SA 330 => The auditor's responses to assessed Risk.

To obtain SAAE
- about RMM → identified & assessed by auditor → in accordance with SA 315.
- Through → designing (&) Implementing → appropriate response to these Risk.

Auditor's procedures responsive to assessed RMM

The auditor shall
- Design (&) perform FAP
- that are
  - responsive to assessed RMM
  - at the assertion level

In designing these procedures, the auditor shall

(a) Consider the reason.
- for assessment given to RMM at the assertion level
- for
  - each class of transactions
  - A/C balances
  - (or) disclosures

Including
- (i) The likelihood of MM due to particular characteristics of
  - relevant class of transaction.
  - A/C balances (or)
  - disclosures
- (ii) whether
  - risk assessment takes into A/C the relevant Control
  - thereby requiring the auditor
    - to obtain audit evidence
    - to determine whether the Controls are operating effectively.

(b) obtain more persuasive audit evidence the higher the auditor's assessment of Risk.

Types of FAP

Test of Controls
⇓
An audit procedure designed
- to evaluate the operating effectiveness of Controls.
- in preventing (or) detecting (&) Correcting ⇓ MM at assertion level.

Substantive procedure.
⇓
An audit procedure designed
- to detect MM at assertion level
- Substantive procedure Comprise:
  - Test of details of
    - classes of transaction
    - A/C balances
    - (&) Disclosures
  - And Substantive analytical procedures (SAP)

Test of Controls (TOC)

=> The auditor shall
- design (&) perform test of Controls
- to obtain SAAE
- as to the operating effectiveness of relevant Control when.
  - (a) He expects that Controls are operating effectively.
  - (OR)
  - (b) Substantive procedures alone cannot provide SAAE at the assertion level.

(P.T.O)

Nature (&) extent of Test of Controls

In designing (&) performing test of Controls, the auditor shall

(a) Perform
- other audit procedures
- in Combination with inquiry

to obtain audit evidence about the operating effectiveness of Controls including.
- How the Controls were applied at relevant times during the audit
- The Consistency with which they are applied.
- By whom (or) by what means they were applied.

(b) Determine whether
- the Controls to be tested depends upon other Controls. (Indirect Control.)
- And if so, whether
  - It is necessary to obtain evidence
  - Supporting the effective operation of those indirect Controls.

Timing of TOC

⇒ The auditor shall TOC for
- particular time
- (or) throughout the period for which the auditor intends to rely on these Controls.

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 evidence
- about 'Significant changes to those Controls.
- Subsequent to the Interim period.

(b) Determine the additional evidence to be obtained for remaining period.

Using audit evidence obtained in previous audits

If the auditor.
- plans to use audit evidence.
- from a previous audit
- about the operating effectiveness of specific controls.

He shall establish the Continuing relevance of that evidence

by obtaining audit evidence about.
- whether Significant changes to those Controls.
- have occurred subsequent to the previous audit.

(a) If there have been changes, the auditor shall TOC in the Current audit

(b) If there have not been such changes, the auditor shall
- Test the Controls at least once in every 3rd audit.
- Test Some Controls each audit.
  - to avoid the possibility of testing all Controls
  - On which, the auditor
    - tend to rely in a single audit period.
    - with no TOC in subsequent audit period.

factors warranting re-test of Controls.

The auditors decision on # whether
- to rely on audit evidence
- obtained in previous audit
- for Control.

is a matter of PJ.

In addition.
- the length of time.
- before retesting Such Controls

is also a matter of PJ.

Factors that may warrant a re test of Controls are.

Deficient.
- (i) monitoring of Controls
- (ii) general IT Controls
- (iii) Control environment

(iv) changing.
- ☆ personnel that Significantly affect the application of Control.
- (v) ☆ Circumstances that indicate the need for changes in Control

(vi) A Significant manual element to the relevant Controls.

Evaluating the operating effectiveness of Controls

When evaluating the operating effectiveness of 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 assertions being tested are effective.

The auditor shall:
- evaluate whether
  - on the basis of audit work performed
  - the auditor has identified a material weakness in operating effectiveness of Controls
- Communicate material weakness in IC
  - identified during the audit
  - on a timely basis to mgmt
  - at an appropriate level of responsibility (&) as required by SA 260.

"Comm" with TCWG"

Substantive procedures

Irrespective of assessed RMM the auditor shall
- design (&) perform substantive procedures
- for each material
  - class of transactions
  - A/C. balances
  - (&) disclosures

This requirement reflect the facts that
- The auditors assessment of risk is judgemental (&) so mgmt identify All RMM
- (&) There are inherent limitations to IC
  - including mgmt override

Depending on the circumstances the auditor may determine that
1. Performing only substantive analytical procedures will be sufficient to reduce the audit risk to an acceptably low level.
2. Only Test of details are appropriate
3. A Combination of
   - Substantive analytical procedure
   - (&) test of details
   - are most responsive to the assessed risks.

External Confirmation procedures as Substantive procedures.

⇒ The auditor shall Consider
- whether external Confirmation procedures
- are to be performed as substantive audit procedures.

Areas where external confirmation may be used.

External Confirmation procedures frequently are relevant
- when addressing assertions
- associated with
  - A/C bal.
  - (&) their elements

but need not be restricted to these items.

For examples, the auditor may request external Confirmation of
- the terms of agreements
- contracts.
- (or) transaction betn entity (&) other parties.

Other Situation where
- external Confirmation procedure may provide relevant audit evidence
- in responding to Assessed RMM include

1. A/C — Receivables / payable — bal. (&) terms
2. Amt. due to lenders including relevant terms
3. Bank bal. (&) other Infn ⇒ relevant to banking relationships.
4. Property title deeds held by lawyers (or) financiers for safe Custody (or) as Security.
5. Inventories held by 3rd parties
   - for at bonded warehouse
   - for processing (or) on Consignment
6. Investments held by 3rd party for safekeeping (or) purchased from stockbrokers but not delivered at B/S date.

Factors assisting the auditor in determining use of external Confirmation.

The Confirming party's Knowledge of the subject matter.

Responses may be more reliable if

- provided by a person at the Confirming party
- who has the requisite Knowledge about infⁿ being Confirmed.

Ability (or) willingness of the intended Confirming party to respond.

For example, the responding party may.

- not accept responsibility for responding to a Confirmation request.
- Consider responding too costly (or) time Consuming.
- have Concern about
  - potential legal liability
  - resulting from responding.
- account for transactions in diffⁿ Currencies
- may operate in an environment
  - where responding to Confirmation request
  - Is not a Significant aspect of day to day operation.

The objectivity of the intended Confirming party.

If

- the Confirming party is a related party of the entity
- responses to Confirmation request may be less reliable.

Substantive procedures Related to FST c/s process.

The auditor's substantive procedures shall include the following:

- Agreeing (or) reconciling → FST with the underlying A/c records.

And

- Examining → Journal entries / other adjustments made during the Course of preparing FST.

Substantive procedures Responsive to Significant Risks.

When the auditor has determined that

- an assessed RMM is a significant Risk at the assertion level
- The auditor shall
  - perform substantive procedures
  - that are specifically responsive to that risk.

Timing of Substantive procedures.

when

SP

Substantive procedures are performed at an interim date

the auditor shall cover the remaining period by performing.

(a) SP Combined with ToC for the Intervening period.

(OR)

(b) SP only if auditor determines that it is sufficient.

That provide reasonable basis for extending the audit Conclusion

from interim date

to the period end.

If

misstatements that the auditor did not expect when assessing RMM

are detected at interim date.

The auditor shall evaluate

whether the related assessment of Risk (&) planned NTE of substantive procedures covering the remaining period

need to be modified.

Evaluating SAAE

Based on

- Audit procedure performed (&)
- Audit evidence obtained

The auditor shall evaluate.

before Conclusion of audit

whether

- the assessment of RMM
- at the assertion level
- remain appropriate.

The auditor shall

- conclude whether SAAE has been obtained
- Consider all relevant audit material (evidence) in forming an opinion.

If the auditor

- has not obtained SAAE
- as to material F.ST assertion.

auditor shall attempt to obtain further audit evidence.

If the auditor

- is unable to obtain SAAE
- he shall express a qualified opinion (or) disclaimer of opinion.