the FS as described in the relevant note to the FS.
  - In some entities, management may not be required by the applicable law, regulation or the FRF to issue amended FS and, accordingly, the auditor need not provide an amended or new AR. However, when management does not amend the FS in circumstances where the auditor believes they need to be amended, then:
    (a) If the AR has not yet been provided to the entity, the auditor shall modify the opinion as required by SA 705 and then provide the AR; or
    (b) If the AR has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the FS to third parties before the necessary amendments have been made. If the FS are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the AR.

- **Facts which become known to the auditor after the FS have been issued**
  - After the FS have been issued, the auditor has no obligation to perform any audit procedures regarding such FS. However, when, after the FS have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the AR, may have caused the auditor to amend the AR, the auditor shall:
    (a) Discuss the matter with management and, where appropriate, those charged with governance.
    (b) Determine whether the FS need amendment and, if so,
    (c) Inquire how management intends to address the matter in the FS.
  - If the management amends the FS, the auditor shall:
    (a) Carry out the audit procedures necessary in the circumstances on the amendment.
    (b) Review the steps taken by management to ensure that anyone in receipt of the previously issued FS together with the AR thereon is informed of the situation.
    (c) When the law, regulation or the FRF prohibits management from restricting the amendment of the FS to the effects of the subsequent events or events causing that amendments and those responsible for approving the FS are prohibited from restricting their approval to that amendment:
      (i) Extend the audit procedures to the date of the new AR, and the date the new AR no earlier than the date of approval of the amended FS; and
      (ii) Provide a new AR on the amended FS.
    (d) When law, regulation or the FRF does not prohibit management from restricting the amendment of the FS to the effects of the subsequent events or events causing that amendments and those responsible for approving the FS are not prohibited from restricting their approval to that amendment, amend the AR, or provide a new AR.
  - The auditor shall include in the new or amended AR an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the FS that more extensively discusses the reason for the amendment of the previously issued FS and to the earlier report provided by the auditor.
  - If management does not take the necessary steps to ensure that anyone in receipt of the previously issued FS is informed of the situation and does not amend the FS in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will seek to prevent future reliance on the AR. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the AR.
- **WR**

  The auditor shall request management and, where appropriate, those charged with governance, to provide a WR in accordance with SA 580, that all events occurring subsequent to the date of the FS and for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed.

SA 570 – "Going Concern"

- **Scope of this SA**
  This SA deals with the auditor's responsibility in the audit of FS with respect to management's use of the going concern assumption in the preparation and presentation of the FS.
- **Objectives**
  The objectives of the auditor are:
  (a) To obtain SAAE about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the FS;
  (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
  (c) To determine the implications for the AR.
- **Requirements**
  - **RAP and related activities**
    - When performing RAP as required by SA 315, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:
      (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
      (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
    - The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
  - **Evaluating management's assessment**
    - The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.
    - In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable FRF, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the FS as defined in SA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date.
    - In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

- **Period beyond management's assessment**
  The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.
- **Additional audit procedures when events or conditions are identified**
  When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain SAAE to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:
  (a) When management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
  (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
  (c) When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action:
    (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
    (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
  (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
  (e) Requesting WR from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.
- **Audit conclusions and reporting**
  Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
  (a) In the case of a fair presentation FRF, the fair presentation of the FS, or
  (b) In the case of a compliance framework, the FS not to be misleading.
- **Use of going concern assumption inappropriate**
  If the FS have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the FS is inappropriate, the auditor shall express an adverse opinion.

- **Use of going concern assumption appropriate but a material uncertainty exists**
  - When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the FS:
    (a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
    (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.
  - If adequate disclosure is made in the FS, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the AR to:
    (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to
    (b) Draw attention to the note in the FS that discloses the matters set out in previous paragraph.
  - If adequate disclosure is not made in the FS, the auditor shall express a qualified or adverse opinion, as appropriate (See SA 705). The auditor shall state in the AR that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.
- **Management unwilling to make or extend Its assessment**
  If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the AR.
- **Communication with TCWG**
  Unless all those charged with governance are involved in managing the entity8, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:
  (a) Whether the events or conditions constitute a material uncertainty;
  (b) Whether the use of the going concern assumption is appropriate in the preparation and presentation of the FS; and
  (c) The adequacy of related disclosures in the FS.
- **Significant delay in the approval of FS**
  When there is significant delay in the approval of the FS by management or those charged with governance after the date of the FS, the auditor shall inquire as to the reasons for the delay. When the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph "Additional audit procedures when events or conditions are identified" above, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph "Audit conclusions and reporting" above.

SA 580 – "Written Representations"

- **Objectives**

  The objectives of the auditor are:

  (a) To obtain WR from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the FS and for the completeness of the information provided to the auditor;

  (b) To support other audit evidence relevant to the FS or specific assertions in the FS by means of WR, if determined necessary by the auditor or required by other SAs; and

  (c) To respond appropriately to WR provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the WR requested by the auditor.

- **Requirements**
  - **Management from whom WR requested**

    The auditor shall request WR from management with appropriate responsibilities for the FS and knowledge of the matters concerned.
  - **WR about management's responsibilities**
    - **Preparation of the FS**

      The auditor shall request management to provide a WR that it has fulfilled its responsibility for the preparation of the FS in accordance with the applicable FRF, including where relevant their fair presentation, as set out in the terms of the audit engagement.
    - **Information provided and completeness of transactions**

      The auditor shall request management to provide a WR that:

      (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and

      (b) All transactions have been recorded and are reflected in the FS.
    - **Description of management's responsibilities in the WR**

      Management's responsibilities shall be described in the above WR in the manner in which these responsibilities are described in the terms of the audit engagement.
  - **Other WR**

    Other SAs require the auditor to request WR. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more WR to support other audit evidence relevant to the FS or one or more specific assertions in the FS, the auditor shall request such other WR.
  - **Date of and period(s) covered by WR**

    The date of the WR shall be as near as practicable to, but not after, the date of the AR on the FS. The WR shall be for all FS and period(s) referred to in the AR.

- **Form of WR**

  The WR shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required as above regarding 'preparation of the FS' and 'information provided and completeness of transactions', the relevant matters covered by such statements need not be included in the representation letter.
- **Doubt as to the reliability of WR**
  - If the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor shall determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general.
  - In particular, if WR are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.
  - If the auditor concludes that the WR are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the AR in accordance with SA 705, having regard to the requirement of this SA of disclaimer by the auditor.
- **Requested WR not provided**

  If management does not provide one or more of the requested WR, the auditor shall:

  (a) Discuss the matter with management;

  (b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

  (c) Take appropriate actions, including determining the possible effect on the opinion in the AR in accordance with SA 705, having regard to the requirement of this SA of disclaimer by the auditor.
- **WR about management's responsibilities**

  The auditor shall disclaim an opinion on the FS in accordance with SA 705 if:

  (a) The auditor concludes that there is sufficient doubt about the integrity of management such that the WR required regarding 'preparation of the FS' and 'information provided and completeness of transactions' are not reliable; or

  (b) Management does not provide the WR required regarding 'preparation of the FS' and 'information provided and completeness of transactions'.

SA 600 – "Using the Work of Another Auditor"

- When the principal auditor concludes that the financial information of a component is immaterial, the procedures outlined in this Statement do not apply. When several components, immaterial in themselves, are together material in relation to the financial information of the entity as a whole, the procedures outlined in this Statement should be considered.
- 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 for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.
- **Other auditor** – means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.
- **Component** – means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.
- **Acceptance as principal auditor**

  The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose the auditor would consider:

  (a) the materiality of the portion of the financial information which the principal auditor audits;

  (b) the principal auditor's degree of knowledge regarding the business of the components;

  (c) the RoMM in the financial information of the components audited by the other auditor; and

  (d) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.
- **The principal auditor's procedures**
  - In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.
  - When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.
  - The principal auditor should perform procedures to obtain SAAE, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

(a) advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of inter-component transactions that may require
(b) disclosure and the time-table for completion of audit; and
(c) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

- The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The NTE of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.
- The principal auditor may conclude that it is not necessary to apply procedures such as those described above because SAAE previously obtained that acceptable quality control policies and procedures are complied with in the conduct of other auditor's practice.
- The principal auditor should consider the significant findings of the other auditor.
- The principal auditor may consider it appropriate to discuss with the other auditor and the management of the component, the audit findings or other matters affecting the financial information of the components. He may also decide that supplemental tests of the records or the FS of the component are necessary. Such tests may, depending upon the circumstances, be performed by the principal auditor or the other auditor.
- In certain circumstances, the other auditor may happen to be a person other than a professionally qualified auditor. This may happen, for instance, where a component is situated in a foreign country and the applicable laws permit a person other than a professionally qualified auditor to audit the FS of such component. In such circumstances, the procedures outlined in above assume added importance.
- The principal auditor should document in his working papers the components whose financial information was audited by other auditors; their significance to the financial information of the entity as a whole; the names of the other auditors; and any conclusions reached that individual components are not material. The principal auditor should also document the procedures performed and the conclusions reached. For example, the auditor would document the results of discussions with the other auditor and review of the written summary of the other auditor's procedures. However, the principal auditor need not document the reasons for limiting the procedures in the circumstances described at 14 above, provided those reasons are summarised elsewhere in the documentation maintained by the principal auditor. Where the other AR is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other AR in framing his own report.

- **Co-ordination between auditors**
    - There should be sufficient liaison between the principal auditor and the other auditor. For this purpose, the principal auditor may find it necessary to issue written communication(s) to the other auditor.
    - The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor. For example, by bringing to the principal auditor's immediate attention any significant findings requiring to be dealt with at entity level, adhering to the time-table for audit of the component, etc. He should ensure compliance with the relevant statutory requirements. Similarly, the principal auditor should advise the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.
    - When considered necessary by him, the principal auditor may require the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties. The other auditor should respond to such questionnaire on a timely basis.
- **Reporting considerations**
    - When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.
    - In all circumstances, if the other auditor issues, or intends to issue, a modified AR, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal AR.
- **Division of responsibility**
    - The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.
    - When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

SA 610 – "Using the Work of Internal Auditors"

- This SA deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined, in accordance with SA 315, that the internal audit function is likely to be relevant to the audit.
- This SA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures or where, in terms of the applicable legal and regulatory framework, it is not permissible for the internal auditor to provide access to his working papers to the third parties.
- **Internal audit function** – An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control. The Preface to the Standards on Internal Audit, issued by the Institute of Chartered Accountants of India, issued in November 2004 describes internal audit as "an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. Internal audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance
- **Relationship between the internal audit function and the external auditor**
  - The role and objectives of the internal audit function are determined by management and, where applicable, those charged with governance. While the objectives of the internal audit function and the external auditor are different, some of the ways in which the internal audit function and the external auditor achieve their respective objectives may be similar.
  - Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the entity as is required of the external auditor when expressing an opinion on FS. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors.
- **Requirements**
  - **Determining whether and to what extent to use the work of the internal auditors**
    - The external auditor shall determine:
      (a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and
      (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.
    - In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:
      (a) The objectivity of the internal audit function;
      (b) The technical competence of the internal auditors;
      (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
      (d) Whether there is likely to be effective communication between the internal auditors and the external auditor.

- In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures, the external auditor shall consider:
  (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
  (b) The assessed RoMM at the assertion level for particular classes of transactions, account balances, and disclosures; and
  (c) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

- **Using specific work of the internal auditors**
  - In order for the external auditor to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes.
  - To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether:
    (a) The work was performed by internal auditors having adequate technical training and proficiency;
    (b) The work was properly supervised, reviewed and documented;
    (c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
    (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
    (e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

SA 620 – "Using the Work of an Auditor's Expert"

- This SA deals with the auditor's responsibilities regarding the use of an individual or organisation's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining SAAE.
- **Auditor's expert** – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining SAAE. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.
- **Management's expert** – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the FS.
- **The auditor's responsibility for the audit opinion**
  The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert. Nonetheless, if the auditor using the work of an auditor's expert, having followed this SA, concludes that the work of that expert is adequate for the auditor's purposes, the auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence.

- **Objectives**
  The objectives of the auditor are:
  (a) To determine whether to use the work of an auditor's expert; and
  (b) If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes.
- **Requirements**
  - **Determining the need for an auditor's expert**
    If expertise in a field other than accounting or auditing is necessary to obtain SAAE, the auditor shall determine whether to use the work of an auditor's expert.
  - **NTE of audit procedures**
    The NTE of the auditor's procedures with respect to the requirements of this SA will vary depending on the circumstances. In determining the NTE of those procedures, the auditor shall consider matters including:
    (a) The nature of the matter to which that expert's work relates;
    (b) The RoMM in the matter to which that expert's work relates;
    (c) The significance of that expert's work in the context of the audit;
    (d) The auditor's knowledge of and experience with previous work performed by that expert; and
    (e) Whether that expert is subject to the auditor's firm's quality control policies and procedures.
  - **The competence, capabilities and objectivity of the auditor's expert**
    The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.
  - **Obtaining an understanding of the field of expertise of the auditor's expert**
    The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:
    (a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and
    (b) Evaluate the adequacy of that work for the auditor's purposes.
  - **Agreement with the auditor's expert**
    The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:
    (a) The nature, scope and objectives of that expert's work;
    (b) The respective roles and responsibilities of the auditor and that expert;
    (c) The NTE of communication between the auditor and that expert, including the form of any report to be provided by that expert; and
    (d) The need for the auditor's expert to observe confidentiality requirements.

- **Evaluating the adequacy of the auditor's expert's work**
  - The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:
    - (a) The relevance and reasonableness of that expert's findings, and their consistency with other audit evidence;
    - (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
    - (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.
  - If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:
    - (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or
    - (b) Perform further audit procedures appropriate to the circumstances.
- **Reference to the auditor's expert in the AR**
  - The auditor shall not refer to the work of an auditor's expert in an AR containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the AR that the reference does not reduce the auditor's responsibility for the audit opinion.
  - If the auditor makes reference to the work of an auditor's expert in the AR because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the AR that such reference does not reduce the auditor's responsibility for that opinion.