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Strategic Level

Advanced Audit and Assurance (AA3.1) Workbook

Institute of Certified Public Accountants of Rwanda

January 2026

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Overview of the Module

CPA level	Strategic level
Title	Advanced Audit and Assurance
Guided learning hours	90
Exam length	3 hrs

Introduction to the Module

The aim of the Advanced Audit and Assurance (AAA) syllabus is to demonstrate best practice within a regulated environment, and to be able to plan, perform and report on both public and private assurance engagements, whilst being aware of current developments.

The syllabus is divided into seven key areas.

The syllabus starts with the legal and regulatory environment in which the auditor operates, including topics such as money laundering and current issues and developments.

The syllabus then looks at the professional and ethical considerations for an auditor, including the Code of Ethics, professional liability and fraud and error. This then leads into procedures in practice management, including quality control and the acceptance and retention of professional engagements.

The fourth section of the syllabus covers the audit of historical financial information, including planning and evidence gathering, completion and the preparation of the final report and opinion.

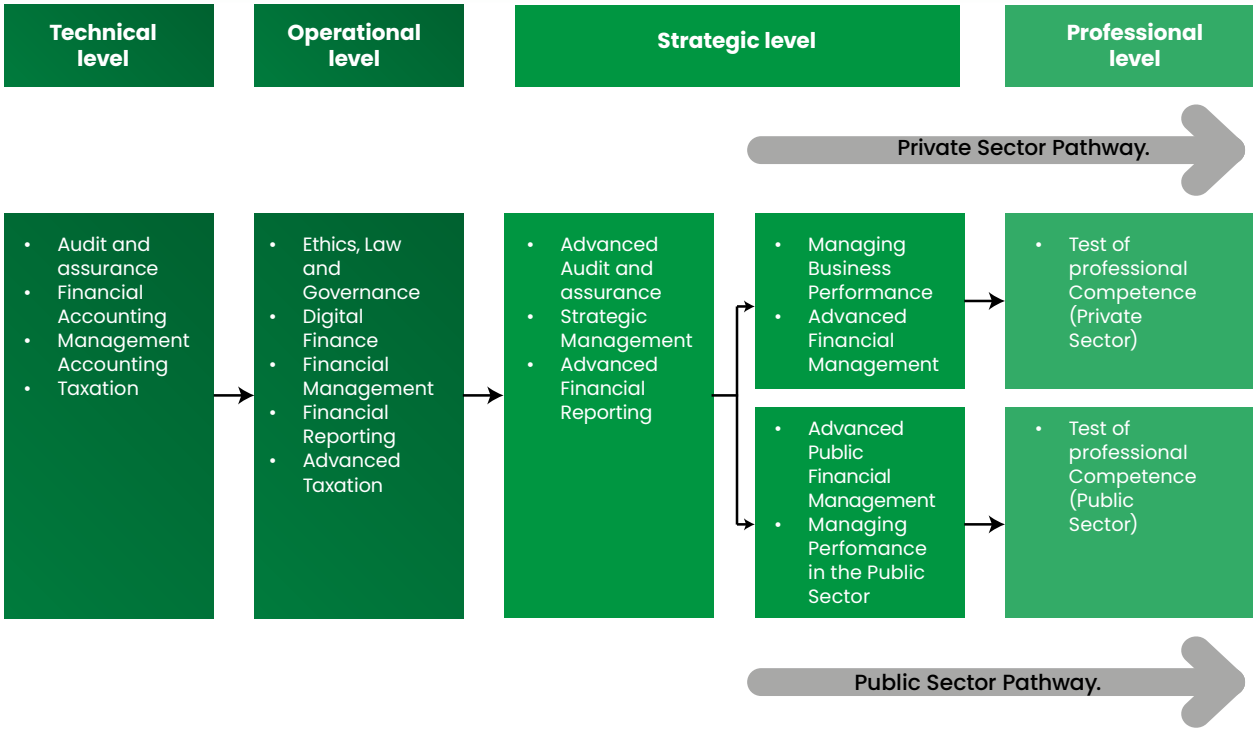
The fifth syllabus area looks at other types of assurance engagements which the auditor may be required to deliver, such as the review of prospective financial information or performance reporting in the public sector, and how the skills from the rest of the syllabus can be applied to these situations.

Lastly, the syllabus looks at the use of technology in audit and assurance engagements, including computer-assisted audit techniques (CAAT) and electronic working papers.

This module builds on the Technical Level module on Audit and Assurance and many of the concepts addressed here have also been included in that course. Where this is the case, a reference has been added to reflect this.

Ultimately, after completing the Technical and Strategic Level modules, students should be able to understand and explain all key stages of the audit process and apply these in practice.

This module is one of five completed at the strategic level of the CPA. Students will choose either the private sector pathway or the public sector pathway.



Key competencies

A. Assess the legal and regulatory environment and developments in best practice on both public and private sector assurance engagements.

B. Demonstrate the ability to work on audit and assurance engagements within a professional and ethical framework.

C. Discuss and recommend appropriate quality control policies and procedures, and demonstrate the judgements involved in seeking and accepting professional appointments.

D. Explain and formulate the activities required to meet the objectives of audit and assurance engagements and apply the International Standards on Auditing.

E. Evaluate the findings from audit and assurance engagement work and produce suitable reports thereon for relevant internal and external stakeholders.

F. Explain the nature of other types of assignment performed by public and private sector audit functions and formulate the work required to meet their objectives.

G. Assess the impact of technology on the audit process with regard to improving audit efficiency and the quality of audit working papers.

Unit A: Legal and Regulatory Environment

Learning outcomes

A1. International regulatory frameworks for private and public sector engagements

A2. Money laundering

A3. Laws and regulations

A4. Current issues and developments

Introduction to Unit A

This Unit focuses on the environment within which audits are conducted both in terms of law and regulations. It is important to understand this context as all aspects of the audit process are underpinned by these foundations.

The Unit considers the essential frameworks and principles that govern auditing practices for both private and public sector engagements. It emphasises the importance of laws, regulations, and standards in ensuring the integrity and reliability the audit process. These regulatory measures are crucial for maintaining public trust, preventing fraud, and promoting transparency in the audit of financial statements. The Unit also highlights the reasons for a robust legal and professional framework, including public oversight bodies that enforce compliance and uphold auditing standards, ensuring high-quality audits and ethical behaviour.

Additionally, the Unit also addresses the critical role of corporate governance codes and audit committees in influencing and supporting the work of auditors. Audit committees serve as a vital link between auditors and the board of directors, overseeing the audit process and ensuring that audit reports are acted upon.

The issue of money laundering is also explored, defining it and examining international efforts to combat it. The Unit covers the susceptibility of professional accountants to becoming involved in money laundering and outlines how they can protect themselves through Anti-Money Laundering (AML) procedures such as customer due diligence. The responsibilities of professional accountants to report suspicious transactions are emphasised, along with the significant impact money laundering has on the accounting profession.

The Unit concludes with an overview of current issues and developments in auditing, including the ever -increasing use of big data and advanced data analytics techniques, highlighting their implications for audit practices and professional standards.

A.1 International Regulatory Frameworks for Private and Public Sector Engagements

1.1 Importance of Legal/Regulatory Framework for Audit

Laws, regulations, and other standards play a crucial role in auditing. Overall, they ensure the integrity, reliability, and transparency of financial reporting by ensuring that proper auditing process are applied. They are important in a number of ways:

1. Ensuring Accuracy and Reliability

- **Standards:** Auditing standards, such as those issued by the International Auditing and Assurance Standards Board (IAASB), provide a framework for auditors to follow. This helps ensure that audits are performed consistently and that financial statements are accurate and reliable.
- **Regulations:** Laws and regulations, such as the Rwanda Companies Act, mandate that companies adhere to specific accounting principles and auditing standards. This reduces the risk of errors and fraudulent activities, ensuring that financial statements accurately reflect a company's financial position.

2. Maintaining Public Trust

- **Transparency:** Compliance with auditing standards and regulations enhances the transparency of financial reporting. This builds public trust in the financial statements of companies, which is essential for the functioning of capital markets.
- **Accountability:** Regulatory bodies, such as the Rwanda Capital Market Authority, Rwanda Stock Exchange, and Institute of Certified Public Accountants of Rwanda, enforce laws that hold companies and auditors accountable for their actions. This accountability is crucial for maintaining investor confidence and protecting the interests of stakeholders.

3. Protecting Stakeholders

- **Investor Protection:** Laws and regulations are designed to protect investors by ensuring that they have access to reliable and transparent financial information. This helps investors make informed decisions.
- **Market Stability:** By enforcing compliance with auditing standards and regulations, authorities help maintain stability in financial markets. This reduces the risk of market manipulation and financial crises.

4. Enhancing Quality and Consistency

- **Standardisation:** Auditing standards ensure a uniform approach to auditing, which enhances the quality and consistency of audits across different firms and industries. This comparability is vital for stakeholders who rely on financial statements to make decisions.
- **Professionalism:** Regulations and standards promote a high level of professionalism among auditors. They provide guidelines on ethical behaviour, independence, and the technical competence required to perform audits effectively.

5. Adapting to Changes and Innovations

- **Evolving Standards:** As business environments and technologies evolve, auditing standards and regulations are updated to address new challenges. This ensures that audit practices remain relevant and effective in detecting emerging risks.
- **Regulatory Guidance:** Regulatory bodies provide guidance on how to apply standards in specific situations, helping auditors navigate complex issues and adapt to changes in accounting practices and financial reporting.

6. Global Harmonisation

- **International Standards:** The adoption of international auditing standards promotes global harmonisation of audit practices. This facilitates cross-border investments and enhances the comparability of financial statements from different countries.
- **Regulatory Cooperation:** Regulatory bodies often collaborate internationally to develop consistent auditing and assurance standards. This cooperation helps in addressing global financial issues and ensuring that multinational companies are audited to the same high standards worldwide.

In summary, laws, regulations, and other standards are fundamental to the integrity of the audit profession. They ensure that audits are conducted systematically, transparently, and ethically, thereby safeguarding the interests of investors, stakeholders, and the general public.

1.2 Corporate Governance Codes

A string of high-profile scandals and frauds in the 1980's and the 1990's forced for example, the UK government to set up voluntary codes of best practice to enforce good practice by directors and to communicate the adherence to good practice by management to the shareholders.

It was vital that companies were managed well i.e. there was good corporate governance. For example: The Cadbury report (in the UK) defines Corporate Governance as: "The system by which companies are directed and controlled".

Why is good corporate governance important? Shareholders and managers are usually separate in a company, and it is important that the management of a company deals fairly with the investment made by the owners.

In smaller companies, shareholders are fully informed about the management of the business as they are often the directors themselves. However, in large companies the day to day running of a company is the responsibility of the directors and it is difficult for shareholders to gain a detailed insight into the operations of the company. Although audits provide some assurance, auditors only report on the truth and fairness of financial statements. They do not report on how the shareholders' investment is being managed and whether their investment is subject to fraud.

Internationally, the two most prominent corporate governance codes are the Cadbury Report and the Combined Code. At a national level, the two sources of principles and best practices of good corporate governance expected to be adopted by Rwandan Companies are; the Capital Market Corporate Governance Code and the Guiding Code of Corporate Governance.

The first Code 9 of 2012 of corporate governance ("the CMA Code")[1] was established pursuant to the Laws; establishing Capital Markets Authority, regulating the Capital Market, and regulating the Collective investment Schemes. The CMA Code mandatorily applies to all listed companies. Other public companies are strongly encouraged to comply with the provisions of the CMA Code. Private companies are equally encouraged to comply with provisions of the CMA Code.

The second Guiding Code of Corporate Governance ("the PSF Code")[2] was developed by the Private Sector Federation (PSF) to guide market players and companies to voluntarily adopt sound corporate governance practices. The PSF Code generally aims to improve systems and standards of governance in Rwandan Companies, for subsequent improvement in efficiency and competitiveness in the business sector, in addition to bolstering confidence in capital market and confidence of the Rwandan business society.

1.2.1 The Cadbury Report

The Cadbury report was issued in 1992. Its terms of reference considered:

- The responsibilities of executive and non-executive directors and the frequency, clarity and form in which information should be provided to shareholders.
- The case for audit committees, their composition and role.
- The responsibilities of auditors and the extent and value of the audit.
- The links between auditors, shareholders and the directors.

The Cadbury report made recommendations in a number of areas including the respective roles of the board of directors, non-executive directors, executive directors and the audit function. In relation to the audit function, some of the provisions include:

- The code states that the audit is the cornerstone of corporate governance. It is an objective and external check on the stewardship of management.
- Some flaws existed in the framework for auditing, such as choices in accounting treatments, poor links between shareholders and auditors, price competition between audit firms and the "expectations gap" between auditors and the public.
- Disclosing fees for audit in the financial statements should safeguard against the threat of objectivity where auditors offer other services to their audit clients.
- Formal guidelines concerning audit rotation should be drawn up by the accounting profession.
- The accountancy profession should be involved in setting criteria for the evaluation of internal control.
- There is a need for auditors to report on going concern.

These recommendations are now reflected in the international auditing standards and national legal and regulatory frameworks.

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[1] *https://rwandalii.org/akn/rw/act/code/2012/9/eng@2012-07-02/source*

[2] *https://www.ecgi.global/sites/default/files/codes/documents/corporate_governence_rwanda.pdf*

1.2.2 The Combined Code

In 1998 the UK Stock Exchange issued the Combined Code. This combined key guidance from various reports including the Cadbury report into the one code.

Some of its principles impacting on audit included:

- The importance of a ***strong, well-composed board*** for effective corporate governance. It stipulates that the ***board should maintain a sound system of internal control*** to safeguard shareholders' investments and the company's assets.
- ***The necessity of auditor independence***, ensuring that auditors are able to carry out their work without interference and that they remain objective and effective in their role. It includes provisions for regular rotation of audit partners and for the audit committee to approve any non-audit services provided by the audit firm to avoid conflicts of interest.
- ***Transparency in financial reporting and the need for clear communication to shareholders*** are key components of the Code. It requires that the auditors' insights and findings related to the financial statements and the company's internal controls are communicated effectively to the board and shareholders, particularly through the audit committee.
- ***Boards should conduct a robust assessment of the principal risks facing the company***, including those that would threaten its business model, future performance, solvency, or liquidity.
- One of the key recommendations of the Combined Code is the establishment of ***a formal and independent audit committee.***

1.2.3 The CMA Code

The CMA Code is a comprehensive framework to ensure that public institutions in Rwanda are governed effectively, transparently, and ethically. By promoting accountability, transparency, and risk management, the Code seeks to enhance the performance of public institutions, align them with national development goals, and build public trust. Many of the principles in the Code closely align with international principles of good governance.

The key principles relevant to audit are shown below:

- ***Role of the Board***
    - Provide strategic leadership and oversees the management of the institution.
    - Ensure compliance with the institution's mission and regulatory requirements.
    - Ensure that internal controls and performance management systems are in place and effective.
    - Responsible for approving the institution's annual budget and ensuring financial sustainability.
    - Regularly review and update the institution's policies to align with changing circumstances or regulatory environments.

- ***Board Composition***
  - Have a balanced mix of executive, non-executive, and independent directors.
  - Independent directors should form at least one-third of the board to promote objectivity.
  - Board members should be appointed based on merit, with consideration of skills, experience, and gender diversity.
  - Members should undergo continuous professional development to stay up to date with evolving governance challenges and requirements.
  - A board chairperson must be selected from among the non-executive directors and should not serve as the CEO, ensuring a clear separation of powers.

- ***Board Committees***
  - Form specialised committees to enhance the board's oversight capabilities, including:
    - **Audit Committee**: Oversees internal controls, financial reporting, and the integrity of financial statements.
    - **Risk Committee**: Monitors the institution's exposure to risks, including operational, financial, and compliance risks.
    - **Governance Committee**: Responsible for board evaluations, governance practices, and director nominations.
  - Each committee should have clearly defined terms of reference and operate independently of the management team.
  - Committees must meet regularly and report findings and recommendations to the full board for action.

- ***Accountability and Transparency***
  - Maintain accurate and comprehensive records of their operations and financial transactions.
  - The board is responsible for ensuring that financial statements are audited annually by an independent external auditor.
  - Transparency in decision-making is essential, with institutions required to disclose relevant information to stakeholders in a timely manner.
  - Public institutions must establish whistleblowing mechanisms to encourage the reporting of unethical or illegal behaviour.
  - Boards are expected to hold open annual general meetings (AGMs) where stakeholders can engage with leadership on performance and governance issues.

- ***Ethical Conduct***
  - Directors and senior management must act with integrity, avoiding any conflicts of interest that could undermine the institution's credibility.

- Institutions must adopt codes of ethics and conduct that guide the behaviour of all employees, emphasising fairness, honesty, and professionalism.
- Board members and employees must disclose any personal or financial interests in matters that could affect decision-making.
- There must be systems in place to enforce disciplinary actions for breaches of the ethical code or governance practices.
- Institutions should implement anti-corruption policies and ensure compliance with Rwanda's anti-corruption laws and international best practices.

- ***Performance Evaluation***
  - Boards are required to conduct annual self-assessments to evaluate their effectiveness and identify areas for improvement.
  - The performance of individual directors should also be evaluated regularly, considering their contributions to board discussions and decision-making.
  - Institutions must have mechanisms in place to evaluate the performance of the Chief Executive Officer (CEO) and senior management based on predefined key performance indicators (KPIs).
  - External performance reviews by independent third parties should be conducted periodically to ensure objectivity and compliance with governance standards.

- ***Risk Management***
  - Public institutions must develop comprehensive risk management frameworks to identify and mitigate risks that could affect their operations.
  - Boards should receive regular risk assessments and ensure that management has adequate resources to address risks.
  - Risk management strategies must be integrated into the institution's long-term planning and day-to-day operations.
  - Institutions should establish a crisis management plan to deal with unforeseen events that could impact their reputation or financial stability.
  - Boards must ensure that internal audit functions are robust and independent, providing assurance on the adequacy of the risk management framework.

- ***Compliance with Laws and Regulations***
  - Institutions must operate within the framework of Rwanda's legal and regulatory environment, adhering to all relevant laws, including those governing public sector institutions.
  - Boards must ensure that the institution complies with industry-specific regulations and maintains good standing with regulatory authorities.
  - Non-compliance with laws or regulations should be reported to the board, and corrective actions must be taken promptly.
  - Compliance audits should be conducted regularly to ensure adherence to the institution's governance and operational policies.

- ***Stakeholder Engagement***
    - Institutions must develop strategies to engage with a wide range of stakeholders, including the public, government entities, and civil society organisations.
    - Public institutions should provide regular updates on their performance, plans, and activities to stakeholders through formal channels such as reports, public consultations, and media releases.
    - Feedback from stakeholders should be considered in the institution's decision-making process to ensure responsiveness to the public's needs.
    - Public engagement is key to enhancing institutional accountability and fostering public trust.

- ***Sustainability***
    - The Code emphasises the importance of ensuring the long-term sustainability of public institutions through sound financial management and resource use.
    - Institutions must consider environmental and social impacts in their operations, promoting practices that minimise negative effects and contribute positively to society.
    - Sustainability reporting should be included in the institution's annual report, covering financial, environmental, and social performance.
    - Boards are tasked with ensuring that sustainability goals are aligned with the institution's strategic objectives and national development priorities.

1.2.4 The PSF Code

The PSF Code sets governance standards to ensure transparency, accountability, and sustainable business practices for companies. By adopting these principles, Rwandan companies can improve their governance standards, attract investment, and contribute to the country's sustainable economic growth. The Code is designed to align Rwanda's corporate governance framework with international best practices while addressing the specific needs of its capital markets.

Key principles in the PSF Code include:

- ***Board Structure:***
    - Boards should include a mix of executive, non-executive, and independent directors, with at least one-third being independent to ensure objectivity.
    - The roles of the Chairperson and CEO should be separated to avoid concentration of power and ensure independent oversight.

- ***Shareholder Rights:***
    - All shareholders, especially minority ones, must be treated fairly and equally.
    - Shareholders should have timely access to company information and be encouraged to participate actively in Annual General Meetings (AGMs) to discuss corporate performance and governance issues.

- ***Transparency & Disclosure:***
    - Companies are required to produce accurate, timely financial reports, audited by an independent external auditor.
    - They must publish an annual corporate governance report, detailing compliance with the Code and providing justifications for any deviations.

- ***Risk Management:***
    - Companies should have a strong risk management framework to identify, assess, and mitigate risks affecting the business.
    - A dedicated Risk Committee or the Audit Committee should oversee the risk management processes and ensure they are effectively implemented.

- ***Corporate Social Responsibility (CSR):***
    - Companies are encouraged to undertake CSR activities, considering the social and environmental impact of their operations and should contribute positively to the wider community, helping promote sustainable development.

- ***Ethics:***
    - Ethical codes of conduct should be in place, promoting integrity and ethical business practices across all levels of the organisation.

- ***Compliance:***
    - The Code operates on a "comply or explain" basis, meaning companies must either adhere to its principles or provide reasons for non-compliance in their annual reports.

1.3 Role of the Audit Committee

The audit committee plays a crucial role in enhancing the integrity of financial reporting. It is responsible for overseeing the company's financial reporting process, the effectiveness of the company's internal control and risk management systems, and the audit process. This includes the selection, appointment, and remuneration of external auditors, as well as reviewing the auditor's independence and performance.

Requirements in the CMA Code (Article 10(c)) include:

- Audit committees should comprise at least three non-executive members, the majority of which, including the Chairperson should be independent.
- The Board must ensure that committee members are qualified. At least two members should have accounting or finance expertise.
- The committee must meet at least every quarter to monitor internal and external audits with one meeting necessary before the finalisation of the final financial statements.
- The committee must prepare reports on all meetings for the Board and make a report in the company's annual report.

Typically, an audit committee will have the following roles and responsibilities:

- To monitor the integrity of the financial statements and other formal announcements.
- To review the internal financial controls and the company's control and risk management systems.
- To monitor and review the effectiveness of the internal audit function.
- To make recommendations regarding the appointment of external auditors and their remuneration.
- To monitor and review the external auditor's independence and objectivity.
- Provide an independent point of contact for the external auditor.
- To develop and implement policy on the engagement of the external auditor in other non-audit services.

While audit committees are generally accepted to be a positive element of the governance structure of any organisation, it can be difficult to source non-executive directors with the necessary skills and experience. In addition, there are some additional costs associated with running an effective audit committee.

A.2 Money Laundering

2.1 Introduction

Money laundering is the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to be derived from a legitimate source. This is done to conceal the illicit origins of the money and integrate it into the legitimate financial system. The process typically involves three stages:

1. **Placement:** Introducing the "dirty" money into the financial system. This can be done through various means such as bank deposits, purchasing assets, or gambling.
2. **Layering:** This involves complex layers of financial transactions to obscure the origin of the funds. It includes transferring money through multiple accounts, often across borders, and converting it into different forms (e.g., investments, real estate).
3. **Integration:** The "cleaned" money is then integrated into the economy and used as if it were legitimate. This stage involves using the funds for legitimate business ventures, investments, or luxury purchases.

Given the sums involved and the links with large, organised crime organisations, governments are keen to tackle money laundering and a number of international initiatives have been put in place to address the issue. These include:

- **The Financial Action Task Force (FATF) -** The FATF is an intergovernmental organisation founded in 1989 to develop policies to combat money laundering and terrorist financing. It has established a set of 40 recommendations that countries should implement to effectively combat money laundering. These include measures for regulation, supervision, and enforcement. It also conducts

peer reviews of member countries to assess their compliance with its standards and effectiveness in combating money laundering.

- **United Nations Office on Drugs and Crime (UNODC) -** The UNODC works globally to combat drugs, crime, and terrorism, including money laundering. It provides technical assistance and training to member states, supports the implementation of international conventions and standards, and promotes international cooperation.
- **Basel Committee on Banking Supervision** - The Basel Committee issues guidelines and standards to strengthen the regulation, supervision, and practices of banks worldwide, including measures to prevent money laundering. It emphasises the importance of banks implementing robust customer due diligence (CDD) procedures to identify and verify clients and monitor transactions for suspicious activity.
- **Egmont Group -** The Egmont Group consists of Financial Intelligence Units (FIUs) from different countries that share financial intelligence to combat money laundering and terrorist financing. It facilitates the exchange of information and cooperation between member FIUs to track and analyse financial transactions and identify illicit activities.

While these efforts have had an impact, the problem of money laundering remains significant given the large volumes of money and organisations involved. The increasingly globalised nature of the world economy and opportunities through developing areas such as crypto currency, mean that authorities face significant challenges in addressing the problem. In addition, money laundering activities are particularly hard to address in countries with insecure political environments and/or weak governance structures.

2.2 Indicators of Money Laundering

While there is no definitive list of "red flags" in relation to money laundering, some examples are shown below;

- **Unusual Patterns in Transactions**: Quick, frequent, or substantial transactions, structuring deposits to avoid detection, and activities inconsistent with the client's usual business practices should be scrutinised for potential money laundering.
- **Cash-Heavy Operations**: Businesses that handle large amounts of cash, like casinos, restaurants, or shops, are often exploited for money laundering due to the ease of obscuring the origins of cash.
- **Third-Party Involvement**: In jurisdictions with opaque regulations, determining the true ownership of companies can be challenging. Money launderers often employ intermediaries or complex corporate structures involving shell companies or operations in offshore financial centres to disguise the origins of illicit funds.
- **Geographical Risks**: Certain regions are more susceptible to corruption, organised crime, and money laundering due to weaker regulatory and oversight frameworks. Transaction monitoring can be enhanced by using tools like the Transparency International Corruption Perceptions Index to assess the risk levels associated with specific countries.
- **Vulnerabilities in Financial Systems**: Money launderers typically target weaknesses within financial systems, such as corruption, inadequate implementation of international protocols, or frail regulatory environments. Financial institutions with

poor due diligence or weak internal controls are particularly at risk.

- **Technology and Money Laundering**: Technological advancements have facilitated new methods of money laundering. The rise of cryptocurrencies and virtual assets, for instance, provides new layers of anonymity and opportunities for laundering money through rapid conversions into digital currencies.

2.3 Auditor Responsibilities in Relation to Money Laundering

In Rwanda, as in many other countries, there are specific responsibilities and requirements for auditors and other professionals to report suspected money laundering activities. These responsibilities are grounded in national laws and regulations aimed at combating money laundering and terrorist financing. Law No. 69/2018 on the Prevention and Punishment of Money Laundering and Financing of Terrorism[3] includes responsibilities for "Reporting Persons". Section 6(5) states that auditors are reporting persons for the purposes of the Law.

Auditor Responsibilities include:

- ***Due Diligence:*** Auditors, accountants, and other professionals must conduct thorough due diligence to identify and verify the identity of their clients and understand the nature of their business activities.
- ***Monitoring Transactions:*** Professionals are required to monitor their clients' transactions and activities for any unusual or suspicious patterns that may indicate money laundering.
- ***Reporting Obligations***: If an auditor or any other professional suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity or are related to money laundering or terrorist financing, they must file a Suspicious Transaction Report (STR) with the Financial Intelligence Centre (FIC). The STR must be filed without delay, ensuring that the information is provided promptly to the FIC for analysis and potential investigation.
- ***Confidentiality:*** Professionals are required to maintain the confidentiality of STRs. They must not disclose to the client or any other party that a report has been made, as this could potentially compromise investigations.
- ***Legal Protection:*** The law provides protection to auditors and other professionals who report suspicious activities in good faith. They are protected from legal liability, both civil and criminal, for reporting suspected money laundering.
- ***Internal Policies:*** Firms and institutions must establish and maintain internal controls, policies, and procedures to detect and prevent money laundering. This includes appointing a compliance officer responsible for overseeing AML measures.
- ***Training Programs:*** Continuous training programs must be provided to employees and professionals to ensure they are aware of AML regulations, recognise suspicious activities, and understand the reporting procedures.

[3] *https://www.africa-laws.org/Rwanda/banking%20and%20finance%20law/Law%20N%C2%BA%20692018%20of%20 31082018%20on%20prevention%20and%20punishment%20of%20money%20laundering%20and%20terrorism%20 financing%20(in%20Eng,Fr,%20Kinyarwanda).pdf*

Failure to comply with AML obligations, including the reporting of suspicious activities, can result in severe penalties. These can include fines, imprisonment, or both, depending on the nature and severity of the non-compliance.

In Rwanda, auditors and other professionals have a crucial role in combating money laundering. They are required to conduct due diligence, monitor transactions, and report any suspicious activities to the FIC. These responsibilities are part of a broader legal and regulatory framework aimed at preventing and detecting money laundering and ensuring the integrity of the financial system. Compliance with these obligations not only helps in the fight against financial crime but also protects the professionals and their organisations from legal and reputational risks.

A.3 Laws and Regulations

3.1 Introduction

In carrying out their activities, companies must comply laws in the jurisdiction in which they operate. These laws could include but not limited to the following:

- Company law
- Health and safety regulations
- Employment law
- Civil law, both tort and contract
- Environmental law and regulations
- Customary law where not covered by statute

3.2 Responsibility of Management

It is management's responsibility to ensure that the entity's operations are conducted in accordance with relevant laws and regulations and the responsibility for the prevention and detection of non-compliance also rests with them.

The following policies and procedures may assist management in discharging its responsibilities:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate internal control.
- Developing, publicising and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws with which the entity has to comply within its particular industry and a record of complaints.

Directors of the company have responsibility to provide information required by the

auditor, to which they have a legal right of access. Such legislation also provides that it is a criminal offence to give the auditor information or explanations which are misleading, false or deceptive.

3.3 Compliance with Laws and Regulations - Audit Considerations

ISA 250 (Revised) - Consideration of Laws and Regulations in an Audit of Financial Statements, establishes standards and guidance on auditor responsibilities to consider laws and regulations in an audit of financial statements.

ISA 250.2 states that when designing and performing audit procedures and in evaluating and reporting the results thereof, ***the auditor should recognise that non-compliance by the entity with laws and regulations may materially affect the financial statements.***

As with the system of internal control, an audit cannot be expected to detect non-compliance with all the laws and regulations applicable to a company. Detection, regardless of materiality, requires consideration of the implications for the integrity of management or employees and the possible effect on other aspects of the audit.

Even though an audit is properly planned and performed in accordance with standards, there is the unavoidable risk that some material misstatements will not be detected in the financial statements. The risk is higher with regard to material misstatements resulting from non-compliance with laws and regulations due to factors such as:

- Even though an audit is properly planned and performed in accordance with standards, there is the unavoidable risk that some material misstatements will not be detected in the financial statements. The risk is higher with regard to material misstatements resulting from non-compliance with laws and regulations due to factors such as:
- There are many laws and regulations that typically do not have a material effect on the financial statements (mainly operational aspects) and are not captured by the entity's information systems.
- The effectiveness of audit procedures is affected by the inherent limitations of internal control and the use of testing.
- Much of the audit evidence obtained is persuasive rather than conclusive.
- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, omission, senior management override of controls or intentional misrepresentations made to the auditor.

ISA 250.13-18 states that auditors should plan and perform the audit with an attitude of professional scepticism recognising that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. The auditor would test for compliance with specific laws and regulations only if engaged to do so.

In order to plan the audit, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. The auditor should recognise that some laws may give rise to business risks that have a fundamental effect on the operations of the entity. For example, non-compliance with the licensing laws relating to a bank could force it out of business.

One of the most difficult distinctions in practice is deciding which laws are central to which businesses and when.

To obtain a general understanding of laws and regulations, an auditor would ordinarily:

- Use the existing understanding of the entity's industry, regulatory and other external factors.
- Inquire of management concerning their policies and procedures regarding compliance and as to the laws and regulations that may be expected to have a fundamental effect on the operations of the entity.
- Discuss with management the policies or procedures adopted for identifying, evaluating and accounting for litigation claims and assessments.
- Discuss the legal and regulatory framework with auditors of subsidiaries.

ISA 250.19-29 lays out that, after obtaining the general understanding, the auditor should design procedures to help identify possible or actual instances of non-compliance with the laws and regulations, which are central to the entity's ability to conduct its business and hence to its financial statements. Further, the auditor should obtain sufficient, appropriate audit evidence about compliance with those laws and regulations, which the auditor recognises as having an effect on the determination of material amounts and disclosures in the financial statements.

The auditor should be alert to the fact that audit procedures applied for the purposes of forming an opinion on the financial statements, such as reading of minutes, may highlight possible instances of non-compliance. In addition, non-compliance issues might incur obligations for audit firms to report money laundering offences as discussed above.

The auditor should obtain written representations from management that they have disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. In addition, where applicable, the written representations should include the actual or contingent consequences which may arise from the non-compliance. In the absence of audit evidence to the contrary, the auditor is entitled to assume the entity is compliant with these laws and regulations.

The auditor's responsibility in expressing an opinion on financial statements does not extend to determining whether the entity has complied in every respect with tax legislation. The auditor only needs sufficient audit evidence to give a reasonable assurance that the tax amounts in the financial statements are not materially misstated.

ISA 250 (Revised) A1 – A34 gives a number of examples where non-compliance may have occurred.

When the auditor becomes aware of non-compliance, the auditor should obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements.

The auditor must consider:

- The potential financial consequences such as fines, penalties and/or litigation.
- Whether the potential financial consequences require disclosure, for example as a contingent liability.
- Whether these consequences are so serious they call into question the truth and

fairness of the accounts.

- When the auditor believes there is non-compliance, he must document the findings and discuss them with management. Bear in mind that the discussions with management should be subject to compliance with legislation relating to "tipping off" particularly with any requirement to report findings direct to a third party.
- When adequate information about suspected non-compliance cannot be obtained, the auditor should consider the effect of the lack of sufficient appropriate audit evidence on the audit report. He should consider the implications in relation to the reliability of management representations.

3.4 Audit Report Implications

When the auditor becomes aware of non-compliance, the auditor should obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements.

The auditor must consider:

- The potential financial consequences such as fines, penalties and/or litigation.
- Whether the potential financial consequences require disclosure.
- Whether these consequences are so serious they call into question the truth and fairness of the accounts

If the auditor concludes that the non-compliance has a material effect on the accounts and has not been properly reflected, he should express a qualified or adverse opinion.

If the auditor has not been able to obtain sufficient evidence to evaluate whether a material non-compliance has occurred, he should qualify his report or issue a disclaimer of opinion on the basis of a scope limitation.

3.4.1 Reporting Non-Compliance

As soon as possible, the auditor should communicate with management, or obtain audit evidence that management are appropriately informed, regarding non-compliance that comes to the auditor's attention. If in the auditor's judgment, the non-compliance is intentional and/or material, the auditor should communicate without delay. If the auditor suspects senior management, then he should communicate to the next higher level, such as the audit committee. Failing that, he should seek legal advice.

In the case of money laundering, it may be appropriate to report the matter direct to the appropriate authority.

3.4.2 Third party reporting

Although the auditor has a duty of confidentiality, where non-compliance gives rise to a statutory duty to report, the auditor should do so without undue delay.

3.4.3 Withdrawal from the engagement

The auditor may conclude that withdrawal is necessary when remedial action is not taken, even when the non-compliance is not material. Resignation is a step of last resort.

A.4 Current Issues and Developments

4.1 Introduction

As with any profession, auditing evolves. Given the nature of the work, the audit profession must adapt as auditee operations change to reflect industry trends and the environment in which they operate.

Some specific recent developments are shown below:

- ***Technology Integration*:** There's a significant move towards utilising advanced technologies in auditing. Artificial intelligence (AI) and machine learning are being increasingly employed to automate routine tasks and enhance the accuracy and efficiency of audits. This allows auditors to focus more on complex judgments and value-added activities. AI and audit are discussed more under Unit G.
- ***Continuous Auditing*:** The concept of continuous or real-time auditing is gaining traction. This approach enables more frequent and timely insights into an organisation's financial health, helping auditors to address issues promptly and spend more time on critical areas of the audit process. In addition, this will allow the auditors to report issues more promptly to users of the report.
- ***Environmental, Social & Governance (ESG) and Sustainability Reporting*:** With rising stakeholder demand for transparency in environmental, social, and governance (ESG) issues, new auditing standards have been developed. These include frameworks like the Sustainability Accounting Standards Board (SASB) and specific ESG reporting requirements, guiding companies on how to report their performance in these areas effectively. Similarly, related auditing standards are being developed and ethical standards are being updated with sustainability requirements. For instance, the IAASB has proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements.
- ***Enhanced Use of Cloud Technology*:** Cloud computing is revolutionising audit processes by offering improved data security, enabling better collaboration, and providing real-time data access. This shift not only facilitates remote auditing but also enhances overall audit quality by enabling more dynamic and flexible audit practices.
- ***Blockchain for Audit Transparency*:** The exploration of blockchain technology is advancing, aiming to enhance transparency and accuracy in financial reporting. This technology offers a tamper-proof system that helps auditors verify financial data more efficiently, potentially reducing fraud and improving the reliability of financial statements.

Many of these developments are related to the lightning-fast pace with which technology is changing; these changes will have big implications to how we conduct audits over the coming years.

4.2 Current developments in auditing standards

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality management, review, other assurance, and related

services. The recent auditing standards issued or revised by IAASB which need to be given appropriate attention regarding how audit & assurance is evolving, include;

- ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, effective for audits for periods beginning on or after 15 December 2021.
- ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, effective as of 15 December 2022.
- ISQM 2, Engagement Quality Reviews, effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022; and effective for other assurance and related services engagements beginning on or after 15 December 2022.
- ISA 220 (Revised), Quality Management for an Audit of Financial Statements, effective for audits for periods beginning on or after 15 December 2022.
- ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors), effective for audits for periods beginning on or after 15 December 2023.
- ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE), effective for audits for periods beginning on or after 15 December 2025 for jurisdictions that adopt or permit its use. This is a standalone global auditing standard designed specifically for smaller and less complex businesses.

4.3 Use of "Big Data" and Performing Data Analytics

"Big Data" refers to extremely large and diverse collections of structured, unstructured, and semi-structured data that continues to grow exponentially over time. Performing data analytics on big data brings up several ethical, professional, and legal considerations that auditors need to navigate carefully to uphold the standards of their profession and ensure compliance with applicable laws. Some of the implications are shown in the diagram below;

To help ensure auditors adequately address these considerations, auditors should:

- engage in ongoing education and training in big data technologies and ethical practices to stay current with advancements and ethical standards.
- apply ethical guidelines specifically designed for big data, such as those provided by professional bodies or international organisations.
- consult with legal experts in data protection laws to ensure full compliance in their audit practices.

Summary of Unit A and key learning outcomes

After completing Unit A, you should be able to assess the legal and regulatory environment and developments in best practice on both public and private sector assurance engagements.

The key learning outcomes are presented in the table below.

Ref	Learning Outcome	
A1	International regulatory frameworks for private and public sector engagements	Discuss the importance of laws, regulations and other standards relating to audit and assurance.
		Examine the need for the legal and professional framework including: • public oversight of audit and assurance practice • how corporate governance codes influence the work of the auditor • the role of audit committees and its relationship with auditors.
A2	Money laundering	Define 'money laundering' and assess international efforts to tackle money laundering.
		Examine the susceptibility of the professional accountant to becoming involved in money laundering and how professional accountants protect themselves from this.
		Identify transactions which may indicate the presence of money laundering and discuss how this impacts the professional accountant's obligation to report to external parties.
		Examine the impact that money laundering has on a professional accountant, including: • why a professional accountant is in a unique position to prevent, detect and report on money laundering • what Anti Money Laundering (AML) procedures exist to prevent and detect money laundering, such as customer due diligence (CDD), and why these are so important • the responsibilities to report suspicions of money laundering to external parties.

Ref	Learning Outcome	
A3	Laws and regulations	Differentiate between the respective responsibilities of both management and auditors concerning compliance with laws and regulations in an audit of financial statements.
		Describe the auditor's considerations regarding compliance with laws and regulations.
		Recommend audit procedures to detect breaches of laws and regulations.
		Discuss the parties to which the auditor shall report to and the manner of this reporting.
A4	Current issues and developments	Explain the latest developments in auditing best practice and how this affects the conduct of audits.
		Discuss other current legal, ethical and professional matters that affect the profession including: • big data and its use in Audit Data Analytics (ADA) • techniques in data analytics.

Quiz Questions

1. What is a primary responsibility of an audit committee?	Learning Outcome: A1
A	Developing new financial products for the company.
B	Managing day-to-day operations of the financial department.
C	Overseeing the organisation's internal audit function and its relationship with external auditors.
D	Designing marketing strategies for the company's products.

2. Which aspect of audit standards plays a critical role in mitigating the risk of financial statement fraud?	Learning Outcome: A1
A	Mandating the frequency of company board meetings
B	Requiring detailed disclosures about sales tactics
C	Enforcing auditor rotation to preserve independence
D	Regulating the advertisement strategies of public companies

3. Which sector should normally be considered the highest risk for money laundering?	Learning Outcome: A2
A	Software development.
B	Real estate.
C	Online retail.
D	Digital marketing services.

4. What is an auditor's primary responsibility regarding money laundering during a financial audit?	Learning Outcome: A2
A	To ensure that all employees are trained on anti-money laundering regulations.
B	To guarantee that the company never engages in money laundering activities.
C	To detect and report any suspicious activities that could be indicative of money laundering.
D	To directly enforce international money laundering laws within the company.

5. According to ISA 250 (Revised), what is the auditor's responsibility when it comes to compliance with laws and regulations in an audit of financial statements?	Learning Outcome: A3
A	The auditor must ensure that the entity is fully compliant with all applicable laws and regulations.
B	The auditor is responsible for preventing non-compliance with laws and regulations by the entity.
C	The auditor needs to replace management if non-compliance with laws and regulations is detected.
D	The auditor should consider the implications of laws and regulations on the financial statements and identify material non-compliance.

Exercises

1. What are the main advantages of an effective audit committee?
2. What procedures should an auditor undertake to consider the laws and regulations during an audit?

Exercise Solutions

1

- **Provide actionable insights to oversee and improve financial practices and reporting**. In high-performing organisations, audit committees provide oversight. Audit committees meet with management to review and maintain effectiveness of internal controls and external financial reporting. They often work in partnership with the finance committee, which is typically focused on internal reports, operational issues and financial strategy.
- **Create and maintain effective anti-fraud programs**. With their insights and expertise in financial, legal, management and operational issues, audit committee members can play a proactive role working management and auditors in creating and periodically reviewing an organisation-wide fraud prevention and detection program and ensuring that investigations are undertaken if fraud is uncovered. They can also encourage management to establish a comprehensive ethics and compliance program. The audit committee should play a similarly proactive role in the review and update of both of these programs.
- **Enhance the internal audit function.** An organisational structure that has the internal audit team reporting directly to the audit committee contributes to the overall integrity of the internal audit function. Under this structure, the internal audit team can serve as the audit committee's "eyes and ears" regarding the organisation's ability to meet its financial and compliance responsibilities and ensure that the organisation adjusts practices and internal controls as needed.
- **Oversee the organisation's external audit.** An audit committee meets with external auditors to monitor their services and activities to ensure that independence is maintained between the external auditor and the organisation's management team. An audit committee also meets with external auditors to discuss their independent observations on management's ability to maintain strong internal controls, appropriate financial reporting and sound business practices.

- **Strengthen credibility with stakeholders.** An audit committee communicates a message of independence, reliability and trust. It also builds confidence among present and potential constituents, donors, creditors, and other stakeholders. Organisations and their audit committees can maintain and further build on this positive message by disclosing the audit committee's role and composition, achieving transparency in financial disclosures, and communicating the organisation's compliance and ethics policy.

2.

ISA 250 (Revised) Consideration of Laws and Regulations in an Audit of Financial Statements, requires an auditor to perform the following procedures:

- obtaining a general understanding of the client's legal and regulatory environment;
- inspecting correspondence with relevant licensing and regulatory authorities;
- enquiring of management and those charged with governance as to whether the entity is compliant with laws and regulations;
- remaining alert to possible instances of non-compliance; and
- obtaining written representations that the directors have disclosed all instances of known and possible non-compliance to the auditor.

Unit B: Professional and Ethical Framework

Learning outcomes

B1. Code of professional conduct and ethics

B2. Professional liability

B3. Fraud and error

Introduction to Unit B

This Unit delves into the professional conduct, ethics, and responsibilities that guide the work of auditors. At its core, the Unit underscores the fundamental principles that every auditor must uphold integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. These principles form the backbone of ethical auditing practices.

The conceptual framework outlined in the chapter helps accountants navigate potential threats to these principles. These threats include self-interest, self-review, advocacy, familiarity, and intimidation. To counter these threats, various safeguards are put in place both within the profession and at the workplace. These safeguards include continuous professional development, strict internal controls, and effective regulatory oversight.

Conflicts can arise when applying these fundamental principles, particularly in situations involving conflicts of interest. Professional scepticism is crucial in such scenarios, especially in auditing. It involves maintaining a questioning mindset and critically assessing audit evidence to identify and respond to risks of material misstatement.

The Unit also addresses the professional liability of auditors. Auditors can face legal liability for misrepresentation, negligence, and breach of contract. They owe a duty of care not only to their clients but also, in some cases, to third parties. Various measures, such as engagement letters and professional indemnity insurance, are used to restrict liability as far as possible. The Unit also explores the expectation gap – the difference between what the public expects from auditors and what they can realistically deliver – and the industry's efforts to bridge this gap through better communication and education.

Fraud and error are significant concerns in auditing. This Section highlights the indicators of high risk for material misstatement due to fraud or error and outlines the auditor's responsibilities in these situations. While management is responsible for implementing controls to prevent and detect fraud, auditors must assess the risk of fraud and design appropriate audit procedures. Reporting requirements for fraud are stringent, with auditors expected to report fraud to management, those charged with governance, and sometimes regulatory authorities.

In essence, this chapter emphasises the importance of upholding high ethical standards, maintaining professional scepticism, and being vigilant against fraud and error in the practice of auditing. It provides guidance on how auditors can navigate their professional responsibilities and legal liabilities while maintaining the trust placed in them by their clients and the public.

Summary of Unit B and key learning outcomes

After completing Unit B, you should be able to demonstrate the ability to work on audit and assurance engagements within a professional and ethical framework.

The key learning outcomes are presented in the table below:

Ref	Learning Outcome	
B1	Code of professional conduct and ethics	Explain the fundamental principles of a professional accountant and the conceptual framework.
		Identify and explain threats to compliance with these fundamental principles and recommend a robust response.
		Discuss the safeguards available to the auditor and their effectiveness.
		Identify and explain the conflicts when applying the fundamental principles.
		Explain the importance of professional scepticism in planning and performing an audit and assess whether professional scepticism has been applied in the performance of the audit.
		Be able to demonstrate appropriate provision of non-audit services to the audited entity, including internal audit services.
B2	Professional liability	Identify the circumstances in which an auditor may have legal liability in relation to work done on an audit, and apply, to a given scenario, the criteria used to establish legal liability.
		For a given situation, examine the factors which may deem an auditor´s work to be negligent, and conclude on the auditor's potential liability.
		Differentiate between the liability owed to the audited entity and the liability that might be owed to third parties.
		Evaluate the different ways liability may be restricted, considering both the feasibility and effectiveness of each.
		Examine the expectation gap, how the industry has tried to reduce this gap and how the profession could continue to reduce this gap.

Ref	Learning Outcome	
B3	Fraud and error	Identify circumstances which indicate a high risk of material misstatement, due to error, irregularity, fraud or corruption, and design a suitable response to these circumstances in a given scenario.
		Distinguish between the responsibilities of management and auditors in relation to fraud, corruption and error.
		Explain the risks and recommend audit procedures to be carried out when investigating misstatement whether caused by fraud or error.
		Examine the reporting requirements with regard to fraud, corruption and error. Demonstrate an understanding of when an auditor should withdraw from such an engagement.
		Discuss the role of auditors in preventing, detecting and reporting fraud and error both now and in the future.

B1. Code of professional conduct and ethics

1.1 Introduction

IFAC, through the IESBA, has issued a code of ethics, and it is to be followed by all ICPAR members. This code follows a conceptual framework with fundamental principles to be followed. Note, that this principle-based approach means that exact guidance as to how to behave in every situation is not provided; instead, members should apply the spirit of the code in everyday practice.

Professional bodies such as ICPAR, have the right to discipline members who fail to comply with the code through a system of disciplinary hearings which can result in fines, membership suspension or, ultimately, withdrawal of membership.

1.2 Fundamental Principles

Five fundamental principles are established by the Code.

1.2.1 Ethical Threats and Responses

Examples of threats to the five fundamental principles and possible safeguarding measures to these threats were covered in the Technical Audit and Assurance module are not covered further here.

1.2.2 Professional Scepticism

Professional scepticism is a critical mindset for auditors, essential for ensuring the integrity and reliability of the auditing process. It involves maintaining a questioning mind and critically assessing audit evidence throughout the audit. This scepticism is vital in both the planning and performance stages of an audit, ensuring auditors remain vigilant to

potential misstatements caused by fraud or error.

In practice, professional scepticism means that auditors never take information at face value. They must always question the validity of the information and evidence they gather, remaining alert to conditions that might indicate a potential misstatement. This involves a thorough evaluation of the audit evidence, particularly when the evidence seems contradictory or incomplete, and seeking additional information whenever necessary. An unbiased viewpoint is crucial, as any conflict of interest can compromise the auditor's judgment.

During the audit planning stage, professional scepticism is applied through careful risk assessment. Auditors need to understand the client's business, industry, and internal controls to identify and assess risks of material misstatement, especially those arising from fraud. Based on these risk assessments, auditors design audit procedures tailored to address areas where misstatements are likely.

When performing the audit, auditors gather evidence with a "critical eye", ensuring the sufficiency and appropriateness of the evidence collected. They remain cautious with management representations, always seeking corroborative evidence to support them. Any inconsistencies or anomalies in the financial statements or other information provided by the client are thoroughly investigated.

Enhancing professional scepticism within the audit profession involves continuous training and education to reinforce its importance and develop critical thinking skills. Promoting a culture within audit firms that encourages and rewards sceptical behaviour is also essential. Robust quality control measures, proper supervision and review of audit work, and thorough documentation of the auditor's thought process and conclusions are crucial components of fostering scepticism.

Assessing whether professional scepticism has been adequately applied involves regular reviews and inspections of audit procedures, incorporating feedback from peer reviews, quality reviews, and regulatory inspections. This helps identify areas where scepticism may need to be strengthened.

Professional scepticism is the cornerstone of the auditing profession. By maintaining a questioning mindset and critically evaluating evidence, auditors can better identify and address potential misstatements, thereby enhancing the reliability and credibility of their audits.

1.3 Non-audit Services

Ethical issues around providing non-audit services to audit clients are mainly concerned with the threat of self-review. Where non-audit work is provided to an audit client and is then subject to audit, the auditor will be unlikely to admit to errors in their own work or may not identify the errors in their own work. Even if the audit is completed entirely correctly, there remains a danger that the audit is still ***perceived*** to have not been carried out objectively. Some common non-audit services and considerations around engaging in these services are shown in the table below. Note that restrictions are typically much tighter for clients that are listed on national stock exchanges.

- ***Accounting Services***
    - Services could include preparing the financial statements, recording transactions or administering payroll.

- Audit firm should only provide services with are routine and mechanical and nature. This would include preparing payroll calculations, posting transactions to the general ledger, preparing financial statements only based on information from a client-approved trial balance.
- Staff members involved in providing the accounting services should not be involved in the audit process.

- ***Internal Audit Services***
  - In addition to the self-review threat, the audit firm must be satisfied that management takes full responsibility for the internal audit activities and internal controls to avoid assuming management responsibilities.
  - Staff involved in providing the internal audit services should not form part of the audit team.

- ***Tax Services***
  - Providing tax services to an audit client might also lead to an advocacy threat. Services might include preparing tax returns, calculations, advice on tax planning or assistance in resolution of tax disputes.
  - Completion of tax returns does not normally constitute a threat as it based on historical information and is subject to approval by the tax office. Tax planning advice can be provided *providing* it does not have a material impact on the financial statements. The firm should not represent the client in a tax dispute if the matter has a material effect on the financial statements (advocacy threat).
  - Staff providing the tax services should not be involved in the audit and the firm should seek pre-clearance from the appropriate tax office.

- ***IT Services***
  - IT services may create a self-review threat and also be considered to be assuming management responsibilities. The level of threat will also depend on to what extent the IT system concerned impacts or interacts with the client accounting system or financial statements.
  - The firm can provide services in relation to systems that have no impact on internal controls or the financial statements.
  - Staff working on the IT service should not form part of the audit team. Client management should assume full responsibility for all IT controls and systems.

- ***Temporary Secondments***
  - Temporary assignment of staff to the client may create a self-review or familiarity threat.
  - Staff may be loaned to the client if:
    - The period is short.
    - Officer does not assume management responsibilities

- The client is responsible for supervising the person

- The best safeguard is to exclude the person concerned from the audit team.

B.2 Professional Liability

2.1 Introduction

Auditors can face professional liability both under statute law and through the tort of negligence. Professional Liability, with relevant case law was covered in detail in the Technical Level Course on Audit and Assurance. For recap purposes a summary is presented below:

- ***Statute Law:***
  - **Insolvency Legislation**: Auditors could be charged with criminal offenses if found to be officers of the company during its winding up.
  - **Insider Dealing**: Auditors could face criminal charges for insider trading.
  - **Money Laundering**: Auditors could be criminally liable for failing to report suspicions of money laundering.
    - ***Tort of Negligence:*** Negligence, governed by customary/common law, aims to compensate for losses due to another's neglect. To succeed in a negligence claim, the injured party must prove:
  - A duty of care existed.
  - The duty of care was breached.
  - The breach caused the loss.

- ***Potential Claimants Against Auditors:***
  - **The Company**: As the audit client, it has an automatic duty of care.
  - **Shareholders**: Represented as a body, not individually.
  - **Creditors**: Including banks and lenders.
  - **Potential Investors**: Depend on audited accounts for investment decisions.

- ***Duty of Care to Third Parties:***
  - An auditor's duty of care to third parties like individual shareholders and potential investors is not automatic, as there is no direct contract.
  - Courts have generally been reluctant to establish a duty of care to third parties.
  - A notable exception occurred in 1995 when BDO was held liable to ADT due to a perceived contractual relationship.

- ***Litigation Avoidance Strategies:***
  - Implement clear client acceptance procedures, screen new clients, and use engagement letters.

- Perform audit work in line with international standards and best practices.
- Maintain effective quality control and assurance procedures.
- Use appropriate disclaimers, though these may not always be legally effective

2.2 The Expectation Gap

Some users incorrectly believe that an audit provides 100% - or absolute – assurance that the financial statements are correct. These misconceptions are referred to as the ***"Expectation Gap".*** Some examples include:

- A belief that an auditor tests all transactions or balances (in fact, only a sample are tested).
- A belief that an auditor will detect all fraud (in fact, the auditor is only required to provide reasonable assurance that the financial statements are free from material misstatement whether due to fraud or error).
- A belief that the auditor is responsible for preparing the financial statements (in fact, this is the responsibility of management).

The limitations of an audit mean that absolute assurance can never be provided. The main reasons for this as included in ISA 200.A48-50 are shown below:

2.3 Reducing the Expectation Gap

Auditors can take several steps to reduce the expectation gap—the difference between what the public and other stakeholders expect from auditors and what auditors can realistically deliver. Here are some strategies:

1. Enhanced Communication:

- **Clarify Roles and Responsibilities**: Clearly communicate the scope and limitations of an audit. Educate stakeholders about what an audit entails and what it does and does not cover.
- **Transparent Reporting**: Use clear and understandable language in audit reports to explain the findings, the nature of the audit, and any limitations.
- **Engagement Letters**: Provide detailed engagement letters that outline the auditor's responsibilities and the nature of the engagement.

2. Education and Outreach:

- **Public Education**: Engage in public education campaigns to improve understanding of the audit process among stakeholders, including investors, creditors, and the general public.

3. Improved Standards and Practices:

- **Adopt High Standards**: Follow the highest standards of auditing and ensure compliance with international standards.
- **Continuous Professional Development**: Encourage ongoing education and training for auditors to keep them updated on the latest standards, regulations,

and best practices.

- **Quality Control**: Implement robust quality control measures to ensure audits are conducted thoroughly and accurately.

4. Expanded Scope:

- **Enhanced Audit Procedures**: Where feasible, incorporate more extensive audit procedures to address areas that are commonly misunderstood by stakeholders, such as fraud detection.

5. Stakeholder Engagement:

- **Regular Feedback**: Establish channels for regular feedback from stakeholders about their expectations and concerns regarding the audit process.
- **Interactive Reporting**: Use interactive platforms to present audit findings and engage stakeholders in discussions about the audit process and results.

6. Transparency in Methodology:

- **Disclose Methodologies**: Provide detailed disclosures about the methodologies and standards used during the audit.
- **Explain Judgments and Estimates**: Clearly explain significant judgments and estimates made during the audit and their impact on the financial statements.

7. Legal and Regulatory Measures:

- **Regulatory Reforms**: Support and advocate for regulatory reforms that enhance transparency and accountability in the auditing process.

By implementing these strategies, auditors can help bridge the expectation gap, enhancing stakeholder trust and understanding of the audit process and its outcomes.

B.3 Fraud and Error

3.1 Introduction

As per ISA 240.2, misstatement in the financial statements can arise from either fraud or error. The distinguishing factor is whether the underlying action that resulted in the misstatement was intentional or unintentional.

> ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. 11a
>
> ***"Fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage"***

By contrast, an error can be defined as an unintentional misstatement in financial

statements, including the omission of amounts or disclosures, such as the following:

- A mistake in gathering and processing data from which financial statements are prepared.
- An incorrect accounting estimate arising from oversight or a misinterpretation of facts.
- A mistake in the application of accounting principles relating to measurement, recognition, classification, presentation or disclosure.

Typical circumstances where the risk of fraud may be present with appropriate audit responses are shown below:

1. Complex Transactions:

- **Indicators**: Unusual or complex transactions, especially those that involve estimates, significant judgment, or transactions with related parties.
- **Response**: Increase the extent of testing and use experts to verify the valuation and classification of these transactions.

2. Rapid Organisational Change:

- **Indicators**: Changes in senior management, significant business restructuring, or rapid growth.
- **Response**: Perform detailed review of internal controls, particularly those that might be impacted by changes. Increase substantive testing around areas of change.

3. Weak Internal Controls:

- **Indicators**: Identified weaknesses in the internal control environment, such as lack of segregation of duties or inadequate oversight.
- **Response**: Conduct a thorough risk assessment and increase the extent of testing for transactions that are susceptible to error or fraud. Implement additional substantive procedures.

4. Pressure to Meet Financial Targets:

- **Indicators**: High pressure on management to meet financial targets, particularly in industries experiencing economic downturns or where management bonuses are linked to financial performance.
- **Response**: Increase analytical procedures and perform detailed testing around revenue recognition and expense recording. Evaluate management's estimates and assumptions for bias.

5. Unusual Relationships with Customers or Suppliers:

- **Indicators**: Significant transactions with new or related parties, or significant year-end transactions.
- **Response**: Perform detailed verification of these transactions, including third-party confirmations and review of supporting documentation.

6. Significant Adjustments in Prior Periods:

- **Indicators**: Large or numerous adjustments to previously issued financial statements.
- **Response**: Scrutinise the reasons for past adjustments and assess the risk of recurrence. Increase testing in areas previously adjusted.

7. Inconsistent, Vague, or Unexplained Responses from Management:

- **Indicators**: Management provides inconsistent, vague, or implausible responses to inquiries.
- **Response**: Increase the scope of audit procedures, including detailed testing and independent verification. Consider the need for forensic specialists.

8. Dominance by a Single Person:

- **Indicators**: Significant influence by a single individual in key financial areas or decision-making processes.
- **Response**: Assess the risk of management override of controls and increase testing for indications of bias or manipulation. Implement surprise audits or additional reviews.

9. High Turnover of Key Personnel:

- **Indicators**: Frequent changes in key financial, operational, or IT staff.
- **Response**: Review the impact of turnover on internal controls and increase substantive testing, particularly in areas managed by new personnel.

10. Unusual Accounting Policies:

- **Indicators**: Adoption of unusual or aggressive accounting policies or practices.
- **Response**: Evaluate the appropriateness of accounting policies and compare them with industry standards. Increase testing on areas impacted by these policies.

3.2 Responsibility of Management and Those Charged with Governance

The primary responsibility for the prevention and detection of fraud rests with those charged with governance and the management of an entity.

This should be achieved by:

- Implementing an effective system of internal control, reducing opportunities for fraud to take place and increasing the likelihood of detection (and punishment).
- Creating a culture of honesty, ethical behaviour, and active oversight by those charged with governance.
- The directors should be aware of the potential for fraud and this should feature as an element of their risk assessment and corporate governance procedures.
- The audit committee should review these procedures to ensure that they are in

place and working effectively.

3.3 Responsibility of the Auditor

The auditor's role is to assess the risk of material misstatement due to fraud and respond to the assessed risks identified.

3.3.1 Assessing the risk of fraud

As per ISA 240, the auditor should:

- Obtain reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- Apply professional scepticism and remain alert to the possibility that fraud could take place. This means that the auditor must recognise the possibility that a material misstatement due to fraud could occur, regardless of the auditor's prior experience of the client's integrity and honesty.
- Consider the potential for management override of controls and recognise that audit procedures that are effective for detecting error may not be effective for detecting fraud.

This can be achieved by performing the following procedures:

- Discuss the susceptibility of the client's financial statements to material misstatement due to fraud with the engagement team. This discussion should include consideration of:
    - Incentives to commit fraud such as profit related bonuses or applications for finance.
    - Opportunities to commit fraud such as ineffective internal controls.
    - Management's attitude e.g. disputes with the auditor over auditing matters or failure to remedy known deficiencies.
- Enquire of management about their processes for identifying and responding to the risk of fraud.
- Enquire of management, internal auditors and those charged with governance if they are aware of any actual or suspected fraudulent activity.
- Consideration of relationships identified during analytical procedures.

3.3.2 Responding to Fraud Risk

The following procedures must be performed as stated by ISA 240

- Review journal entries made to identify manipulation of figures recorded or unauthorised journal adjustments:
    - Enquire of those involved in financial reporting about unusual activity relating to adjustments.
    - Select journal entries and adjustments made at the end of the reporting period.

- Consider the need to test journal entries throughout the period.

- Review management estimates for evidence of bias:
  - Evaluate the reasonableness of judgements and whether they indicate any bias on behalf of management.
  - Perform a retrospective review of management judgements reflected in the prior year.
- Review transactions outside the normal course of business, or transactions which appear unusual and assess whether they are indicative of fraudulent financial reporting.
- Obtain written representation from management and those charged with governance that they:
  - acknowledge their responsibility for internal controls to prevent and detect fraud
  - have disclosed to the auditor the results of management's fraud risk assessment.
  - have disclosed to the auditor any known or suspected frauds.
  - have disclosed to the auditor any allegations of fraud affecting the entity's financial statements.

There is an unavoidable risk that some material misstatements may not be detected even if properly planned in accordance with ISAs as fraud is likely to be concealed. The ability to detect fraud depends on the skill of the perpetrator, collusion, relative size of amounts manipulated and the seniority of the people involved.

3.3.3 Fraud Reporting

ISA 240 also has several requirements if an auditor identifies fraud during the audit.

- They must communicate the matter on a timely basis to the appropriate level of management (i.e. those with the primary responsibility for prevention and detection of fraud).
- If the suspected fraud involves management, the auditor must communicate the matter to those charged with governance.
- If the auditor has doubts about the integrity of those charged with governance, they should seek legal advice regarding an appropriate course of action.
- In addition to these responsibilities, the auditor must also consider whether they have a responsibility to report the occurrence of a suspicion to a party outside the entity. Whilst the auditor does have an ethical duty to maintain confidentiality, it is likely that any legal responsibility will take precedence. In these circumstances it is advisable to seek legal advice.

If the fraud has a material impact on the financial statements, the audit opinion will be modified. When the opinion is modified, the auditor will explain why it has been modified and this will make the shareholders and other stakeholders aware of the fraud.

Quiz Questions

1. Which of the following best exemplifies the principle of integrity in auditing?	Learning Outcome: B1
A	Disclosing all information about a client to any interested party.
B	Reporting a discovered financial error in the audit report despite client pressure to ignore it.
C	Accepting a gift from a client to build a stronger relationship.
D	Ignoring a minor error in the financial statements because it is not significant.

2. Which of the following non-audit services could an audit firm (likely) allowable?	Learning Outcome: B1
A	A member of staff is seconded for three years to manage the preparation of the financial statements.
B	The firm represent the firm in a controversial high value tax case.
C	The firm are designing a new IT ledger system for the client.
D	The firm carry out deliver payroll services for the client.

3.For a party to succeed in a negligence claim against an auditor, which of the following must be proven?	Learning Outcome:
A	The auditor breached a duty of care which caused a loss.
B	The auditor had a contract with the third party.
C	The auditor's actions were approved by the client's management.
D	The auditor performed the audit according to the client's specifications.

4. Which of the following best describes an auditor's responsibility in relation to fraud?	Learning Outcome:
A	The auditor is responsible for preventing fraud within the company.
B	The auditor's responsibility is to provide absolute assurance that the financial statements are free from fraud.
C	The auditor is responsible for detecting and reporting material misstatements in the financial statements caused by fraud.
D	The auditor is responsible for managing the company's internal control systems to prevent fraud.

Exercises

1. Company X is experiencing rapid growth, has weak internal controls, and management is under pressure to meet aggressive financial targets. What sort of audit procedures should an auditor carry out in these circumstances?
2. An auditing firm is engaged to audit the financial statements of a company. During the audit, the auditors encounter several situations where they must apply the fundamental ethical principles.

Identify the five fundamental principles and assign each issue to the correct principle.

- The auditors face challenges in evaluating the company's complex financial derivatives. They bring in a specialist with expertise in derivatives to ensure accurate valuation and proper audit procedures.
- They find that some revenue has been prematurely recognised. Despite the company's management downplaying the significance, the auditors insist on adjusting the financial statements to correct the error.
- Throughout the audit, the auditors receive several invitations to social events from the client. They decline these invitations to avoid any perception of impropriety and maintain their professional independence.
- One of the auditors had previously worked for the client company. To avoid any potential bias, the auditing firm assigns different auditors to the engagement.
- During the audit, the auditors access sensitive information about the company's planned mergers and acquisitions. They ensure this information is not disclosed outside the audit team and used solely for audit purposes.

Exercise Solutions

1

- **Risk Assessment:**
    - **Identify Areas of Risk**: Revenue recognition, expense recording, internal controls, and management estimates.
- **Increase Audit Procedures:**
    - **Revenue Testing**: Perform detailed substantive testing of revenue transactions, focusing on year-end transactions and verifying their authenticity.
    - **Expense Testing**: Verify the accuracy and completeness of expense recording, ensuring that expenses are not understated.
- **Evaluate Internal Controls:**
    - **Control Testing**: Assess the design and implementation of internal controls. Identify and test key controls to ensure they are operating effectively.
    - **Enhanced Procedures**: Implement additional substantive procedures to compensate for weak controls, such as increased sample sizes and detailed transaction testing.
- **Involve Experts:**
    - **Use of Specialists**: Engage experts to evaluate complex transactions, such as fair value measurements or complex financial instruments.
    - **Analytical Procedures**:
    - **Trend Analysis**: Perform analytical procedures to identify unusual trends or anomalies in financial data that may indicate fraud or error.
- **Management Inquiry:**
    - **Detailed Inquiry**: Conduct thorough inquiries with management about significant assumptions and estimates. Challenge management's assumptions and obtain corroborative evidence.
- **Third-Party Confirmations:**
    - **Confirmations**: Send confirmations to customers and suppliers to verify the authenticity and accuracy of transactions and balances.

- **Surprise Audits:**
    - **Unannounced Procedures**: Perform surprise audits or reviews in areas of high risk to detect any unusual activities.

- **Forensic Techniques:**
    - **Forensic Investigation**: Use forensic techniques to identify and investigate potential fraud indicators, such as discrepancies in financial records or unusual transactions.

- **Review of Prior Period Adjustments:**
    - **Historical Analysis**: Scrutinise past adjustments to understand their nature and causes and assess the risk of similar issues recurring.

By implementing these responses, auditors can effectively address the high risk of material misstatement due to error, irregularity, fraud, or corruption in the given scenario.

2.

- **Professional Competence and Due Care**: The auditors face challenges in evaluating the company's complex financial derivatives. They bring in a specialist with expertise in derivatives to ensure accurate valuation and proper audit procedures.
- **Integrity**: They find that some revenue has been prematurely recognised. Despite the company's management downplaying the significance, the auditors insist on adjusting the financial statements to correct the error.
- **Professional Behaviour**: Throughout the audit, the auditors receive several invitations to social events from the client. They decline these invitations to avoid any perception of impropriety and maintain their professional independence.
- **Objectivity**: One of the auditors had previously worked for the client company. To avoid any potential bias, the auditing firm assigns different auditors to the engagement.
- **Confidentiality**: During the audit, the auditors access sensitive information about the company's planned mergers and acquisitions. They ensure this information is not disclosed outside the audit team and used solely for audit purposes.

Unit C: Quality Management and Professional Engagements

Learning outcomes

C.1. Quality management standards for the firm and individual engagements

C2. Advertising, tendering and setting fees

C3. Professional appointments

Introduction to Unit C

Quality management standards are crucial for both audit firms and individual engagements to ensure consistent high-quality assurance services and maintain the integrity of financial reporting. The principles of quality management revolve around establishing and adhering to robust systems that uphold these standards. These systems encompass various elements tailored for both the audit firm and specific assurance engagements.

For an audit firm, the system of quality management includes policies that address governance and leadership, relevant ethical requirements, the acceptance and continuance of client relationships and specific engagements, resources, engagement performance, information and communication, and the monitoring and remediation process. These elements work together to create a comprehensive framework that supports the firm's commitment to quality. For specific assurance engagements, the focus shifts to procedures for supervision, review, and documentation tailored to each engagement's unique requirements.

When it comes to advertising, tendering, and setting fees, several factors must be considered to uphold professional and ethical standards. Evaluating publicity material, including the use of logos and statements related to fees, ensures that promotional content is appropriate and truthful. The negotiation of fees, including the use of commissions, must be conducted with a clear understanding of the ethical and professional issues involved to maintain the firm's integrity.

Before tendering for a professional appointment, it is essential to identify and consider various factors. Understanding the client's needs, addressing ethical concerns, and complying with legal requirements are critical steps in the process. A well-prepared proposal should include all relevant information to demonstrate the firm's capability and suitability for the assignment.

Professional appointments, whether accepting a new client or continuing with an existing one, require careful consideration and adherence to specific procedures. Evaluating the client's reputation, ethical matters, and legal issues are crucial steps before acceptance. Additionally, ensuring that the preconditions for an audit are present and agreeing on

the terms of engagement are necessary to establish a clear and mutual understanding between the firm and the client. Note that these elements are covered in Unit A3 of the Technical Audit and Assurance Module and are not separately covered here.

By comprehensively understanding these aspects of quality management, advertising, fee setting, and professional appointments, audit firms can maintain high standards, make informed decisions, and handle their professional responsibilities with integrity and diligence.

Summary of Unit C and key learning outcomes

After completing Unit C, you should be able to discuss and recommend appropriate quality management policies and procedures, and demonstrate the judgements involved in seeking and accepting professional appointments.

The key learning outcomes are presented in the table below.

Ref	Learning Outcome	
C1	Quality management standards for the firm and individual engagements	Explain the principles and purposes of quality management on assurance engagements.
		Describe and differentiate between the elements of a system of quality management for both an audit firm and specific assurance engagements.
		Evaluate the quality management procedures that have been adopted on an individual engagement and/or across the firm.
		Make recommendations to improve the quality management procedures on an individual engagement and/or across the firm.
C2	Advertising, tendering and setting fees	Evaluate the appropriateness of publicity material including the use of an accounting body´s logo and statements made in relation to fees.
		Discuss the ethical and professional issues involved in establishing and negotiating fees for a specified assignment, including the use of commissions.
		Identify and explain the matters to be considered before tendering for a professional appointment and recommend the information to be included in the proposal.

Ref	Learning Outcome	
C3	Professional appointments	Demonstrate an understanding of the matters to be considered and the procedures that an audit firm should carry out before accepting a new client or continuing with an existing client, including: - client reputation - ethical matters - legal matters - whether the preconditions for an audit are present - agreeing the terms of the engagement.

C.1 Quality Control Standards for the Firm and Individual engagements

1.1 Quality Management for an Audit of Financial Statements

ISA 220 (Revised), Quality Management for an Audit of Financial Statements, deals with specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and related responsibilities of the engagement partner. The standard emphasises a proactive approach to quality management to be considered by the Firm's engagement partner at an engagement level.

1.1.1 Elements of Quality Management at Engagement Level;

a) *Leadership Responsibilities for Managing & Achieving Quality on Audits*. The engagement partner has to take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of ISA 220 (Revised) to other members of the engagement team to assist the engagement partner in complying with the requirements of ISA 220 (Revised), the engagement partner must continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work.

b) *Relevant Ethical Requirements, Including Those Related to Independence*. The engagement partner needs to have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. The engagement partner has to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner has to evaluate the threat through complying with the firm's

policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action.

c) *Acceptance and Continuance of Client Relationships and Audit Engagements*. The engagement partner needs to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. The engagement partner has to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs and complying with the requirements of ISA 220 (Revised).

d) *Engagement Resources*. The engagement partner needs to determine that sufficient & appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. The engagement partner has to determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.

e) *Engagement Performance*. The engagement partner needs to take responsibility for the direction and supervision of the members of the engagement team and the review of their work. The engagement partner has to take responsibility for the engagement team undertaking consultation on difficult or contentious or other matters. For audit engagements requiring an engagement quality reviewer (EQR), the engagement partner has to determine that an EQR has been appointed, cooperated-with, and discussed-with significant/judgmental matters. The engagement partner has to shall take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures, determine that conclusions reached are documented/implemented; and not to date the auditor's report until any differences of opinion are resolved.

f) *Monitoring and Remediation*. The engagement partner has to take responsibility for:

- obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
- determining the relevance and effect on the audit engagement of the information referred to in (a) and take appropriate action; and
- remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

1.2 Firm-Level Responsibilities

• International Standard on Quality Management (ISQM) 1

International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, deals with a firm's responsibilities to design, implement and

operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Additionally, ISQM deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews, since engagement quality reviews form part of the firm's system of quality management.

In particular with ISQM 2, this standard deals with appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

- **Firm's System of Quality Management (SoQM):**
    - Firms must establish and maintain a system of quality management to ensure audits are conducted in accordance with professional standards and legal requirements.
    - This system should encompass policies and procedures that address governance and leadership, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, resources, engagement performance, information and communication, and the monitoring and remediation process.
    - The objective of the firm as per ISQM 1, is to design, implement and operate a system of quality management (SoQM) for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
        - The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
        - Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Elements of Firm's System of Quality of Management (SoQM)

- **Governance and Leadership:**
    - This element of governance and leadership, for firm's system of quality management focuses on; commitment to quality, leadership, organisational structure, and resources.
    - The firm is required to establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management.
        - i) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognises and reinforces firm's role in serving public interest, importance of professional ethical values, responsibility of personnel for quality, and importance of quality in firm's strategic decisions and actions.

ii) Leadership is responsible and accountable for quality

iii) Leadership demonstrates a commitment to quality through their actions and behaviours.

iv) The organizational structure and assignment of roles, responsibilities and authority is appropriate to enable the design, implementation and operation of the firm's system of quality management.

v) Resource needs, including financial resources, are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality.

- **Relevant Ethical Requirements:**
  - This element of firm's system of quality management act as a reminder that every firm with its personnel are required to comply with the requirements of IESBA Code which sets out the fundamental principles of ethics that establish the standards of behaviour expected of a professional accountant and independence requirements.
  - Every Firm is required to establish the following minimum quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence:.

    i) The firm and its personnel:

    - Understand the relevant ethical requirements to which the firm and the firm's engagements are subject; and
    - Fulfil their responsibilities in relation to the relevant ethical requirements to which the firm and the firm's engagements are subject.

    ii) Others, including the network, network firms, individuals in the network or network firms, or service providers, who are subject to the relevant ethical requirements to which the firm and the firm's engagements are subject:

  - Understand the relevant ethical requirements that apply to them; and
  - Fulfil their responsibilities in relation to the relevant ethical requirements that apply to them.

- **Acceptance and Continuance of Client Relationships and Specific Engagements:**
  - This element of acceptance and continuance of client relationships and specific engagements, focuses on; the nature and circumstances of the engagement and the integrity and ethical values of the client, the firm's ability to perform the engagement, and the firm's financial and operational priorities.
  - Every Firm is required to establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:

    i) Judgments by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:

- Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management, and, when appropriate, those charged with governance) that is sufficient to support such judgments; and
- The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

ii) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.

- **Resources:**
  - ISQM 1 recognises various resources other than human resources as earlier covered by ISQC 1. This element of firm's system of quality management focuses on; human resources, technological resources, intellectual resources and service providers.
  - Every Firm is required to establish the following minimum quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:

Human Resources

i) Personnel are hired, developed and retained and have the competence and capabilities to:
   - Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or
   - Perform activities or carry out responsibilities in relation to the operation of the firm's system of quality management.

ii) Personnel demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.

iii) Individuals are obtained from external sources (i.e., the network, another network firm or a service provider) when the firm does not have sufficient or appropriate personnel to enable the operation of firm's system of quality management or performance of engagements.

iv) Engagement team members are assigned to each engagement, including an engagement partner, who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.

v) Individuals are assigned to perform activities within the system of quality management who have appropriate competence and capabilities, including sufficient time, to perform such activities.

Technological Resources

Appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements.

Intellectual Resources

Appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with professional standards and applicable legal and regulatory requirements, where applicable.

Service Providers

Human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the quality objectives relating to other resources.

- **Engagement Performance:**
    - This element of engagement performance for firm's system of quality management, focuses on; responsibilities of engagement team and direction, supervision and review, professional judgment and professional skepticism, consultation, differences of opinion, and engagement documentation.
    - Every Firm is required to establish the following minimum quality objectives that address the performance of quality engagements:

        i) Engagement teams understand and fulfil their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

        ii) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

        iii) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism.

        iv) Consultation on difficult or contentious matters is undertaken and the conclusions agreed are implemented.

        v) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individ-

uals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved.

vi) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.

- **Information and Communication:**
  - This element of information and communication for firm's system of quality management, focuses on; the firm's information system, communication within the firm, communication to or within the firm's network and to service providers, and communication with others external to the firm.
  - Every Firm is required to establish the following quality objectives that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management:

    i) The information system identifies, captures, processes and maintains relevant and reliable information that supports the system of quality management, whether from internal or external sources.

    ii) The culture of the firm recognises and reinforces the responsibility of personnel to exchange information with the firm and with one another.

    iii) Relevant and reliable information is exchanged throughout the firm and with engagement teams, including:

  - Information is communicated to personnel and engagement teams, and the nature, timing and extent of the information is sufficient to enable them to understand and carry out their responsibilities relating to performing activities within the system of quality management or engagements; and
  - Personnel and engagement teams communicate information to the firm when performing activities within the system of quality management or engagements.

    iv) Relevant and reliable information is communicated to external parties, including:

  - Information is communicated by the firm to or within the firm's network or to service providers, if any, enabling the network or service providers to fulfil their responsibilities relating to the network requirements or services or resources provided by them; and
  - Information is communicated externally when required by law, regulation or professional standards, or to support external parties' understanding of the system of quality management.

- **Monitoring and Remediation Process:**
  - Every Firm is required to establish a monitoring and remediation process to:
    (a) Provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management.
    (b) Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis.

1.2.1 Factors to Consider when Designing and Performing Monitoring Activities

- The Firm is expected to design and perform monitoring activities to provide a basis for the identification of deficiencies. In determining the nature, timing and extent of the monitoring activities, the firm shall take into account:
  (a) The reasons for the assessments given to the quality risks.
  (b) The design of the responses.
  (c) The design of the firm's risk assessment process and monitoring and remediation process.
  (d) Changes in the system of quality management.
  (e) The results of previous monitoring activities, whether previous monitoring activities continue to be relevant in evaluating the firm's system of quality management and whether remedial actions to address previously identified deficiencies were effective.
  (f) Other relevant information, including complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements or non-compliance with the firm's policies or procedures, information from external inspections and information from service providers.

Need for Engagement Inspection Program (EIP)

- The Firm is required to include the inspection of completed engagements in its monitoring activities and shall determine which engagements and engagement partners to select. In doing so, the firm shall:
  (a) Take into account, all the above factors considered in designing & performing of monitoring activities as required by ISQM 1.
  (b) Consider the nature, timing and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities.
  (c) Select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

1.3 Engagement-Level Responsibilities

- **Engagement Partner's Role**:
  - The engagement partner is responsible for the overall quality of the audit engagement.
  - The partner must take an active role in directing, supervising, and reviewing the audit work.
- **Risk-Based Approach**:
  - Identify, assess, and respond to quality risks specific to the engagement.
  - Tailor audit procedures to address these risks effectively.
- **Professional Scepticism**:
  - Maintain and demonstrate professional scepticism throughout the audit process, particularly in areas requiring significant judgment and in evaluating evidence.
- **Engagement Quality Reviews**:
  - For certain engagements, perform an engagement quality review to provide an objective evaluation of significant judgments and conclusions reached.
  - Ensure that the reviewer is independent and has the requisite expertise.
- **Communication and Coordination**:
  - Ensure effective communication within the engagement team and with others involved in the audit, such as component auditors and experts.
  - Promote a collaborative approach to address complex issues and significant risks.
- **Use of Technology and Resources**:
  - Appropriately use technology and other resources to enhance audit quality.
  - Ensure that the engagement team has access to the necessary tools and support to conduct the audit effectively.
- **Documentation**:
  - Thoroughly document the quality management processes and decisions made during the audit.
  - Provide evidence that quality risks were identified, assessed, and addressed.

C.2 Advertising, Tendering and Setting Fees

2.1 Advertising

ISA 200 sets out the ethical principles governing the auditor's professional responsibilities. One of them is ***professional behaviour.*** A member is expected to comply with relevant laws and regulations and should avoid any action that discredits the profession. Auditors are like anyone else in business and in business it is necessary to advertise. But this advertising should be aimed at informing the public in an objective manner and should be in good taste.

The Institute of Certified Public Accountants of Rwanda have stated they will use the IFAC code of ethics as their basis and thus imply that in promoting themselves and their work, members should be ***honest and truthful*** and should ***not make any exaggerated claims*** for the services they are able to offer, the qualifications they possess or the experience they have gained. In addition, they should ***not make any disparaging references*** or unsubstantiated comparisons to the work of others.

2.1.1 Use of Logos

Persons can only use the designated letters of a profession after their name such as in advertisements when they are members of the said profession. A firm must have a practicing/auditing certificate to describe themselves as registered auditors.

2.1.2 Fees

If reference is made in promotional material to fees, the basis on which the fees are calculated should be stated. The greatest care should be taken to ensure that any reference does not mislead as to the precise range of services and time commitment that the reference is intended to cover.

The danger of giving a misleading impression is great when there are constraints in respect of space limits for advertisements. It is for this reason that it is generally inappropriate to advertise fees and it is probably better to advertise free consultations to discuss fee issues.

2.2 Tendering

Client companies can change auditors. In this regard a firm may be approached to submit a tender for an audit. When approached to tender, an audit firm must consider whether they want to do the work and they must have regard for the ethical considerations, such as independence and professional competence. In addition, they need to consider fees and some other practical issues.

2.2.1 Fees

A member may quote whatever fee is deemed to be appropriate. The fact that one may quote a lower fee than another auditor is not in itself unethical. However, it does raise the risk of a threat to the principles of professional competence and due care as the fee quoted may be so low as to make it difficult to perform the audit to the expected standards.

Therefore, it is wise to set out the basis of the calculation of the fee. The following factors should be considered when setting out a fee:

- What does the job involve? Is there some other complicated work involved?
- Which staff will need to be involved, numbers and quality? How long will they be required.
- Is the nature of the business complex?
- What charge out rates are to be applied?

The practice of undercutting fees has been called ***lowballing*** and can be seen in action generally where large audits are concerned. We have seen that having a lower fee may seem to have a negative impact on an auditor's perceived independence but there are other factors to be considered:

- Auditors operate in a market like any other business where supply and demand very often dictate the price.
- Fees may be lower due to reasons such as better internal audit functions.
- Auditing firms have increased productivity, whether through the use of more sophisticated IT or experience gained through understanding the client's business.

2.2.2 Submitting an Audit Proposal

There is no set format. In fact, the client may dictate the format whether it be a written submission or a presentation to the board of directors.

Whatever the form of the tender submission, the following matters should be included in the proposal:

- The audit fee and the basis for its calculation
- An assessment of the needs of the client
- How the firm intends to meet the needs of the client
- Any assumptions made to support the proposal
- The audit approach to be adopted by the firm
- A brief outline of the firm

- Details and background of the key audit staff on the proposed engagement.

2.2.3 Evaluating the Tender

Different clients will have different ways of evaluating a tender. Some of the more general points are listed below. It is important to bear these in mind when preparing a proposal:

- **Fee.** This can be the most vital point. Some clients go straight to this figure and don't even bother with the rest of the document.
- **Professionalism**. Auditors are expected to be professional. Remember, the audit team and the tender documents are often the first factors on which a prospective client forms an impression.
- **Proposed audit approach**. Clients are always looking for the least amount of disruption to their already busy schedules, so the shortest number of days on-site may be the key to winning a tender.
- **Added value**. Clients should always feel they are getting value for money.

C.3 Professional Appointments

Procedures for accepting audit engagements and agreeing terms of engagement are covered under Unit A3 of the Technical Audit and Assurance Module and are not covered separately here.

Quiz Questions

1. What is a key quality management procedure specific to individual assurance engagements?	Learning Outcome: C1
A	Up to date audit manual
B	Staff training programs
C	Engagement performance supervision
D	Market analysis

2. Which of the following is essential before tendering for a professional appointment?	Learning Outcome: C2
A	Understanding the client's needs
B	Preparing a social media campaign
C	Reducing service fees
D	Hiring new staff

3. Before accepting a new client, an audit firm should evaluate:	Learning Outcome: C3
A	The client's advertising strategy
B	The client's reputation, ethical, and legal matters
C	The client's office layout
D	The firm's internal marketing plan

Exercises

1. What steps should be taken to ensure quality management are in place at the engagement level?
2. What are the key elements included in an audit engagement letter?

Exercise Solutions

1. Ensuring quality management at the engagement level involves implementing specific procedures and practices tailored to each individual audit or assurance engagement. Here are the key steps to ensure quality management at this level:

- **Engagement Planning:**
  - Develop a comprehensive engagement plan outlining the scope, objectives, timeline, and resources required.
  - Identify and assess risks specific to the engagement and plan appropriate responses.
  - Assign roles and responsibilities to team members based on their expertise and experience.
- **Supervision and Review:**
  - Provide adequate supervision throughout the engagement to ensure that work is performed according to standards.
  - Conduct regular reviews of work performed by team members to ensure accuracy, completeness, and compliance with auditing standards.
  - Utilise senior team members or specialists to review complex or high-risk areas.
- **Professional Scepticism and Judgment:**
  - Encourage team members to exercise professional scepticism and apply professional judgment throughout the engagement.
  - Promote an environment where questioning and critical thinking are valued and encouraged.
- **Adherence to Standards and Guidelines:**
  - Ensure that the engagement complies with applicable auditing standards, regulations, and the firm's quality control policies.
  - Use standardised checklists, templates, and audit software to ensure consistency and thoroughness.
- **Effective Communication:**
  - Maintain clear and open communication within the engagement team and with the client.

- Regularly update the client on the progress of the engagement and any issues that arise.
- Document key discussions, decisions, and client communications.

- **Documentation:**
  - Ensure that all work performed is thoroughly documented, including audit procedures, findings, and conclusions.
  - Maintain comprehensive and organised working papers that provide a clear audit trail.
  - Ensure that documentation supports the basis for conclusions and demonstrates compliance with standards.

- **Monitoring and Quality Reviews:**
  - Conduct in-process quality reviews at key stages of the engagement to identify and address any issues early.
  - Perform a final quality review before concluding the engagement to ensure that all significant matters have been appropriately addressed.
  - Utilise independent reviewers or quality control partners to perform objective evaluations of the engagement.

- **Addressing Issues and Findings:**
  - Promptly address any issues or findings identified during the engagement.
  - Implement corrective actions to resolve identified issues and prevent recurrence.
  - Document the resolution of significant matters and the rationale for decisions made.

- **Client Feedback and Continuous Improvement:**
  - Seek feedback from the client on the engagement process and outcomes.
  - Use client feedback to identify areas for improvement and enhance future engagements.
  - Continuously review and update engagement procedures based on lessons learned and evolving best practices.

By implementing these steps, an audit firm can ensure that each individual engagement is conducted with a high level of quality, professionalism, and compliance with established standards.

1. An audit engagement letter is a formal agreement between an audit firm and its client that outlines the terms and conditions of the audit engagement. It serves to clarify the responsibilities of both parties and establish the scope and objectives of the audit. The key contents of an audit engagement letter typically include:

- **Introduction:**
  - Identification of the audit firm and the client.
  - Date of the letter.
- **Objective and Scope of the Audit:**
  - Description of the audit's objective, such as expressing an opinion on the financial statements.
  - Definition of the scope of the audit, including any limitations or specific areas to be covered.
- **Responsibilities of the Auditor:**
  - Outline of the auditor's responsibilities, including conducting the audit in accordance with relevant auditing standards.
  - Explanation of the auditor's obligation to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- **Responsibilities of Management:**
  - Description of management's responsibilities, such as the preparation and fair presentation of the financial statements.
  - Acknowledgment of management's responsibility for designing, implementing, and maintaining internal controls.
  - Requirement for management to provide access to all necessary information and documentation.
- **Reporting:**
  - Explanation of the form and content of the audit report.
  - Mention of any other reports or communications that will be provided to the client.
- **Audit Procedures:**
  - Brief overview of the nature and extent of the audit procedures to be performed.
  - Note that the audit procedures are designed to obtain reasonable, but not absolute, assurance.
- **Confidentiality:**
  - Assurance that the auditor will maintain the confidentiality of client information.
  - Conditions under which confidential information may be disclosed, such as legal requirements.

- **Fees and Billing:**
  - Details of the audit fees and the basis for their calculation.
  - Information on billing arrangements and payment terms.
- **Other Services:**
  - Description of any additional services to be provided by the audit firm, if applicable.
  - Distinction between audit services and non-audit services.
- **Use of Experts:**
  - Mention of any plans to use the work of experts or other auditors, if relevant.
- **Limitation of Liability:**
  - Any limitations on the auditor's liability, if agreed upon by both parties.
- **Agreement and Acknowledgment:**
  - Request for the client's acknowledgment of the terms outlined in the engagement letter.
  - Space for the signatures of the authorised representatives of both the audit firm and the client.
- **Duration of the Engagement:**
  - The period covered by the engagement letter, such as a single fiscal year or multiple years.
- **Termination:**
  - Conditions under which the engagement may be terminated by either party.

By including these elements, the audit engagement letter ensures that both the auditor and the client have a clear understanding of their respective roles and responsibilities, the scope of the audit, and the terms of the engagement.

Unit D: Delivering Audit and Assurance Engagements

Learning outcomes

D1. Planning, risk assessment and the audit approach

D2. Evidence gathering techniques

D3. Audit procedures

D4. Using the work of others

D5. Group audits

Introduction to Unit D

This Unit covers the fundamental aspects of planning, risk assessment, and audit approaches essential for conducting effective audit engagements, including group audits. The primary goal of planning an audit is to ensure it is carried out efficiently and addresses all relevant areas. Planning involves developing both an audit strategy which outlines the overall scope and direction, and a detailed audit plan that specifies the approach and procedures to be followed.

Analytical procedures play a crucial role in the planning phase, helping auditors identify risk areas and design further audit steps. These procedures must be tailored to the specific circumstances of each client to be effective.

Materiality and performance materiality are key concepts that help auditors determine which aspects of the financial statements are likely to influence the economic decisions of users. These thresholds guide auditors in allocating resources and attention to the most critical areas.

Evaluating risks is a core component of the planning phase. Auditors must assess business risks, audit risks, and risks of material misstatement. In doing so, they recommend additional evidence to gain a thorough understanding of the entity being audited.

Audit procedures in will vary from audit to audit, however some typical audit procedures in relation to key financial statement balances are also covered in this Unit.

The course also covers the unique characteristics of transnational audits and highlights how they differ from domestic audits. Auditors must consider various international regulations and standards, making the audit process more complex. Furthermore, the course extends these planning and risk assessment principles to public sector audits, demonstrating their applicability across different types of entities.

By mastering these aspects, auditors can ensure their engagements are well-planned, risks are appropriately assessed, and audit efforts are effectively directed to provide reliable and relevant assurance.

Note that many of the concepts here have already been covered in the Technical Audit and Assurance Module and will not be repeated here. While some content will be summarised here, it is assumed that students have a good understanding of the content contained in that Module.

Summary of Unit D and key learning outcomes

After completing Unit D, you should be able to Explain and formulate the activities required to meet the objectives of audit and assurance engagements and apply the International Standards on Auditing.

The key learning outcomes are presented in the table below.

Ref	Learning Outcome	
D1	Planning, risk assessment and the audit approach	Explain the purpose of planning an assurance engagement and distinguish between the audit strategy and the audit plan.
		Discuss the purpose of analytical procedures in the planning of an assurance engagement. Recommend appropriate analytical procedures for a given client.
		Explain the specific planning procedures used when auditing a new client.
		Define materiality and performance materiality, demonstrating how it should be used on an audit engagement.
		Evaluate business risk, audit risk and risks of material misstatement for a given scenario.
		Recommend additional evidence which will help the auditor to obtain an understanding of the entity.
		Discuss the characteristics of transnational audits and describe how they differ from other audit engagements.
		Demonstrate the ability to apply the planning, risk assessment and audit approach to an audit of a public sector body.

Ref	Learning Outcome	
D2	Evidence gathering techniques	Differentiate between tests of controls and substantive procedures and assess their appropriateness for a given scenario.
		Recommend analytical procedures and use the results to conclude on the impact on audit risk.
		Apply appropriate audit procedures specific to a new audit entity.
		Recommend the use of automated tools and techniques where appropriate.
		Explain the specific audit risks with related parties and related party transactions and the procedures relevant to this area.
		Identify circumstances that may indicate unidentified related parties exist and recommend appropriate audit procedures.
		Recommend any other information which may help to effectively carry out an engagement
D3	Audit procedures	Design appropriate audit procedures relating to: i) inventory ii) fixed assets iii) intangible assets iv) biological assets v) investment properties vi) assets held for sale and discontinued operations vii) financial instruments viii) fair values ix) government grants x) leases xi) impairments

Ref	Learning Outcome	
		xii) provisions, contingent liabilities and contingent assets xiii) borrowing costs xiv) employee benefits xv) share-based payments xvi) taxation (including deferred tax) xvii) related parties xviii) revenue from contracts with customers xix) statement of cashflows xx) business combinations xxi) events after the reporting period xxii) the effects of foreign exchange rates xxiii) segmental reporting xxiv) earnings per share xxv) changes in accounting policy xxvi) payroll and other expenses.
		Explain the auditor's responsibilities with regard to corresponding figures, comparative financial statements, and 'other information' and how they discharge these responsibilities.
		Explain how social and environmental matters impact the financial statements and how this affects the auditor´s approach.

Ref	Learning Outcome	
D4	Using the work of others	Assess and conclude on whether it is appropriate to place reliance on the work of an expert.
		Describe the scope, role and activities of the internal audit function.
		Evaluate the effect an internal audit department has on the planning and performance of an external audit.
		Assess the quality of the internal auditor´s work and conclude on whether, and to what extent, reliance can be placed on it.
		Evaluate the impact of an outsourced functions, such as payroll, on the conduct of an audit.
D5	Group audits	Evaluate the matters to be considered when accepting appointment as auditor to a group, in a given situation, and recommend whether to accept the engagement or not.
		Identify and describe the additional risks to the audit and the additional audit procedures to be performed at the planning stage when a group auditor considers using the work of the component auditors.
		Evaluate and recommend an approach when planning an audit of group financial statements including: i) group and component materiality ii) non-coterminous year ends within the group iii) changes in group structure, or a complex group structure.
		Recommend matters to be communicated by the group auditor to the component auditor in a given situation.

Ref	Learning Outcome	
		Identify the audit risks and recommend audit procedures specific to: i) a business combination, including the classification of investments ii) the determination of goodwill and any subsequent impairment iii) group accounting policies iv) intra-group trading v) equity accounting for associates and joint ventures vi) changes in group structure, including acquisitions and disposals vii) accounting for a foreign subsidiary. viii) the consolidation process.
		Demonstrate how the group auditor assesses the work performed by a component auditor.
		Illustrate the responsibilities of the component auditor and the procedures they must perform in a group situation.
		Describe a joint audit and justify when it would be appropriate.

D.1 Planning, Risk Assessment and the Audit Approach

1.1 Introduction

Audits are potentially complex, risky and expensive processes. Although firms have internal manuals and standardised procedures, it is vital that engagements are planned.

Benefits of good audit planning include:

- Devote appropriate attention to important areas of the audit.
- Identify and resolve potential problems on a timely basis.
- Organise and manage the audit so that it is performed in an effective and efficient manner.
- Select team members with appropriate capabilities and competencies.
- Direct and supervise the team and review their work.
- Effectively coordinate the work of others, such as experts and internal audit.

Ultimately, good audit planning ensures that the risk of performing a poor-quality audit and issuing an incorrect audit opinion (audit risk) is reduced to an acceptably low level.

1.2 Audit Strategy

The audit strategy sets the scope, timing and direction of the audit.

An audit strategy outlines the overall approach that the auditor plans to follow in conducting an audit. It provides a framework to ensure that the audit is conducted efficiently and effectively, and it typically includes several key elements:

1. Understanding of the Entity and its Environment

- ***Business Operations***: Information about the entity's industry, operations, and regulatory environment.
- ***Financial Reporting Framework***: Understanding the financial reporting framework used by the entity (e.g., IFRS GAAP).
- ***Internal Controls***: Information about the entity's internal control systems and processes.

2. Audit Objectives and Scope

- ***Audit Objectives***: Defines what the audit aims to achieve, such as providing an opinion on the financial statements.
- ***Scope of the Audit***: Outlines the boundaries of the audit, including which financial statements, periods, and areas are covered.

3. Materiality

- ***Materiality Levels***: Determines the threshold for material misstatements in financial statements.
- ***Performance Materiality***: Used to assess the risk of material misstatement in specific areas of the audit.

4. Risk Assessment

- ***Identification of Risks***: Identifies and assesses risks of material misstatement, whether due to fraud or error.
- ***Risk of Material Misstatement (RMM)***: Evaluation of the inherent and control risks at the assertion level.
- ***Significant Risks***: Identifies areas where significant risks are likely, requiring special attention.

5. Audit Approach

- ***Audit Procedures***: Specifies the nature, timing, and extent of audit procedures (e.g., substantive testing, control testing).
- ***Nature of Evidence***: Type of audit evidence to be collected, such as confirmations, observations, or inspections.

- ***Use of Experts***: Decision on whether to involve experts for specialised areas.

6. Resource Allocation

- ***Team Composition***: Details on the audit team, including roles and responsibilities.
- ***Timing and Scheduling***: Includes timelines for various audit activities, such as fieldwork and report issuance.
- ***Use of Technology***: Consideration of audit tools, software, or data analytics techniques to be employed.

7. Coordination and Communication

- ***Internal Communication***: Plans for communication within the audit team and with other auditors if applicable.
- ***Client Communication***: Strategy for interacting with client management and those charged with governance.
- ***Reporting***: Plan for the communication of audit findings, including the issuance of the audit report.

8. Documentation

- ***Audit Documentation***: Plan for maintaining audit work papers and evidence, ensuring compliance with audit standards.

9. Contingency Planning

- ***Dealing with Unexpected Issues***: Plans for handling unexpected issues, such as the discovery of fraud or a significant error.
- ***Adjustments to Strategy***: Provisions for revising the audit strategy if significant new risks or information arise during the audit.

10. Review and Evaluation

- ***Supervision and Review***: Procedures for supervising the audit work and reviewing the work done by team members.
- ***Quality Control***: Ensuring compliance with the firm's quality control procedures and relevant audit standards.

1.3 Audit Plan

Once the audit strategy has been established, the next stage is to develop a specific, detailed plan to address how the various matters identified in the overall strategy will be applied.

The strategy sets the overall approach to the audit and the plan fills in the operational details of how the strategy is to be achieved.

The audit plan should include specific descriptions of:

- The nature, timing and extent of the planned direction and supervision of

engagement team members and the review of their work.

- The nature, timing and extent of risk assessment procedures.
- The nature, timing and extent of further audit procedures, including:
  - What audit procedures are to be carried out
  - Who should do them
  - How much work should be done (sample sizes, etc.)
  - When the work should be done (interim vs. final)
- Any other procedures necessary to conform to ISAs

1.4 Preliminary Analytical Review

Preliminary analytical review is a critical phase in the audit planning process that helps auditors identify areas of potential risk and determine the nature, timing, and extent of audit procedures to be performed. It involves using analytical procedures to evaluate financial information and identify any unusual trends, patterns, or inconsistencies that might warrant further investigation.

The main purposes of preliminary analytical review are:

- ***Risk Identification:*** To identify areas that may require more detailed audit testing.
- ***Understanding the Business:*** To gain an understanding of the entity's business, environment, and operations.
- ***Setting Materiality Levels:*** Helps in setting thresholds for materiality based on overall financial data.
- ***Planning Audit Procedures:*** To assist in determining the nature, timing, and extent of audit procedures.

Here's an outline of what it entails:

1. Obtain and Review Financial Data:

- Collect historical financial data, current period financial statements, budgets, forecasts, and relevant operational data.
- Obtain industry data or benchmarks for comparative analysis.

2. Develop Expectations:

- Develop expectations for financial statement amounts or ratios based on prior periods, industry standards, or company forecasts.
- Identify relationships among financial data, such as gross profit margins, expense ratios, or turnover rates.

3. Perform Analytical Procedures:

- **Trend Analysis:** Compare current period data with prior periods to identify significant trends.

- **Ratio Analysis:** Evaluate financial ratios such as liquidity, profitability, and solvency ratios to identify any anomalies.
- **Reasonableness Tests:** Compare actual results to budgets or forecasts to identify variances.

4. Investigate Significant Variances:

- Identify and investigate significant variances or unusual patterns that may indicate potential risks of material misstatement.
- Obtain explanations from management for significant variances and assess their validity.

5. Document Findings:

- Document the results of the analytical review, including identified risks, potential areas of concern, and how they will impact the audit plan.
- Record any follow-up actions needed, such as additional audit procedures in specific areas.

6. Adjust the Audit Plan:

- Based on the findings, adjust the audit plan to ensure appropriate audit coverage of high-risk areas.
- Determine the extent of substantive testing required in areas where analytical procedures have identified potential risks.

1.5 New Client – Audit Planning

When auditing a new client, auditors need to approach the engagement with special care, as they may not yet have a deep understanding of the client's business, systems, or financial practices. Here are specific audit procedures and considerations to keep in mind:

- **Establishing the Audit Relationship**
  - ***Engagement Letter:*** Clearly define the terms of the audit engagement, scope, responsibilities, and expectations. This sets the foundation for the relationship and avoids misunderstandings later.
  - ***Communication with Predecessor Auditor*:** New auditors are required to reach out to the previous auditor to understand any issues, disagreements, or significant findings from prior audits. This can provide valuable insights into potential areas of concern. Professional standards or applicable laws and regulations require the firm to make inquiries of an existing or predecessor firm when accepting an engagement. For example, when there has been a change of auditors, ISA 300 requires the auditor, prior to starting an initial audit, to communicate with the predecessor auditor in compliance with relevant ethical requirements. The IESBA Code also includes requirements including communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements.

- **Gaining an Understanding of the Client's Business**
    - ***In-Depth Business Understanding*:** Spend extra time understanding the client's business model, industry, operational processes, and revenue streams. A thorough understanding is crucial to identifying potential risks and planning the audit effectively.
    - ***Industry and Environmental Factors*:** Research the client's industry, including common risks, regulatory requirements, and economic conditions that may impact the audit.

- **Initial Analytical Procedures**
    - ***Benchmarking and Comparison*:** Perform initial analytical procedures to identify any unusual trends or variances compared to industry norms or prior periods. Since this is a new client, consider comparing with industry benchmarks to identify outliers.
    - ***Reasonableness Tests*:** Use analytical procedures to assess the reasonableness of financial statement items, especially where there is limited historical data.

- **Third-Party Confirmations and External Evidence**
    - ***Obtain External Confirmations*:** Emphasise obtaining third-party confirmations for key balances such as receivables, payables, and bank balances. This provides independent evidence and is especially important when there is limited prior knowledge of the client.
    - ***Reliability of Evidence*:** Be cautious in assessing the reliability of evidence provided by the client, especially if it's internally generated.

- **Evaluation of the Client for Future Engagement**
    - ***Client Continuance Decision*:** After the audit, critically evaluate whether to continue the engagement. Consider factors like the client's financial health, integrity, and any difficulties encountered during the audit.

1.6 Materiality (Summary)

Materiality is discussed in detail in the Technical Level Unit on Audit and Assurance. Below is a short summary of the content covered there.

Materiality is a fundamental concept in auditing, determining whether financial statements are free from material misstatements, not whether they are entirely correct. Auditors aim to provide reasonable assurance, acknowledging that some level of error or misstatement is inevitable due to the use of estimates, sampling, and the inherent limitations of accounting systems.

New definition of materiality - Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Quantitative Materiality:

- Materiality is assessed quantitatively by setting benchmarks, such as a percentage of revenue, profit before tax, or total assets, depending on the nature of the business.
- The chosen benchmark and percentage applied are based on professional judgment, considering factors like business type and audit risk.
- Different auditors may adopt varying approaches based on their perception of audit risk.

Qualitative Materiality:

- Beyond numbers, materiality also considers the nature and impact of items on users of financial statements. For instance, even a small error could be material if it changes the financial narrative (e.g., turning a profit into a loss).

Overall or Planning Materiality:

- The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement. This is what the auditor determines as materiality for the financial statements as a whole.

Performance Materiality:

- the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- Performance materiality is set lower than overall materiality to account for the cumulative effect of smaller misstatements. This helps reduce audit risk and ensures that the audit can detect significant errors, even if individual misstatements are below the materiality threshold.

Specific performance materiality:

- 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. Specific performance materiality is applied to one or more particular classes of transaction, account balance or disclosure, as opposed to the financial statements as a whole.

Clearly trivial threshold/materiality:

- The amount designated by the auditor, below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements. Clearly trivial is the level below which misstatements do not need to be accumulated.

Using Materiality:

- Materiality influences the auditor's decisions on the nature, timing, and extent of audit procedures, as well as the evaluation of misstatements.
- Auditors consider materiality at both the overall financial statement level and for specific account balances, transactions, and disclosures, tailoring their approach to reduce audit risk effectively.

Materiality requires professional judgment and is influenced by the unique circumstances of each audit, ensuring that the financial statements provide a true and fair view.

1.7 Audit Risk (Summary)

Audit Risk is discussed in detail in the Technical Level Unit on Audit and Assurance. Below is a short summary of the content covered there.

- ***Audit Risk Overview:*** Audit risk is the risk that an auditor may issue an incorrect opinion on financial statements that contain material misstatements. To manage this risk, auditors plan the audit based on the level of risk involved. Higher audit risk areas require more audit work, which impacts the time, staffing, and fees associated with the audit.
- ***Risk-Based Audit Approach*:** Auditors adopt a risk-based approach as per ISA 315 (Revised 2019), assessing audit risk at both the overall financial statement level and for specific components. This approach ensures that more time and resources are allocated to high-risk areas, reducing audit risk to an acceptable level (e.g., a 5% risk of incorrect conclusions).

- ***Components of Audit Risk*:** Audit risk is composed of three elements:
  - ***Inherent Risk (IR)*:** The risk of material misstatement without considering internal controls, based on factors like management quality and transaction complexity. Inherent risk is assessed based on factors like management integrity, operational complexity, and the nature of transactions. The auditor can only assess but not change inherent risk.
  - ***Control Risk (CR)*:** The risk that internal controls fail to prevent or detect material misstatements. Control risk is assessed after evaluating the effectiveness of the client's internal controls. Control risk is evaluated after understanding the client's internal control systems. If controls are deemed ineffective, the auditor relies more on substantive testing.
  - ***Detection Risk (DR)*:** The risk that audit procedures fail to detect material misstatements. This risk is inversely related to inherent and control risks and influences the extent of audit work. Detection risk is managed by adjusting the nature, timing, and extent of audit procedures. High inherent and control risks require lower detection risk, leading to more extensive testing.
- ***Sampling and Non-Sampling Risk*:** Detection risk also involves sampling and non-sampling risks. Sampling risk occurs when the sample isn't representative, and non-sampling risk arises from auditor errors. Increasing sample sizes and proper supervision help mitigate these risks.
- ***Response to Assessed Risks*:** Auditors respond to assessed risks by adjusting their audit approach, such as assigning experienced staff, altering testing volumes, and

consulting external experts. This approach, guided by ISA 330, aims to minimise audit risk to an acceptable level.

1.8 Significant Risk

When auditing areas identified as "***significant risks***", ISAs provide specific guidelines to ensure these risks are properly addressed. Significant risks are risks of material misstatement that, in the auditor's judgment, require special audit consideration. These risks often relate to non-routine, complex, or judgmental transactions.

During the risk assessment process, the auditor must identify significant risks by considering factors such as:

- The degree of subjectivity in the financial statement item.
- The complexity of transactions.
- Any unusual or non-routine transactions.
- The susceptibility of an item to misstatement due to error or fraud.

For significant risks, the auditor must design and perform specific audit procedures that are responsive to those risks. This may include:

- Performing more extensive testing of details.
- Increasing the number of audit procedures.
- Obtaining additional corroborative evidence.

The auditor must document the identified significant risks, the audit procedures performed, and the rationale for the approach taken. This includes:

- A clear explanation of why a risk is considered significant.
- The specific procedures designed to address the risk.
- The results of those procedures and any conclusions drawn.

1.9 Understand the Entity

The auditor should obtain an understanding of the nature of the entity including the entity's operations, locations, its management and governance, the types of services it offers and plans to offer, the way that the entity is structured and the sources of its finances. An understanding of the nature of an entity ***contributes towards understanding the classes of transactions, account balances, and disclosures to be expected in the financial statements***.

The auditor should understand the following aspects of the entity and its environment:

- The financial reporting framework, the transactions and balances to be audited.
- The legislative framework and considering the compliance with laws and regulations also including any frameworks applicable due to the broader objectives of the audit.
- Nature of the entity and its operations, financing and governance structures.
- Decisions due to political processes for example new geographic locations or closures of existing locations, reorganisations, including transfer of activities to

other entities, new program areas, budgetary constraints or cutbacks.

- Planning activities, objectives and strategies and the related operations and risks that may result in a material misstatement of the financial statements.
- Measurement and review of the entity's financial performance.
- Relevant internal controls including the manual and the information technology (IT) environment. This includes evaluating the design and implementation of the controls.
- Specific consideration should be given to fraud, litigations and claims against the entity, related parties and the sustainability of service delivery (going concern).
- Expectations of the legislature and other users of the auditor's report.
- The nature, timing, and extent of the risk assessment procedures performed depends on the circumstances of the engagement such as the size and complexity of the entity and the auditor's experience with it.
- In addition, the auditor may be required to examine the measurement and review of the entity's non-financial performance.

An auditor needs to understand the entity they are auditing for several reasons:

1. Risk Assessment

- ***Identifying Risks of Material Misstatement:*** Understanding the entity's business, industry, and environment helps the auditor identify areas where there might be risks of material misstatement, whether due to error or fraud. This knowledge allows the auditor to focus their efforts on high-risk areas.
- ***Assessing Inherent and Control Risks:*** A deep understanding of the entity enables the auditor to assess inherent risks related to the nature of the business and its transactions, as well as control risks related to the entity's internal controls.

2. Planning the Audit

- ***Tailoring Audit Procedures:*** Understanding the entity enables the auditor to design audit procedures that are relevant and effective for the specific circumstances of the entity. This ensures that the audit is efficient and that resources are appropriately allocated.
- ***Determining Materiality:*** Knowledge of the entity's operations and financial condition helps the auditor set appropriate materiality levels, ensuring that the audit focuses on information that could influence the economic decisions of users of the financial statements.

3. Evaluating Accounting Policies and Practices

- ***Assessing Appropriateness of Accounting Policies:*** An auditor must understand the entity's business to evaluate whether its accounting policies are appropriate and compliant with relevant accounting standards.
- ***Judging Management Estimates:*** Understanding the entity is crucial for assessing the reasonableness of management's estimates and judgements, which often require deep industry and business-specific knowledge.

4. Identifying Related Parties and Transactions

- ***Related Party Transactions:*** An auditor needs to understand the entity to identify any related parties and related party transactions, which can be complex and have significant implications for financial reporting and audit risk.

5. Compliance with Laws and Regulations

- ***Understanding Legal and Regulatory Environment:*** Knowing the entity's legal and regulatory environment helps the auditor assess compliance with laws and regulations that could have a direct or indirect impact on the financial statements.

6. Evaluating Internal Controls

- ***Assessing the Control Environment:*** Understanding the entity includes gaining knowledge of its internal control environment. This helps the auditor evaluate the effectiveness of controls and determine the extent to which they can rely on them during the audit.

7. Forming an Opinion

- ***True and Fair View:*** To form an opinion on whether the financial statements provide a true and fair view, the auditor must understand the entity's business model, operations, and the economic realities underlying the financial information.
- ***Contextualising Financial Information:*** An auditor needs to place financial information in the context of the entity's business activities, strategies, and environment to accurately interpret and assess the financial statements.

8. Enhancing Professional Scepticism

- ***Questioning Management Representations:*** A thorough understanding of the entity allows the auditor to better question and challenge the representations made by management, fostering a healthy level of professional scepticism.

9. Communication with Management and Governance

- ***Effective Communication:*** Understanding the entity enhances the auditor's ability to communicate effectively with management and those charged with governance, particularly when discussing audit findings, risks, and recommendations.

1.10 Transnational Audits

Transnational audits are audits of financial statements of entities that operate in multiple countries and whose financial information is relied upon across national borders. These entities are often large multinational corporations or organisations with significant international operations and involve additional complexities due to the cross-border nature of the business.

The main differences between these audits and other audits are shown in the table below:

Audit Step	Transnational audits	Other audits
Scope and Complexity	Involves auditing entities operating in multiple countries, requiring knowledge of various legal, regulatory, and accounting frameworks across different jurisdictions.	Typically involves auditing entities within a single country, dealing with one set of regulations, accounting standards, and business practices.
Coordination and Communication	Requires coordination among multiple audit teams across different countries, which can be challenging due to differences in time zones, languages, and local practices.	Generally, involves a single audit team operating within the same country, simplifying communication and coordination.
Regulatory and Reporting Requirements	Must comply with international auditing standards (e.g., ISAs) and meet the regulatory requirements of each country where the entity operates, often requiring reporting to multiple regulators.	Needs to comply with local auditing standards and regulatory requirements, which are typically more uniform and less varied than those in transnational audits.

D.2 Evidence Gathering Techniques

2.1 Introduction

The different techniques to gather audit evidence include tests of controls, test of details and substantive analytical review. They are covered as part of the Technical Level Unit on Audit and Assurance. A summary is provided below:

***Tests of Controls*:**

- **Purpose:** Tests of controls are designed to evaluate the effectiveness of an entity's internal controls in preventing, detecting, and correcting material misstatements in financial statements. These tests help auditors determine whether they can rely on the controls to reduce the level of substantive testing needed.

- **Examples:**

  - Inspecting records for evidence of control procedures (e.g., approvals, reconciliations).
  - Observing processes, such as inventory counts or the preparation of bank reconciliations.
  - Reperforming control activities, like recalculating a discount applied to a customer invoice.
  - Inquiring with management and staff about control procedures.

Substantive Procedures:

- **Purpose:** Substantive procedures are designed to detect material

misstatements at the assertion level. These procedures provide direct evidence about the completeness, accuracy, and validity of the financial statement items being audited.

- **Examples:**

  - ***Tests of Details:*** Examining invoices, contracts, or bank statements to verify transactions.
  - ***Substantive Analytical Procedures:*** Comparing current financial information with prior periods, budgets, or industry averages to identify unusual trends or variances.

When deciding whether to use tests of controls or substantive procedures (or a combination of both), auditors consider factors such as the effectiveness of internal controls, the assessed risk of material misstatement, and the nature of the financial statement items being audited. Here's how to assess their appropriateness in different scenarios:

Scenario 1: High-Reliability on Internal Controls

- ***Context:*** The entity has well-established, documented, and tested internal controls that have been effective in the past. The auditor's preliminary assessment of control risk is low.

- ***Appropriateness:***

  - ***Tests of Controls:*** Highly appropriate, as the auditor can rely on the effectiveness of controls to reduce substantive testing. If the controls are operating effectively, the auditor can perform fewer substantive procedures or focus them on high-risk areas.
  - ***Substantive Procedures:*** Still necessary, but the extent can be reduced because of the reliance on controls. The auditor might use a combination of analytical procedures and targeted tests of details.

Scenario 2: Weak or Non-Existent Internal Controls

- ***Context:*** The entity has poor or non-existent internal controls, or controls have not been properly implemented or tested. The control risk is assessed as high.

- ***Appropriateness:***

  - ***Tests of Controls:*** Inappropriate or minimal, as there is little or no reliance on controls. Testing ineffective controls provides little audit evidence and does not reduce the need for substantive procedures. Control risk is evaluated high or at maximum.
  - ***Substantive Procedures:*** Highly appropriate and necessary. The auditor will need to perform extensive substantive testing, including detailed tests of transactions and balances, to gather sufficient audit evidence. Analytical procedures might also be more detailed and precise.

Scenario 3: Moderate Control Environment with Specific Risks

- ***Context:*** The entity has a generally effective control environment, but there

are certain areas with higher inherent risk (e.g., complex estimates, significant judgments).

- ***Appropriateness:***
    - ***Tests of Controls:*** Appropriate for areas where controls are strong and relevant to the identified risks. The auditor may test controls over routine transactions with effective internal controls (low control risk) while focusing substantive procedures on areas of higher control risk.
    - ***Substantive Procedures:*** Necessary for high-risk areas, even if controls are tested. For example, substantive procedures may focus on the valuation of complex financial instruments or the accuracy of significant estimates.

2.2 Automated Tools

The integration of data analytics and artificial intelligence (AI) in audit testing has significantly transformed the auditing process, enabling auditors to perform more efficient, accurate, and insightful audits.

Data analytics tools allow auditors to analyse large datasets quickly, identifying trends, anomalies, and patterns that might indicate areas of risk or potential misstatements. These tools can perform complex analyses, such as outlier detection, trend analysis, and Benford's Law analysis, helping auditors to uncover unusual transactions or financial behaviours that warrant further investigation.

Artificial intelligence (AI) and machine learning take these capabilities further by introducing predictive analytics and automated risk assessments. AI can learn from historical audit data and previous findings to predict areas of high risk in future audits. For example, machine learning models can assess the likelihood of material misstatements in various financial statement areas, allowing auditors to focus their attention on the most critical areas. Additionally, natural language processing (NLP) can analyse text-based documents like contracts or emails, identifying potential issues that might not be immediately apparent through traditional methods.

Together, data analytics and AI provide auditors with powerful tools to enhance the audit process. Data analytics offers a comprehensive view of the financial data, while AI adds a layer of intelligence, enabling auditors to make more informed decisions, identify risks earlier, and ultimately provide more reliable audit opinions. This combination not only improves the efficiency and accuracy of audits but also allows for a deeper understanding and analysis of the entity's financial health and operational risks.

2.3 Related Party Transactions

ISA 550 provides guidance on the auditor's responsibilities regarding related parties in an audit of financial statements. Related party transactions can pose significant risks of material misstatement, particularly due to their complex nature and potential for conflicts of interest. Auditors have a number of responsibilities in relation to related party transactions.

- **Understanding the Entity and Its Environment**
    - ***Identify Related Parties:*** The auditor must obtain an understanding of the entity's related party relationships and transactions. This involves identifying who the

related parties are, based on the definitions provided in the relevant financial reporting framework (e.g., IFRS)

- ***Obtain Information from Management:*** The auditor should inquire with management and those charged with governance about the identity of related parties, the nature of the relationships, and the types of transactions that have occurred or are likely to occur.

- **Assessing the Risks of Material Misstatement**
  - ***Risk Identification:*** The auditor must assess the risks of material misstatement associated with related party relationships and transactions. This includes evaluating whether these transactions are conducted on an arm's length basis or if they involve terms that are not typical for normal business transactions.
  - ***Significant Risks:*** ISA 550 requires the auditor to consider whether any related party transactions give rise to significant risks, particularly those that are outside the normal course of business or appear to lack a clear business rationale.

- **Responding to the Assessed Risks**
  - ***Designing Audit Procedures:*** Based on the identified risks, the auditor must design and perform appropriate audit procedures to address the risk of material misstatement associated with related party transactions. These procedures may include:
    - Reviewing agreements and contracts with related parties.
    - Confirming the terms and amounts of related party transactions with third parties, where possible.
    - Reviewing disclosures in the financial statements to ensure they are complete and in accordance with the applicable financial reporting framework.
    - The auditor is required to remain alert to the possibility of undisclosed related party relationships and transactions throughout the audit and should perform procedures to identify any that might not have been initially disclosed by management.

- **Evaluating the Accounting and Disclosure**
  - ***Assessing Appropriateness:*** The auditor must evaluate whether the related party transactions have been appropriately accounted for and disclosed in the financial statements according to the applicable financial reporting framework.
  - ***Completeness and Accuracy:*** The auditor should ensure that all material related party transactions have been fully disclosed, and that the disclosures are accurate, clear, and understandable to the users of the financial statements.

- **Communication with Those Charged with Governance**
  - ***Governance Communication:*** The auditor is required to communicate with those charged with governance about related party relationships and transactions,

especially any significant matters identified during the audit. This includes discussing any concerns about management's identification of related parties and the adequacy of the disclosures.

Some potential indicators of related party audit risks are: Here are four examples of circumstances that might indicate related party audit risk:

1. Transactions Outside the Normal Course of Business

- **Example:** An entity engages in significant transactions with a related party that are outside its normal business operations, such as selling assets at prices significantly below market value or entering into complex financial arrangements with related parties that do not seem to have a clear business rationale.
- **Risk Indicator:** These unusual transactions may be structured to manipulate financial results or hide financial difficulties, and they may not be at arm's length, increasing the risk of material misstatement.

2. Significant Influence or Control by Related Parties

- **Example:** A related party, such as a major shareholder, exerts significant influence over the entity's financial and operational decisions, which may lead to transactions that benefit the related party at the expense of the entity.
- **Risk Indicator:** The potential for conflicts of interest is high, and transactions may be structured to favour the related party, leading to misstated financial statements.

3. Undisclosed or Poorly Disclosed Related Party Relationships

- **Example:** The entity has related party relationships that are not adequately disclosed in the financial statements, or management is reluctant to provide full information about related parties.
- **Risk Indicator:** The lack of transparency or incomplete disclosures increases the risk that related party transactions are not fully captured, leading to potential material misstatements or non-compliance with financial reporting standards.

4. Complex Ownership Structures

- **Example:** The entity has a complex group structure with multiple layers of subsidiaries, associates, or joint ventures, some of which are owned by related parties. The complexity of the ownership structure can make it difficult to identify all related parties and transactions.
- **Risk Indicator:** The complexity of the structure might obscure related party relationships and transactions, making it challenging for the auditor to identify and assess the risks associated with them, increasing the risk of material misstatement.

D.3 Audit Procedures

3.1 Introduction

Audit procedures will vary from audit to audit. However, suggested audit procedures over typical financial statement balances are presented in the sections below. These procedures include tests of controls, detailed testing and analytical procedures.

3.2 Inventory

Audit Step	Objective	Procedures
Inventory Count Observation	Ensure accuracy of physical inventory count	Schedule and observe physical inventory count Perform test counts on a sample of items Reconcile test counts with client records
Cutoff Testing	Verify correct recording period for transactions	Review sales and purchases near inventory count date Verify shipments and receipts are recorded in the correct period
Inventory Valuation	Ensure inventory is valued correctly	Review costing methods (FIFO, LIFO, weighted average) Test inventory pricing by tracing to purchase invoices Ensure lower of cost or market value is applied
Existence and Completeness	Existence and Completeness	Inspect a sample of inventory items Trace physical items to inventory records Verify all inventory is recorded
Rights and Obligations	Verify ownership of inventory	Review purchase invoices and contracts Confirm inventory held on consignment is excluded from client inventory
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on inventory levels and turnover Compare inventory metrics to industry norms Investigate significant fluctuations
Inventory Write-Downs and Reserves	Ensure appropriate write-downs for obsolete or slow-moving inventory	Review procedures for identifying obsolete inventory Inspect inventory for physical damage Verify adequacy of reserves for write-downs

3.3 Non-Current Assets

Audit Step	Objective	Procedures
Existence and Completeness	Confirm physical existence and completeness of records	Inspect a sample of non-current assets Trace assets to the asset register Verify all non-current assets are recorded
Ownership and Rights	Verify ownership and rights of non-current assets	Review purchase agreements, titles, and deeds Confirm ownership of leased assets Verify inclusion of capitalised leases
Valuation and Allocation	Ensure correct valuation and allocation of non-current assets	Review valuation methods for tangible and intangible assets Test calculations of depreciation and amortisation Verify impairment testing procedures
Cutoff Testing	Verify correct recording period for transactions	Review acquisitions and disposals near the period end Ensure transactions are recorded in the correct period
Reconciliation	Ensure accuracy and completeness of asset records	Reconcile the asset register with the general ledger Investigate and resolve discrepancies
Review of Additions and Disposals	Verify accuracy of additions and disposals	Test a sample of additions by tracing to supporting documents Review disposals and verify proper recording of gains/losses
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on asset balances and depreciation expense Compare asset turnover ratios to industry norms Investigate significant fluctuations
Impairment Testing	Ensure proper accounting for impaired assets	Review impairment testing procedures Verify calculations and assumptions used in impairment tests Confirm recording of impairment losses

Audit Step	Objective	Procedures
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures related to non-current assets Verify compliance with IFRS Ensure proper disclosure of revaluations and impairments

3.4 Intangible Assets

Audit Step	Objective	Procedures
Existence and Completeness	Confirm the existence and completeness of intangible assets	Inspect supporting documentation for intangible assets (e.g., contracts, patents) Trace intangible assets to the asset register Verify all intangible assets are recorded
Ownership and Rights	Verify ownership and rights of intangible assets	Review legal documentation, such as patents, trademarks, and licensing agreements Confirm ownership and rights to use intangible assets
Valuation and Allocation	Ensure correct valuation and allocation of intangible assets	Review valuation methods used for intangible assets (e.g., cost, market, or income approach) Test amortisation calculations Verify impairment testing procedures
Cutoff Testing	Verify correct recording period for transactions	Review acquisitions and disposals of intangible assets near the period end Ensure transactions are recorded in the correct period
Reconciliation	Ensure accuracy and completeness of asset records	Reconcile the intangible asset register with the general ledger Investigate and resolve discrepancies
Review of Additions and Disposals	Verify accuracy of additions and disposals	Test a sample of additions by tracing to supporting documents Review disposals and verify proper recording of gains/losses
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on intangible asset balances and amortisation expense Compare to industry norms Investigate significant fluctuations

Audit Step	Objective	Procedures
Impairment Testing	Ensure proper accounting for impaired intangible assets	Review impairment testing procedures Verify calculations and assumptions used in impairment tests Confirm recording of impairment losses
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures related to intangible assets Verify compliance with IFRS Ensure proper disclosure of revaluations and impairments

3.5 Biological Assets

Audit Step	Objective	Procedures
Existence and Completeness	Confirm the existence and completeness of biological assets	Inspect a sample of biological assets (e.g., livestock, crops) Trace biological assets to the asset register Verify all biological assets are recorded
Ownership and Rights	Verify ownership and rights of biological assets	Review purchase agreements, titles, or other legal documentation Confirm ownership and rights to biological assets
Valuation and Allocation	Ensure correct valuation and allocation of biological assets	Review valuation methods used for biological assets (e.g., fair value less costs to sell) Test calculations of growth, cost, and market value Verify impairment testing procedures
Cutoff Testing	Verify correct recording period for transactions	Review acquisitions and disposals of biological assets near the period end Ensure transactions are recorded in the correct period
Reconciliation	Ensure accuracy and completeness of asset records	Reconcile the biological asset register with the general ledger Investigate and resolve discrepancies

Audit Step	Objective	Procedures
Review of Additions and Disposals	Verify accuracy of additions and disposals	Test a sample of additions by tracing to supporting documents Review disposals and verify proper recording of gains/losses
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on biological asset balances and changes Compare to industry norms Investigate significant fluctuations
Impairment Testing	Ensure proper accounting for impaired biological assets	Review impairment testing procedures Verify calculations and assumptions used in impairment tests Confirm recording of impairment losses
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures related to biological assets Verify compliance with IFRS Ensure proper disclosure of fair value measurements and impairments

3.6 Investment Properties

Audit Step	Objective	Procedures
Existence and Completeness	Confirm the existence and completeness of investment properties	Physically inspect a sample of investment properties Verify that all properties listed in the asset register exist and are ones that exist are on the register Obtain confirmations from external parties, if applicable, to verify the existence of properties
Ownership and Rights	Verify ownership and rights of investment properties	Review property titles, deeds, or purchase agreements for evidence of ownership Confirm that properties are free from liens and encumbrances Verify legal rights to use or lease the properties

Audit Step	Objective	Procedures
Valuation and Allocation	Ensure correct valuation and allocation of investment properties	Review valuation reports prepared by qualified appraisers Test fair value calculations, ensuring assumptions and methods are reasonable and comply with accounting standards Verify adjustments for revaluation surpluses or deficits are correctly recorded For properties using the cost model, review and test depreciation calculations
Cutoff Testing	Verify correct recording period for transactions	Examine transactions near the period end to ensure they are recorded in the appropriate period Verify acquisition and disposal dates are correctly reflected in the financial records
Reconciliation	Ensure accuracy and completeness of asset records	Reconcile the investment property register with the general ledger Investigate and resolve any discrepancies between the asset register and accounting records
Review of Additions and Disposals	Verify accuracy of additions and disposals	Test a sample of property additions by tracing to purchase agreements, invoices, and other supporting documentation Review and verify the accuracy of recorded disposals, including calculation of gains or losses
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on property values, rental income, and operating expenses Compare key ratios and metrics to industry standards and prior periods Investigate any significant fluctuations or anomalies
Impairment Testing	Ensure proper accounting for impaired investment properties	Review impairment indicators and management's assessment for any signs of property impairment Verify impairment calculations and assumptions, ensuring they comply with accounting standards Confirm that impairment losses are accurately recorded in the financial statements

Audit Step	Objective	Procedures
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures related to investment properties, including valuation methods, rental income, and impairment losses Verify compliance with IFRS requirements Ensure that all relevant information, such as fair value measurements and lease terms, is adequately disclosed

3.7 Assets Held for Sale and Discontinued Operations

Audit Step	Objective	Procedures
Classification and Presentation	Verify correct classification and presentation of assets held for sale and discontinued operations	Review the criteria for classification as held for sale and ensure they are met Verify that assets are presented separately in the balance sheet Confirm that discontinued operations are presented separately in the income statement
Valuation	Ensure correct valuation of assets held for sale	- Verify that assets held for sale are valued at the lower of carrying amount and fair value less costs to sell Review appraisal reports or market value assessments to support valuations Test calculations for any write-downs to fair value less costs to sell
Discontinued Operations	Verify accuracy and completeness of discontinued operations	Review management's assessment of discontinued operations and ensure they meet the criteria Verify that results of discontinued operations are separately identified and reported Test a sample of transactions to ensure they are accurately classified as part of discontinued operations
Review of Disposals	Verify accuracy of disposals related to assets held for sale	Test a sample of disposals by tracing to sale agreements, invoices, and other supporting documentation Review and verify the accuracy of recorded gains or losses on disposals

Audit Step	Objective	Procedures
Disclosures and Reporting	Ensure accurate financial reporting and disclosure	Review financial statement disclosures related to assets held for sale and discontinued operations Verify compliance with IFRS requirements Ensure adequate disclosure of significant information, such as fair value measurements and the terms of sale agreements

3.8 Financial Instruments

Audit Step	Objective	Procedures
Existence and Completeness	Confirm the existence and completeness of financial instruments	Obtain and inspect confirmation statements from financial institutions Verify that all financial instruments are recorded in the financial statements Trace financial instruments to supporting documents such as contracts or agreements
Ownership and Rights	Verify ownership and rights of financial instruments	Review legal documentation such as contracts and agreements Confirm ownership and rights with financial institutions or counterparties
Valuation and Allocation	Ensure correct valuation and allocation of financial instruments	Review valuation methods used for financial instruments (e.g., market value, amortised cost, or discounted cash flow) Test fair value calculations and assumptions Verify that any impairments or valuation adjustments are correctly recorded
Cutoff Testing	Verify correct recording period for transactions	Review transactions near the period end to ensure they are recorded in the correct period Verify settlement dates and ensure transactions are recorded in the appropriate period
Reconciliation	Ensure accuracy and completeness of financial instrument records	Reconcile the financial instrument register with the general ledger Investigate and resolve any discrepancies between the register and the accounting records

Audit Step	Objective	Procedures
Review of Additions and Disposals	Verify accuracy of additions and disposals	Test a sample of additions by tracing to supporting documents such as purchase agreements and trade confirmations Review disposals and verify the accuracy of recorded gains or losses
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis on financial instrument values and related income or expense Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies
Impairment Testing	Ensure proper accounting for impaired financial instruments	Review impairment indicators for financial instruments and ensure management's assessment is reasonable Verify impairment calculations and assumptions Confirm that impairment losses are accurately recorded
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures related to financial instruments, including valuation methods and risk exposures Verify compliance with IFRS requirements Ensure adequate disclosure of fair value measurements, hedging activities, and any credit risk concentrations

3.9 Fair Values

Audit Step	Objective	Procedures
Understanding Fair Value Measurements	Gain an understanding of the methods and assumptions used for fair value measurements	Review the entity's policies and procedures for determining fair value Understand the valuation techniques and inputs used for fair value measurements

Audit Step	Objective	Procedures
Valuation and Allocation	Ensure correct valuation and allocation of fair value measurements	Review valuation reports and models used to determine fair value Test the reasonableness of assumptions and inputs used in the valuation models Verify that fair value adjustments are correctly recorded
Review of Fair Value Hierarchy Classification	Verify correct classification of fair value measurements within the fair value hierarchy	Review the classification of fair value measurements into Level 1, Level 2, and Level 3 based on the inputs used Ensure that the classification is consistent with accounting standards
Impairment Testing	Ensure proper accounting for impaired assets measured at fair value	Review impairment indicators for assets measured at fair value and ensure management's assessment is reasonable Verify impairment calculations and assumptions Confirm that impairment losses are accurately recorded
Disclosures and Reporting	Ensure accurate financial reporting and disclosures related to fair value measurements	Review financial statement disclosures related to fair value measurements, including valuation methods and risk exposures Verify compliance with IFRS requirements Ensure adequate disclosure of fair value hierarchy, valuation techniques, and inputs

3.10 Government Grants

Audit Step	Objective	Procedures
Understanding Government Grants	Gain an understanding of the nature and terms of government grants received	Review the terms and conditions of government grants Understand the criteria for recognition and measurement of the grants
Existence and Completeness	Confirm the existence and completeness of government grants	Obtain and review grant agreements and correspondence with grantors Verify that all grants received are recorded in the financial statements

Audit Step	Objective	Procedures
Authorisation and Rights	Verify authorisation and rights to government grants	Review grant approval documentation and ensure that the entity is entitled to the grants Confirm that grants are authorised by the appropriate government agencies
Valuation and Allocation	Ensure correct valuation and allocation of government grants	Review the basis for measuring the amount of the grants Test calculations to ensure that grants are recorded at the correct amounts Verify that any conditions or restrictions are properly accounted for
Cutoff Testing	Verify correct recording period for government grants	Examine the timing of grant recognition to ensure it aligns with the period in which the related costs or conditions are met Verify the recording dates of grant receipts and related expenditures
Reconciliation	Ensure accuracy and completeness of government grant records	Reconcile grant income recorded in the financial statements with the general ledger and supporting documentation Investigate and resolve any discrepancies
Compliance with Conditions	Ensure compliance with the conditions attached	Review the entity's compliance with the specific terms and conditions of the grants Verify that any non-compliance issues are identified and appropriately addressed
Review of Deferred Income	Verify the accuracy of deferred income related to government grants	Test the calculations of deferred income to ensure grants are recognised in the correct periods Review the reconciliation of deferred income accounts
Analytical Review	Identify unusual trends or discrepancies in government grant income	Perform trend analysis on grant income and related expenditures Compare grant income to prior periods and budgeted amounts Investigate any significant fluctuations or anomalies

Audit Step	Objective	Procedures
Disclosures and Reporting	Ensure accurate financial reporting and disclosures related to government grants	Review financial statement disclosures related to government grants, including the nature, amounts, and conditions of the grants Verify compliance with IFRS requirements Ensure adequate disclosure of grant income, conditions, and any contingencies

3.11 Leases

Audit Step	Objective	Procedures
Understanding Leases	Gain an understanding of the nature and terms of lease agreements	Obtain and review all lease agreements Understand the classification criteria for finance and operating leases Review the terms and conditions of leases, including payment schedules, renewal options, and termination clauses
Existence and Completeness	Confirm the existence and completeness of lease agreements	Verify that all lease agreements are recorded in the financial statements Obtain confirmations from lessors for a sample of lease agreements
Classification	Ensure correct classification of leases	Review the criteria used to classify leases as finance or operating leases Verify the classification of a sample of leases to ensure compliance with applicable accounting standards (e.g., IFRS 16)
Valuation and Measurement	Ensure correct valuation and measurement of lease liabilities and right-of-use assets	Test the calculations for initial recognition of lease liabilities and right-of-use assets Review the discount rates used for present value calculations Verify subsequent measurement of lease liabilities and right-of-use assets, including depreciation and interest expense
Cutoff Testing	Verify correct recording period for lease transactions	Examine lease commencement dates and ensure lease transactions are recorded in the appropriate period Review the timing of lease payments and ensure they are recorded in the correct period

Audit Step	Objective	Procedures
Reconciliation	Ensure accuracy and completeness of lease-related accounts	Reconcile lease liabilities and right-of-use assets recorded in the financial statements with the general ledger and lease agreements Investigate and resolve any discrepancies
Review of Lease Modifications and Terminations	Verify accuracy of accounting for lease modifications and terminations	Test a sample of lease modifications and terminations by tracing to supporting documentation Review the accounting treatment for modifications and terminations to ensure compliance with accounting standards
Analytical Review	Identify unusual trends or discrepancies in lease accounting	Perform trend analysis on lease liabilities, right-of-use assets, and related expenses Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies
Impairment Testing	Ensure proper accounting for impaired right-of-use assets	Review impairment indicators for right-of-use assets and ensure management's assessment is reasonable Verify impairment calculations and assumptions Confirm that impairment losses are accurately recorded
Disclosures and Reporting	Ensure accurate financial reporting and disclosures related to leases	Review financial statement disclosures related to leases, including maturity analysis of lease liabilities and the nature of leasing arrangements Verify compliance with IFRS requirements Ensure adequate disclosure of lease terms, payments, and any significant judgments or estimates used in lease accounting

3.12 Impairments

Audit Step	Objective	Procedures
Understanding Impairment Indicators	Identify potential indicators of impairment	Review financial and non-financial data to identify potential impairment indicators (e.g., significant decline in market value, adverse changes in the business environment, evidence of obsolescence)

Audit Step	Objective	Procedures
Existence and Completeness	Confirm the existence and completeness of assets subject to impairment	Verify that all assets subject to potential impairment are included in the impairment analysis Review asset registers and compare with physical inspections
Review of Impairment Testing Procedures	Ensure proper execution of impairment testing procedures	Obtain and review the entity's impairment testing policies and procedures Ensure that impairment tests are conducted in accordance with applicable accounting standards (e.g., IAS 36)
Valuation and Allocation	Ensure correct valuation and allocation of impairment losses	Review the methods and assumptions used in the impairment tests, such as discounted cash flow (DCF) analysis Verify the accuracy of key inputs (e.g., cash flow projections, discount rates)
Calculation Testing	Verify the accuracy of impairment calculations	Recalculate the impairment loss for a sample of assets Ensure that the carrying amount of the asset is reduced to its recoverable amount
Review of Recoverable Amount	Verify the reasonableness of the recoverable amount	Review the determination of the recoverable amount, which is the higher of fair value less costs to sell and value in use Ensure that the recoverable amount is correctly calculated and supported by appropriate evidence
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to impairments	Review financial statement disclosures related to impairment losses, including the description of impaired assets, reasons for impairment, and assumptions used Verify compliance with IFRS requirements Ensure adequate disclosure of the impact of impairments on the financial statements

3.13 Provisions, Contingent Liabilities and Contingent Assets

Audit Step	Objective	Procedures
Understanding Provisions, Contingent Liabilities, and Contingent Assets	Gain an understanding of the entity's policies and procedures related to provisions, contingent liabilities, and contingent assets	Review the entity's accounting policies for recognising and measuring provisions, contingent liabilities, and contingent assets Understand the criteria for recognising provisions and disclosing contingent liabilities and assets
Existence and Completeness	Confirm the existence and completeness of provisions, contingent liabilities, and contingent assets	Review the entity's internal and external communications for any indications of potential liabilities or assets Obtain legal letters and confirmations from management regarding the completeness of recorded provisions and disclosed contingencies
Recognition and Measurement of Provisions	Ensure correct recognition and measurement of provisions	Review supporting documentation for provisions, such as contracts, legal claims, or regulatory requirements Test the calculations and assumptions used to measure provisions Verify that provisions are recognised when the entity has a present obligation, it is probable that an outflow of resources will be required, and a reliable estimate can be made
Valuation of Contingent Liabilities and Contingent Assets	Ensure proper valuation and disclosure of contingent liabilities and assets	Review legal opinions, correspondence, and other supporting documents to assess the likelihood and amount of potential liabilities or assets Verify that contingent liabilities are disclosed in the notes to the financial statements when it is not probable but possible that an outflow of resources will be required Ensure that contingent assets are disclosed only if an inflow of economic benefits is probable
Review of Changes in Estimates	Verify accuracy of changes in estimates related to provisions	Review management's process for revising estimates of provisions Test a sample of changes in estimates to ensure they are based on reasonable and supportable assumptions

Audit Step	Objective	Procedures
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to provisions, contingent liabilities, and contingent assets	Review financial statement disclosures related to provisions, contingent liabilities, and contingent assets Verify compliance with IFRS requirements Ensure adequate disclosure of the nature, timing, and amounts of provisions and contingencies, as well as any uncertainties related to them

3.14 Borrowing Costs

Audit Step	Objective	Procedures
Understanding Borrowing Costs	Gain an understanding of the entity's policies and procedures related to borrowing costs	Review the entity's accounting policies for recognising and measuring borrowing costs Understand the criteria for capitalising borrowing costs related to qualifying assets
Existence/ Occurrence and Completeness	Confirm the existence and completeness of borrowing costs	Obtain loan agreements, interest schedules, and related documentation Verify that all borrowing costs are recorded in the financial statements
Authorization and Rights	Verify authorisation and rights related to borrowing costs	Review loan agreements and ensure borrowing costs are authorised by the appropriate entities Confirm the entity's right to incur and capitalise borrowing costs
Valuation and Measurement	Ensure correct valuation and measurement of borrowing costs	Test the accuracy of interest expense calculations by recalculating interest based on loan agreements Verify the appropriateness of the capitalisation rate used for borrowing costs related to qualifying assets
Cutoff Testing	Verify correct recording period for borrowing costs	Examine borrowing costs incurred near the period end to ensure they are recorded in the appropriate period Review the timing of interest payments and capitalisation of borrowing costs

Audit Step	Objective	Procedures
Reconciliation	Ensure accuracy and completeness of borrowing cost records	Reconcile borrowing cost accounts recorded in the financial statements with the general ledger and supporting schedules Investigate and resolve any discrepancies
Review of Capitalisation of Borrowing Costs	Verify accuracy of capitalisation of borrowing costs	Review the criteria for qualifying assets and ensure borrowing costs are capitalised only when applicable Test a sample of capitalised borrowing costs by tracing to supporting documentation and verifying calculations
Analytical Review	Identify unusual trends or discrepancies in borrowing costs	Perform trend analysis on interest expense and capitalised borrowing costs Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies
Disclosures and Reporting	Ensure accurate financial reporting and disclosures related to borrowing costs	Review financial statement disclosures related to borrowing costs, including the total amount of interest expense and capitalised borrowing costs Verify compliance with IFRS requirements Ensure adequate disclosure of the nature, amount, and accounting policy for borrowing costs

3.15 Employee Benefits

Audit Step	Objective	Procedures
Testing Compliance with Regulations	Ensure compliance with applicable laws and regulations	Verify compliance with relevant laws/ regulations Review filings and reports made
Contributions and Funding	Verify accuracy and completeness of contributions	Reconcile contributions to payroll records Confirm timely contributions Verify funding status and actuarial assumptions

Audit Step	Objective	Procedures
Benefit Payments	Ensure benefit payments are accurate and authorised	Test sample of benefit payments Verify authorisation and documentation Ensure correct calculation and payment for terminated employees
Plan Investments	Assess management and reporting of plan investments	Review investment policy compliance Verify investment valuations Confirm diversification and identify prohibited transactions
Participant Data	Ensure accuracy and completeness of participant data	Test sample of participant records Verify updates to participant data Ensure proper handling of participant loans and repayments
Actuarial Valuations	Assess reasonableness of actuarial valuations (defined benefit plans)	Review actuarial reports and assumptions Verify accuracy of data to actuary Ensure appropriate use in financial reporting
Disclosures and Reporting	Ensure accurate financial reporting and disclosures	Review financial statement disclosures Verify compliance with IFRS Ensure proper disclosure of contingent liabilities
Internal Controls and Governance	Evaluate effectiveness of internal controls	Test key controls Review benefits committee role Ensure adequate oversight and monitoring
Analytical Review	Identify unusual trends or discrepancies	Perform trend analysis Investigate significant fluctuations and anomalies

3.16 Share-Based Payments

Audit Step	Objective	Procedures
Understanding Share-Based Payments	Gain an understanding of the entity's share-based payment arrangements	Review the entity's policies for recognising and measuring share-based payments Understand the types of share-based payment arrangements (e.g., stock options, restricted shares) and their terms

Audit Step	Objective	Procedures
Occurrence and Completeness	Confirm the occurrence and completeness of share-based payment transactions	Obtain and review share-based payment agreements and supporting documentation Verify that all share-based payment arrangements are recorded in the financial statements
Authorisation and Rights	Verify authorisation and rights related to share-based payments	Review board of directors' minutes and approvals for share-based payment plans Ensure that share-based payment arrangements are authorised by the appropriate entities
Valuation and Measurement	Ensure correct valuation and measurement of share-based payments	Review the valuation models and assumptions used to measure the fair value of share-based payments (e.g., Black-Scholes model) Test the calculations for fair value at the grant date and ensure the assumptions (e.g., volatility, risk-free rate) are reasonable
Cut-off Testing	Verify correct recording period for share-based payment expenses	Examine the timing of share-based payment grants and ensure expenses are recognised in the appropriate periods Review the vesting periods and service conditions to ensure expenses are recognised over the correct periods
Reconciliation	Ensure accuracy and completeness of share-based payment records	Reconcile share-based payment expenses recorded in the financial statements with the general ledger and supporting schedules Investigate and resolve any discrepancies
Review of Modifications and Cancellations	Verify accuracy of accounting for modifications and cancellations	Test a sample of share-based payment modifications and cancellations by tracing to supporting documentation Review the accounting treatment for modifications and cancellations to ensure compliance with accounting standards
Analytical Review	Identify unusual trends or discrepancies in share-based payment expenses	Perform trend analysis on share-based payment expenses and related equity accounts Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies

Audit Step	Objective	Procedures
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to share-based payments	Review financial statement disclosures related to share-based payments, including the nature and terms of arrangements, fair value assumptions, and expense recognition Verify compliance with IFRS 2 requirements

3.17 Taxation (Including Deferred Tax)

Audit Step	Objective	Procedures
Understanding Taxation Policies	Gain an understanding of the entity's taxation policies and procedures	Review the entity's accounting policies for current and deferred tax Understand the tax laws and regulations applicable to the entity's operations
Existence and Completeness	Confirm the existence and completeness of tax liabilities and assets	Obtain and review tax returns and supporting documentation Verify that all taxable transactions are recorded in the financial statements
Authorisation and Rights	Verify authorisation and rights related to taxation	Review approvals for tax-related entries and adjustments Ensure that tax-related transactions are authorised by the appropriate personnel
Valuation and Measurement	Ensure correct valuation and measurement of current and deferred tax	Recalculate current tax expense based on taxable income and applicable tax rates Review the calculation of deferred tax assets and liabilities, ensuring that temporary differences, carry forwards, and tax rates are accurately applied
Cut-off Testing	Verify correct recording period for tax expenses	Examine the timing of tax-related transactions to ensure they are recorded in the appropriate periods Verify the timing of tax payments and refunds
Reconciliation	Ensure accuracy and completeness of tax accounts	Reconcile tax expense and payable accounts recorded in the financial statements with the general ledger and tax returns Investigate and resolve any discrepancies

Audit Step	Objective	Procedures
Deferred Tax Assets and Liabilities	Verify the recognition and measurement of deferred tax assets and liabilities	Review the basis for recognising deferred tax assets, ensuring that future taxable profit is probable Test calculations of deferred tax liabilities, verifying temporary differences and applicable tax rates
Review of Tax Provisions and Contingencies	Verify accuracy of tax provisions and disclosure of tax contingencies	Review management's assessment of tax provisions and potential tax liabilities Ensure adequate disclosure of tax contingencies in the financial statements
Analytical Review	Identify unusual trends or discrepancies in tax accounts	- Perform trend analysis on tax expenses and deferred tax balances Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to taxation	Review financial statement disclosures related to current and deferred tax, including the breakdown of tax expense, reconciliation of effective tax rate, and deferred tax asset and liability balances Verify compliance with IFRS(e.g., IAS 12) or other applicable standards Ensure adequate disclosure of the nature and amounts of temporary differences, unused tax losses, and unused tax credits

3.18 Related Parties

Audit Step	Objective	Procedures
Understanding Related Parties	Gain an understanding of the entity's related party relationships and transactions	Review the entity's policies for identifying and disclosing related party relationships and transactions Obtain a list of related parties from management and the board of directors

Audit Step	Objective	Procedures
Occurrence and Completeness	Confirm the occurrence and completeness of related party transactions	Review the minutes of board meetings and significant contracts for related party discussions Obtain confirmations from related parties to verify transactions and balances Perform procedures to identify undisclosed related party transactions, such as reviewing bank statements for unusual transactions
Authorisation and Rights	Verify authorisation and rights related to related party transactions	Review approvals for related party transactions and ensure they are authorised by appropriate personnel Verify that related party transactions are conducted at arm's length terms
Valuation and Measurement	Ensure correct valuation and measurement of related party transactions	Review the terms and conditions of related party transactions to ensure they are reasonable Test the pricing and terms of related party transactions to ensure they reflect fair value or market terms
Review of Agreements and Contracts	Verify accuracy and completeness of related party agreements and contracts	Obtain and review all significant agreements and contracts with related parties Ensure that terms and conditions are properly disclosed and accounted for
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to related parties	Review financial statement disclosures related to related party relationships and transactions, including the nature of the relationships, amounts involved, and terms and conditions Verify compliance with IFRS(e.g., IAS 24) or other applicable standards Ensure adequate disclosure of the financial effect of related party transactions on the financial statements

3.19 Revenue From Contracts with Customers

Audit Step	Objective	Procedures
Understanding Revenue Recognition Policies	Gain an understanding of the entity's revenue recognition policies and procedures	Review the entity's accounting policies for recognising revenue from contracts with customers Understand the criteria for revenue recognition in accordance with IFRS 15 or other applicable standards
Occurrence and Completeness	Confirm the occurrence and completeness of revenue transactions	Obtain and review contracts with customers Perform a walkthrough of the revenue recognition process Test a sample of revenue transactions to ensure they are recorded in the financial statements
Authorisation and Rights	Verify authorisation and rights related to revenue transactions	Review approvals for significant revenue contracts Ensure that revenue transactions are authorised by appropriate personnel
Valuation and Measurement	Ensure correct valuation and measurement of revenue	Review the terms and conditions of customer contracts to understand the performance obligations Verify the transaction price and allocation of transaction price to performance obligations Test the calculations of revenue recognised to ensure they comply with the five-step model of IFRS 15
Cut-off Testing	Verify correct recording period for revenue transactions	Examine the timing of revenue recognition to ensure it aligns with the transfer of control to the customer Test a sample of revenue transactions around period-end to ensure they are recorded in the correct period
Reconciliation	Ensure accuracy and completeness of revenue accounts	Reconcile revenue recorded in the financial statements with the general ledger and supporting schedules Investigate and resolve any discrepancies

Audit Step	Objective	Procedures
Review of Estimates and Judgements	Verify accuracy of estimates and judgements related to revenue recognition	Review management's estimates and judgements related to variable consideration, significant financing components, and contract modifications Test the reasonableness of these estimates and assumptions
Review of Contract Modifications	Verify the accounting for contract modifications	Test a sample of contract modifications by tracing to supporting documentation Ensure that the accounting treatment for modifications complies with applicable standards
Analytical Review	Identify unusual trends or discrepancies in revenue	Perform trend analysis on revenue and related accounts Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to revenue from contracts with customers	Review financial statement disclosures related to revenue, including disaggregation of revenue, contract balances, and performance obligations Verify compliance with IFRS 15 or other applicable standards Ensure adequate disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers

3.20 Statement Of Cashflows

Audit Step	Objective	Procedures
Understanding Relationships Between Financial Statements	Gain an understanding of how the statement of cash flows relates to the income statement and balance sheet	Review the entity's accounting policies for preparing financial statements Understand the linkages between cash flows, income, and changes in assets and liabilities

Audit Step	Objective	Procedures
Occurrence and Completeness	Confirm the occurrence and completeness of items in the statement of cash flows and their counterparts in other financial statements	Obtain and review the income statement and balance sheet Perform a walkthrough of the reconciliation process between the statement of cash flows and other financial statements
Classification and Presentation	Ensure proper classification and presentation of reconciling items	Verify that operating, investing, and financing activities are correctly classified Ensure that non-cash transactions are properly disclosed in the statement of cash flows
Reconciliation Procedures	Reconcile cash flow amounts with related amounts in the income statement and balance sheet	Reconcile net income from the income statement to net cash provided by operating activities using the indirect method Verify adjustments for non-cash items such as depreciation, amortisation, and changes in working capital accounts Reconcile changes in balance sheet accounts to related cash flow items (e.g., changes in accounts receivable to cash collected from customers)
Valuation and Measurement	Ensure accurate valuation and measurement of reconciling items	Test the accuracy of adjustments for non-cash transactions and changes in working capital accounts Verify the accuracy of foreign currency translation adjustments affecting cash flows
Review of Significant Reconciling Items	Verify the accuracy of significant reconciling items	Review and test significant reconciling items such as major capital expenditures, debt issuance and repayments, and equity transactions Verify the proper disclosure of these items in the financial statements
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to reconciling items	Review financial statement disclosures related to significant non-cash transactions and cash flow reconciliation Verify compliance with IFRS or other applicable standards Ensure adequate disclosure of the nature, amount, and classification of reconciling items

3.21 Business Combinations

Audit Step	Objective	Procedures
Understanding Business Combinations	Gain an understanding of the nature and terms of the business combination	Review the entity's accounting policies for recognising business combinations Obtain and review the purchase agreement and other related documents Understand the structure of the business combination (e.g., acquisition, merger)
Occurrence and Completeness	Confirm the occurrence and completeness of the business combination transactions	Verify that the business combination has been appropriately authorised by the board of directors and shareholders Review supporting documentation to confirm that all aspects of the business combination are recorded
Authorisation and Rights	Verify authorisation and rights related to the business combination	Ensure that the business combination has been properly authorised by the relevant parties Verify the rights acquired through the business combination, including any intellectual property, contracts, and other assets
Valuation and Measurement	Ensure correct valuation and measurement of assets, liabilities, and consideration transferred	Review the valuation of the purchase consideration, including cash, equity instruments, and contingent consideration Verify the fair value measurement of identifiable assets acquired and liabilities assumed Test the calculation of goodwill or gain from a bargain purchase
Cut-off Testing	Verify correct recording period for business combination	Examine the timing of the recognition of the business combination to ensure it is recorded in the appropriate period Verify that assets, liabilities, and results of operations are included from the acquisition date
Review of Provisional and Final Fair Values	Verify the accuracy of provisional and final fair value measurements	Review the procedures for determining provisional fair values if the initial accounting is incomplete Verify the adjustments made to provisional amounts within the measurement period

Audit Step	Objective	Procedures
Review of Contingent Consideration	Ensure proper accounting for contingent consideration	Review the terms of contingent consideration arrangements Verify the fair value measurement and subsequent remeasurement of contingent consideration liabilities
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to business combinations	Review financial statement disclosures related to business combinations, including the nature and purpose of the combination, fair values of assets and liabilities acquired, and goodwill Verify compliance with IFRS 3 or other applicable standards Ensure adequate disclosure of the effects of the business combination on the financial statements

3.22 Events After the Reporting Period

Audit Step	Objective	Procedures
Understanding Policies for Subsequent Events	Gain an understanding of the entity's policies and procedures for identifying and disclosing events after the reporting period	Review the entity's accounting policies for recognising and disclosing subsequent events Understand the criteria for distinguishing between adjusting and non-adjusting events
Occurrence and Completeness	Confirm the occurrence and completeness of subsequent events	Inquire of management and those charged with governance about any significant events occurring after the reporting period Review minutes of board and other meetings held after the reporting period Examine correspondence with legal counsel, regulators, and other third parties for indications of subsequent events
Authorisation and Rights	Verify authorisation and rights related to subsequent events	Review any significant transactions or agreements made after the reporting period for proper authorisation Verify the entity's rights and obligations arising from subsequent events

Audit Step	Objective	Procedures
Valuation and Measurement	Ensure correct valuation and measurement of subsequent events	Assess the financial impact of adjusting events and ensure they are properly reflected in the financial statements Evaluate the adequacy of disclosures for non-adjusting events
Review of Significant Subsequent Events	Verify the accuracy and completeness of significant subsequent events	Test a sample of significant subsequent events by tracing to supporting documentation Review the accounting treatment for these events to ensure compliance with applicable standards
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to subsequent events	Review financial statement disclosures related to subsequent events, including the nature and financial effect of these events Verify compliance with IAS 10 or other applicable standards Ensure adequate disclosure of the nature, amount, and timing of subsequent events and their impact on the financial statements

3.23 Effects of Foreign Exchange Rates

Audit Step	Objective	Procedures
Understanding Foreign Exchange Policies	Gain an understanding of the entity's policies and procedures for handling foreign exchange transactions	Review the entity's accounting policies for recognising and measuring foreign exchange gains and losses Understand the methods used for translating foreign currency transactions and balances
Authorisation and Rights	Verify authorisation and rights related to foreign exchange transactions	Review approvals for significant foreign exchange transactions Ensure that foreign exchange contracts are authorised by appropriate personnel
Valuation and Measurement	Ensure correct valuation and measurement of foreign exchange transactions and balances	Verify the accuracy of exchange rates used for translating foreign currency transactions and balances Test the calculations of foreign exchange gains and losses to ensure they are correctly measured

Audit Step	Objective	Procedures
Review of Foreign Currency Translation	Verify the accuracy of foreign currency translation adjustments	Review the procedures for translating the financial statements of foreign operations Test the translation of assets, liabilities, income, and expenses at the appropriate exchange rates
Review of Hedging Activities	Verify the accuracy of accounting for foreign exchange hedges	Review documentation for hedging arrangements, such as forward contracts and options Test the effectiveness of hedging relationships and ensure compliance with hedge accounting requirements
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to foreign exchange	Review financial statement disclosures related to foreign exchange transactions, including the nature and financial effect of these transactions Verify compliance with IFRS(e.g., IAS 21) or other applicable standards Ensure adequate disclosure of exchange rates used, hedging activities, and the impact of foreign exchange on the financial statements

3.24 Segmental Reporting

Audit Step	Objective	Procedures
Understanding Segmental Reporting Policies	Gain an understanding of the entity's policies and procedures for segmental reporting	Review the entity's accounting policies for identifying and reporting operating segments Understand the criteria for aggregating segments and the basis for measuring segment performance
Occurrence and Completeness	Confirm the occurrence and completeness of segmental information	Obtain and review the segmental information reported in the financial statements Verify that all operating segments are identified and reported in accordance with the entity's policies
Identification of Segments	Ensure correct identification of reportable segments	Review the entity's organisational structure and internal reporting to identify operating segments Verify the consistency of segment identification with the entity's management reports

Audit Step	Objective	Procedures
Valuation and Measurement	Ensure correct valuation and measurement of segmental information	Test the allocation of revenues, expenses, assets, and liabilities to operating segments Verify the basis of measurement used for segmental information is consistent with the accounting policies
Review of Segmental Performance Measures	Verify the accuracy of segmental performance measures	Test the calculations of key performance measures for each segment (e.g., segment profit, segment assets) Review the consistency of performance measures with the entity's internal management reports
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to segmental information	Review financial statement disclosures related to segmental information, including descriptions of segments, measurement bases, and reconciliations to consolidated amounts Verify compliance with IFRS 8 or other applicable standards Ensure adequate disclosure of segment revenues, profits, assets, liabilities, and other key performance measures

3.25 Earnings Per Share

Audit Step	Objective	Procedures
Understanding EPS Calculation Policies	Gain an understanding of the entity's policies and procedures for calculating EPS	Review the entity's accounting policies for calculating basic and diluted EPS Understand the methods used for determining the weighted average number of shares outstanding
Occurrence and Completeness	Confirm the occurrence and completeness of data used in EPS calculations	Obtain and review the EPS calculation worksheet and underlying records Verify that all shares issued, repurchased, or converted during the period are included in the EPS calculation
Authorisation and Rights	Verify authorisation and rights related to share transactions impacting EPS	Review board minutes and approvals for share issuances, repurchases, and other equity transactions Ensure that all share transactions are authorised by appropriate personnel

Audit Step	Objective	Procedures
Valuation and Measurement	Ensure correct valuation and measurement of EPS components	Recalculate basic EPS by dividing net income available to common shareholders by the weighted average number of common shares outstanding Verify the adjustments for potential dilutive securities (e.g., stock options, convertible debt) to calculate diluted EPS
Reconciliation	Ensure accuracy and completeness of EPS calculations	Reconcile the weighted average number of shares used in the EPS calculation with the general ledger and share records Investigate and resolve any discrepancies
Review of Dilutive Securities	Verify the accuracy of adjustments for dilutive securities	Review the terms and conditions of dilutive securities such as stock options, warrants, and convertible instruments Test the calculations for potential dilution to ensure they are accurately reflected in diluted EPS
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to EPS	Review financial statement disclosures related to EPS, including the calculation of basic and diluted EPS, the weighted average number of shares, and potential dilutive securities Verify compliance with IAS 33 or other applicable standards Ensure adequate disclosure of the methodology used for calculating EPS and any potential impacts from dilutive securities

3.26 Changes In Accounting Policy

Audit Step	Objective	Procedures
Understanding Changes in Accounting Policy	Gain an understanding of the nature and reasons for the change in accounting policy	Review the entity's accounting policies and any changes made during the period Understand the reasons for the change in accounting policy and ensure they are consistent with applicable accounting standards
Authorisation and Rights	Verify authorisation for the change in accounting policy	Review board minutes and approvals for changes in accounting policy Ensure that changes in accounting policy are authorised by appropriate personnel

Audit Step	Objective	Procedures
Valuation and Measurement	Ensure correct valuation and measurement of adjustments related to changes in accounting policy	Review the retrospective application of the new accounting policy to prior periods Test the calculations of adjustments made to the financial statements to reflect the change in accounting policy
Review of Comparative Information	Verify the accuracy of restated comparative information	Review the restatement of prior period financial statements to ensure consistency with the new accounting policy Test the calculations and disclosures related to the restated comparative information
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to changes in accounting policy	Review financial statement disclosures related to the change in accounting policy, including the nature of the change, the reasons for the change, and the effects on the financial statements Verify compliance with IAS 8 or other applicable standards Ensure adequate disclosure of the retrospective application of the new accounting policy and the impact on prior period financial statements

3.27 Payroll And Other Expenses

Audit Step	Objective	Procedures
Understanding Payroll and Expense Policies	Gain an understanding of the entity's policies and procedures for payroll and other expenses	Review the entity's accounting policies for recognising and measuring payroll and other expenses Understand the processes for authorising, processing, and recording payroll and expenses
Occurrence and Completeness	Confirm the occurrence and completeness of payroll and expense transactions	Obtain and review payroll records, including employee contracts and timesheets Test a sample of expense reports and supporting documentation to ensure all expenses are recorded
Authorisation and Rights	Verify authorisation and rights related to payroll and expenses	Review approvals for payroll and expense transactions Ensure that payroll and expenses are authorised by appropriate personnel

Audit Step	Objective	Procedures
Valuation and Measurement	Ensure correct valuation and measurement of payroll and expenses	Verify the accuracy of payroll calculations, including wages, salaries, bonuses, and deductions Test the calculations for other expenses to ensure they are accurately measured and recorded
Cut-off Testing	Verify correct recording period for payroll and expense transactions	Examine the timing of payroll and expense transactions to ensure they are recorded in the appropriate periods Test a sample of transactions around period-end to ensure they are recorded in the correct period
Classification	Ensure proper classification of payroll and expense transactions in the financial statements	Review the chart of accounts and expense classifications Test a sample of payroll and expense transactions to verify they are classified correctly in the financial statements
Reconciliation	Ensure accuracy and completeness of payroll and expense accounts	Reconcile payroll expenses recorded in the financial statements with the general ledger and payroll records Investigate and resolve any discrepancies Reconcile other expense accounts with supporting documentation
Review of Payroll Liabilities	Verify the accuracy of payroll liabilities	Review the calculation of accrued payroll liabilities, such as unpaid wages, bonuses, and benefits Test the completeness and accuracy of payroll liability accounts
Review of Other Significant Expenses	Verify the accuracy of significant other	Test a sample of significant expense transactions by tracing to supporting documentation Ensure that significant expenses are properly classified and disclosed
Analytical Review	Identify unusual trends or discrepancies in payroll and other expenses	Perform trend analysis on payroll and other expense accounts Compare key metrics and financial ratios to prior periods and industry standards Investigate any significant fluctuations or anomalies

Audit Step	Objective	Procedures
Disclosure and Reporting	Ensure accurate financial reporting and disclosures related to payroll and other expenses	Review financial statement disclosures related to payroll and other expenses, including the nature and amount of significant expenses Verify compliance with applicable accounting standards Ensure adequate disclosure of payroll policies, employee benefits, and significant expense categories

3.28 Audit of Other Information

Auditors have specific responsibilities regarding corresponding figures, comparative financial statements, and 'other information' in the context of an audit.

Corresponding Figures and Comparative Financial Statements

ISA 710 – Comparative Information – Corresponding Figures and Comparative Financial Statements addresses the auditor's responsibilities for comparative information in an audit of financial statements. It distinguishes between corresponding figures and comparative financial statements and provides guidance on the audit procedures and reporting requirements for each.

Key Points from ISA 710:

- ***Corresponding Figures***: Defines them as comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements.
- ***Comparative Financial Statements***: Defines them as comparative information where amounts and other disclosures for the prior period are included for comparison with the current period.
- ***Audit Procedures:*** Includes comparing the prior period's financial statements with the current period and ensuring proper disclosures and consistency.

Auditor responsibilities in relation to **corresponding figures** include:

- ***Examine Corresponding Figures:*** The auditor is responsible for ensuring that the corresponding figures in the financial statements are correctly presented and consistent with the prior period's financial statements.
- ***Evaluate Changes***: If there are any changes in the figures or reclassifications, the auditor needs to evaluate whether these changes are appropriate and have been adequately disclosed.
- ***Audit Procedures:*** Perform audit procedures to verify the accuracy and completeness of corresponding figures. Could include:
    - Compare the corresponding figures with those in the prior period's audited financial statements.
    - Ensure that any changes in corresponding figures are disclosed and

explained in the notes to the financial statements.

- Obtain sufficient appropriate audit evidence to confirm the accuracy of the corresponding figures, including recalculating figures, verifying supporting documentation, and making inquiries of management.

Auditor responsibilities in relation to **comparative financial statements** include:

- ***Audit All Periods:*** The auditor is responsible for auditing the financial statements of all periods presented in the comparative financial statements.
- ***Consistency:*** Ensure that the financial statements are prepared consistently across periods, with consistent application of accounting policies.
- ***Opinion on Comparative Information:*** Provide an opinion on whether the comparative information is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- Conduct audit procedures including, for example:
  - Ensure consistency in accounting policies and their application across periods.
  - In some jurisdictions, auditors may provide separate opinions on each set of financial statements presented comparatively.
  - Reperform Procedures: For the prior period, reperform certain audit procedures to ensure that prior period figures remain accurate and comparable.

Other Information

ISA 720 – The Auditor's Responsibilities Relating to Other Information deals with the auditor's responsibilities regarding other information in documents containing audited financial statements. It requires auditors to read the other information and consider whether there are material inconsistencies or apparent material misstatements.

Key Points from ISA 720:

- ***Other Information:*** Defines it as financial and non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.
- ***Responsibilities:*** Requires auditors to read the other information to identify any material inconsistencies with the audited financial statements or apparent material misstatements.
- ***Reporting:*** If material inconsistencies or misstatements are identified, auditors must discuss these with management and take appropriate action, which may include modifying the auditor's report if the issues are not resolved.

Audit responsibilities in relation to other information are to:

- ***Review Other Information:*** The auditor is responsible for reviewing other information included in documents containing the audited financial statements (e.g., annual reports) to identify any material inconsistencies with the audited financial statements or any apparent material misstatements.

- ***Report on Other Information*:** The auditor must report if they find any material inconsistencies or misstatements in the other information.

Audit procedures are likely to include:

- ***Read and Consider*:** Read the other information to identify any inconsistencies or misstatements in the context of the financial statements.
- ***Communicate with Management*:** If inconsistencies or misstatements are found, communicate with management to resolve these issues.
- ***Audit Report Note*:** If the issues are not resolved, include a note in the audit report describing the inconsistency or misstatement.
- ***Documentation*:** Document the work performed and the conclusions reached regarding the other information.

3.29 Social and Environmental Factors

Financial statements reflect real-life transactions and balances and are linked to the world around us. Social and environmental matters can significantly impact financial statements and need to be considered by auditors. Some examples are shown below.

- ***Asset Valuation*:**
  - *Environmental Liabilities*: Companies may face liabilities related to environmental clean-ups, remediation costs, and compliance with environmental regulations. These liabilities need to be estimated and recognised in the financial statements.
  - *Impairment of Assets*: Environmental damage or changes in environmental regulations can lead to impairment of assets, requiring companies to write down the value of these assets.

- ***Provision for Liabilities*:**
  - *Legal Provisions*: Companies may need to create provisions for legal liabilities arising from environmental lawsuits or fines for non-compliance with environmental laws.
  - *Social Commitments*: Provisions may also be necessary for social commitments, such as community projects or improvements in working conditions promised by the company.

- ***Revenue and Costs*:**
  - *Sustainability Initiatives*: Costs related to sustainability initiatives, such as adopting greener technologies or improving labour practices, can affect the company's profitability.
  - *Carbon Credits and Emission Trading*: Revenue and costs associated with carbon credits and emission trading schemes need to be accounted for accurately.

- ***Disclosures*:**
  - *Environmental and Social Disclosures*: Companies must provide disclosures regarding their environmental and social impact, risks, and sustainability

efforts. These disclosures can affect stakeholder perception and are crucial for transparency.

- *Climate-Related Risks*: Disclosures related to climate change risks and how these risks are managed should be included in the financial statements.

Auditors should consider amending audit procedures in light of these issues. Some examples are shown below.

- ***Risk Assessment*:**
  - *Identify Risks*: Auditors need to identify risks related to social and environmental matters that could lead to material misstatements in the financial statements.
  - *Understand the Entity*: Auditors must understand the entity's operations, regulatory environment, and how social and environmental matters are managed.
- ***Audit Procedures*:**
  - *Evaluate Estimates*: Auditors need to evaluate the reasonableness of estimates related to environmental liabilities, asset impairments, and provisions for social commitments.
  - *Verify Compliance*: Check the company's compliance with environmental and social regulations, which may involve reviewing legal documents, environmental reports, and correspondence with regulatory bodies.
  - *Review Disclosures*: Assess the adequacy and accuracy of disclosures related to social and environmental matters in the financial statements.
- ***Use of Experts*:**
  - *Engage Experts*: Where necessary, auditors may need to engage environmental or legal experts to assess the impact of complex environmental regulations and liabilities accurately.
- ***Fraud Considerations*:**
  - *Consider Fraud Risks*: Social and environmental matters may present unique fraud risks, such as the manipulation of environmental compliance data or misrepresentation of sustainability achievements.
- ***Materiality*:**
  - *Assess Materiality*: Auditors must assess the materiality of social and environmental matters to determine their impact on the financial statements. Materiality thresholds may need to be adjusted to reflect the significance of these matters.
- ***Communication*:**
  - *Communicate with Management*: Discuss findings related to social and environmental matters with management and those charged with governance.
  - *Report Issues*: If significant issues are identified, include relevant findings in the auditor's report.

D.4 Using the Work of Others

4.1 Introduction

ISA 620 outlines the auditor's responsibilities when using the work of an expert. This standard provides guidance on how auditors should handle the involvement of experts to improve the audit process.

"Expert" means a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing and whose work is used by the auditor to obtain ***sufficient appropriate*** audit evidence. In obtaining an understanding of the entity and performing further procedures in response to assessed risks, the auditor may need to obtain audit evidence in the form of reports, opinions, valuations and statements of an expert. The auditor's education and experience ensure they have sufficient general knowledge for the audit, but the auditor is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation, such as an actuary or an engineer.

In the audit process, the importance of experts cannot be overstated. Their specialised knowledge significantly enhances the accuracy of audit findings. For instance, when dealing with the valuation of complex financial instruments, real estate, or other assets, valuation experts provide the necessary expertise to ensure that these valuations are precise and reflect the true financial position of the organisation. Similarly, actuarial experts are indispensable in audits involving insurance companies or pension plans, where their specialised skills ensure the accuracy of actuarial calculations.

Moreover, experts play a crucial role in mitigating risks associated with complex or high-risk areas of the audit. For example, legal experts are consulted for matters involving litigation, regulatory compliance, or complex legal issues. Their deep understanding of legal intricacies helps to identify and address potential risks, reducing the likelihood of overlooking critical aspects. Environmental and engineering experts are also engaged in audits involving environmental liabilities or technical assessments, where their expertise ensures that all environmental and technical risks are adequately assessed and managed.

The involvement of experts also adds a layer of credibility and reliability to the audit report. When stakeholders know that experts have contributed their specialised knowledge, they are more likely to have confidence in the audit conclusions. This trust is essential for the audit's overall effectiveness and the organisation's reputation. For example, an audit report that includes findings and recommendations from renowned valuation or legal experts is seen as more credible and reliable, reassuring stakeholders about the accuracy and thoroughness of the audit process. This enhanced credibility is crucial for maintaining stakeholder trust and ensuring the audit's impact is both meaningful and respected.

Typical examples of where the work of an expert might be used during the audit include:

- ***Valuation of Assets and Liabilities:*** Engaging valuation experts for complex financial instruments, real estate, or other assets.
- ***Legal Interpretations:*** Consulting legal experts for matters involving litigation, regulatory compliance, or complex legal issues.
- ***Actuarial Calculations:*** Using actuarial experts for audits involving insurance companies or pension plans.

- ***Environmental and Engineering Assessments*:** Consulting environmental or engineering experts for audits involving environmental liabilities or technical assessments.

ISA 620 provides guidance on auditor responsibilities when using the work of an expert.

- ***Determining the Need for an Expert*:**
    - *Assessment of Complexity*: The auditor must assess whether the matter being audited requires specialised knowledge beyond the auditor's expertise. If the matter is complex, involves high-risk areas, or requires specialised technical knowledge, the use of an expert may be necessary.
- ***Evaluating the Competence, Capabilities, and Objectivity of the Expert*:**
    - *Qualifications*: The auditor must evaluate the expert's professional qualifications, including their education, certification, and professional experience.
    - *Experience*: The auditor must consider the expert's experience in the field relevant to the audit.
    - *Reputation and Independence*: The auditor must assess the expert's reputation and ensure their independence and objectivity. The expert should not have any conflicts of interest that could impair their judgment.
- ***Obtaining an Understanding of the Expert's Work*:**
    - *Scope and Nature*: The auditor must understand the nature, scope, and objectives of the expert's work.
    - *Methods and Assumptions*: The auditor should obtain an understanding of the methods, assumptions, and data used by the expert to ensure they are appropriate and reasonable.
- ***Evaluating the Adequacy of the Expert's Work*:**
    - *Consistency*: The auditor must evaluate whether the expert's findings are consistent with other audit evidence.
    - *Reasonableness*: The auditor must assess the reasonableness of the expert's assumptions, methods, and conclusions.
    - *Documentation*: The expert's work must be properly documented, and the auditor should review this documentation to ensure it supports the audit conclusions.
- ***Using the Expert's Work as Audit Evidence*:**
    - *Integration*: The auditor must integrate the expert's findings into the overall audit process.
    - *Correlation with Other Evidence*: The auditor should correlate the expert's findings with other audit evidence to form a comprehensive

view.

- *Audit Report*: When necessary, the auditor should reference the expert's work in the audit report, ensuring transparency about the reliance on expert work.

- ***Communication with the Expert:***
  - *Clear Instructions*: The auditor must provide the expert with clear instructions regarding the scope of work, objectives, and the requirements of the audit.
  - *Ongoing Communication*: The auditor should maintain regular communication with the expert to address any issues or discrepancies that arise during the audit.

- ***Practical Application Examples***
  - *Valuation Experts:* When auditing the fair value of complex financial instruments or real estate, auditors may engage valuation experts to provide accurate and reliable valuations. The auditor must evaluate the expert's competence, ensure their methods are appropriate, and integrate their findings with other evidence.
  - *Legal Experts*: For audits involving litigation or regulatory compliance, legal experts provide crucial insights. The auditor must understand the legal context, evaluate the expert's interpretations, and ensure their work aligns with audit objectives.
  - *Actuarial Experts*: In audits of insurance companies or pension plans, actuarial experts are essential for accurate actuarial calculations. The auditor must assess the expert's assumptions and methods, ensuring they meet the required standards.
  - *Environmental and Engineering Experts*: Environmental and engineering experts are engaged for audits involving environmental liabilities or technical assessments. The auditor must understand the technical aspects, evaluate the expert's findings, and ensure they are consistent with other audit evidence.

4.2 Internal Auditing

4.2.1 Internal audit function

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

A company must create a strong system of internal control in order to fulfil its responsibilities. However, it is not sufficient to simply have mechanisms in place to manage a business, the effectiveness of those mechanisms must be regularly evaluated. All systems need some form of monitoring and feedback. This is the role of internal audit.

Having an internal audit department is generally considered to be best practice but is not normally required by law. This allows flexibility in the way internal audit is established to suit the needs of a business.

In small, or owner managed businesses there is unlikely to be a need for internal audit because the owners are able to exercise more direct control over operations and are accountable to fewer stakeholders.

The need for internal audit (IA) therefore will depend on:

- ***Scale and diversity of activities.*** In a larger, diversified organisation there is a risk that controls don't work as effectively because of the delegation of responsibility down the organisation. Internal audit can report back to the audit committee if controls are not as effective as they should be.
- ***Complexity of operations***. The more complex the organisation is, the greater the benefit obtained from having an IA function as there is greater risk of things going wrong. With larger organisations the consequences of poor controls/risk management/corporate governance practices are likely to be greater.
- ***Number of employees.*** The greater the number of employees the greater the risk of fraud.
- ***Cost/benefit considerations.*** It will be worthwhile establishing an IA function if the benefits outweigh the costs. For example, a company might be losing money as a result of fraud, not using the most cost effective or reliable suppliers, or incurring fines for non-compliance with laws and regulations. If these costs outweigh the cost of employing an IA function it will be beneficial to the company to establish a department.
- ***The desire of senior management to have assurance and advice on risk and control.*** The directors may wish to have the comfort that there is ongoing monitoring of the organisation to help them discharge their responsibilities.
- ***The current control environment and whether there is a history of fraud or control deficiencies.*** If so, it will be beneficial for the company to establish an internal audit function to prevent and detect fraud.

An internal audit function can carry out a variety of tasks and these will vary between different organisations. They could include:

1. Assurance and Consulting Services

- *Assurance Services*: Provide objective assessments on the effectiveness of risk management, control, and governance processes.
- *Consulting Services*: Offer advisory services to improve the organisation's operations, focusing on risk management and internal control systems.

2. Risk Management

- *Risk Identification*: Identify and assess risks that could impede the achievement of the organisation's objectives.
- *Risk Evaluation*: Evaluate the adequacy and effectiveness of risk management processes.
- *Risk Mitigation*: Recommend strategies to mitigate identified risks.

3. Internal Controls

- *Control Assessment*: Evaluate the design and operating effectiveness of internal controls.
- *Control Improvement*: Recommend improvements to strengthen internal controls and mitigate risks.
- *Compliance Monitoring*: Ensure that internal controls comply with applicable laws, regulations, and internal policies.

4. Governance

- Corporate Governance: Assess the organisation's governance processes and recommend enhancements.
- Ethics and Integrity: Promote a culture of ethical behaviour and integrity.
- Board Reporting: Provide regular reports to the board of directors and audit committee on audit findings, risks, and control issues.

5. Operational Efficiency

- *Process Improvement*: Identify opportunities for improving efficiency and effectiveness in business processes.
- *Resource Optimisation*: Advise on the optimal use of resources to achieve organisational goals.
- *Performance Measurement*: Evaluate the effectiveness and efficiency of operations.

6. Financial Auditing

- *Financial Accuracy*: Verify the accuracy and reliability of financial records and reports.
- *Fraud Detection*: Detect and investigate potential fraud and financial irregularities.
- *Compliance Audits*: Ensure adherence to financial regulations and accounting standards.

7. Information Technology Auditing

- *IT Controls*: Assess the effectiveness of IT controls and security measures.
- *Data Integrity*: Ensure the integrity, reliability, and security of information systems.
- *Cybersecurity*: Evaluate the organisation's cybersecurity posture and recommend improvements.

8. Compliance Auditing

- *Regulatory Compliance*: Ensure compliance with relevant laws, regulations, and industry standards.
- *Policy Adherence*: Verify adherence to internal policies and procedures.

Indicators of a well-functioning internal audit function include:

- Sufficiently resourced, both financially and in terms of qualified, experienced staff.
- Well organised, so that it has well developed work practices.

- Independent and objective to provide an unbiased view of the organisation's operations.
- The chief internal auditor should be appointed by the audit committee to reduce management bias.
- The department should have no operational responsibilities to reduce the threat of self-review.
- The audit committee should set the plan of work.
- There should be no limitation on the scope of their work i.e. full access to every part of the organisation.

4.2.2 Reliance on Internal Auditing

Given that internal auditors cover similar ground to that of the external auditor it may be efficient for the external auditor to place reliance on some of the internal audit work conducted. In effect, the external auditor can use internal audit work as audit evidence and reduce the amount of additional work to attain sufficient appropriate audit evidence.

ISA 610 provides guidance on the external auditor's responsibilities when using the work of the internal audit function. It outlines the criteria and steps external auditors should follow to determine whether they can place reliance on the work performed by internal auditors. Essentially this is a two-step process: Firstly, the external auditor must assess the adequacy of the internal audit function. If that is satisfactory then the external auditor must assess the quality of the internal audit work to be relied upon.

This assessment will roughly follow these steps:

1. Understand the Internal Audit Function:

- ***Organisational Status***: Understand the internal audit function's reporting structure and its position within the organisation.
- ***Responsibilities***: Review the responsibilities and scope of the internal audit function.
- ***Resources***: Assess the resources available to the internal audit function, including staff and technology.

2. Evaluate the Objectivity of the Internal Audit Function:

- ***Independence***: Ensure the internal audit function is independent from the operations it audits.
- ***Reporting Lines***: Check that the internal audit function reports to an appropriate level within the organisation, such as the audit committee or the board of directors.

3. Assess the Competence of the Internal Audit Function:

- ***Qualifications***: Evaluate the qualifications and experience of the internal audit team.
- ***Training and Development***: Review the ongoing training and professional development of internal audit staff.

4. Determine the Use of a Systematic and Disciplined Approach:

- ***Methodology***: Assess whether the internal audit function follows a consistent and rigorous methodology.
- ***Quality Control***: Check for quality control procedures within the internal audit function, such as internal reviews and supervision.

5. Plan and Perform the External Audit:

- ***Scope and Nature of Internal Audit Work***: Identify areas where the internal audit function's work is relevant to the external audit.
- ***Risk Assessment***: Consider the internal audit function's risk assessments in the external audit planning process.
- ***Coordination and Communication***: Establish effective communication and coordination mechanisms between the external and internal audit teams.

6. Evaluate the Internal Audit Work:

- ***Review Documentation***: Review the internal audit documentation to assess the adequacy of the work performed.
- ***Test Internal Audit Work***: Perform tests on a sample of the internal audit work to verify its quality and reliability.
- ***Conclusions and Reports***: Assess the internal audit function's conclusions and reports to determine their relevance and reliability for the external audit.

7. Document the Evaluation and Use of Internal Audit Work:

- ***Documentation Requirements***: Document the procedures performed to evaluate the internal audit function and the conclusions reached.
- ***Audit Report***: Include references to the internal audit work relied upon in the external audit report, if applicable.

4.3 Outsourced Functions

Often companies will outsource aspects of their operations to third party providers. For example, payroll services might be provided by an external accounting company or IT systems may be managed by an independent technology company. These outsourced elements need to be considered as part of the audit process.

Auditing the impact of outsourced functions involves evaluating how outsourcing affects the organisation's operations, control environment, risk management, and compliance. This is of particular importance where the outsourced functions impact directly on the financial statements. Here is an outline of key steps and considerations in auditing the impact of outsourced functions:

1. Understand the Outsourced Function

- ***Scope and Nature***: Understand what functions have been outsourced, including the scope of services provided by the third party.

- ***Objectives***: Identify the objectives and expected benefits of outsourcing, such as cost savings, increased efficiency, or access to specialised expertise.

2. Risk Assessment

- ***Identify Risks***: Identify risks associated with outsourcing, such as operational risks, compliance risks, data security risks, and reputational risks.
- ***Evaluate Risk Management***: Assess the organisation's processes for managing and mitigating these risks, including due diligence conducted before selecting the service provider.

3. Evaluate the Service Provider

- ***Due Diligence***: Review the due diligence process used to select the service provider, including their qualifications, reputation, financial stability, and compliance with relevant regulations.
- ***Service Level Agreements (SLAs)***: Evaluate the SLAs in place, ensuring they clearly define the expected service levels, performance metrics, and responsibilities of both parties.

4. Review Control Environment

- ***Internal Controls***: Assess the internal controls related to the outsourced functions, ensuring they are designed effectively and operate as intended.
- ***Third-Party Controls***: Evaluate the control environment of the service provider, including their internal controls, risk management practices, and compliance with industry standards.

5. Monitor Performance and Compliance

- ***Performance Monitoring***: Review how the organisation monitors the performance of the outsourced functions against the SLAs and key performance indicators (KPIs).
- ***Compliance Monitoring***: Ensure there are mechanisms to monitor compliance with relevant laws, regulations, and internal policies.

6. Data Security and Privacy

- ***Data Protection***: Evaluate the measures in place to protect the organisation's data handled by the service provider, including data encryption, access controls, and data breach response plans.
- ***Privacy Compliance***: Ensure the service provider complies with relevant data privacy laws and regulations, such as GDPR in Europe.

7. Contract Management

- ***Contract Review***: Review the contract with the service provider to ensure it includes necessary clauses related to performance, compliance, confidentiality, and termination.

- **Amendments and Renewals**: Assess how contract amendments and renewals are managed, ensuring they reflect any changes in the scope of services or regulatory requirements.

8. Incident Management

- ***Incident Response***: Evaluate the processes for managing incidents related to the outsourced functions, including incident reporting, investigation, and resolution.
- ***Business Continuity***: Assess the business continuity and disaster recovery plans related to the outsourced functions, ensuring they are robust and regularly tested.

9. Reporting and Communication

- ***Internal Reporting***: Review the internal reporting mechanisms related to outsourced functions, ensuring timely and accurate communication of performance, issues, and risks to management and the board.
- ***Stakeholder Communication***: Ensure there is effective communication with stakeholders, including customers and regulators, about the outsourced functions and any related issues.

10. Audit Findings and Recommendations

- ***Document Findings***: Document the findings of the audit, including any gaps or weaknesses identified in the outsourcing arrangements.
- ***Action Plans***: Develop recommendations and action plans to address identified issues and enhance the effectiveness of outsourced functions.
- ***Follow-Up***: Plan follow-up audits to ensure that corrective actions have been implemented and that the outsourced functions continue to operate effectively.

D.5 Group Audits

5.1 Introduction

A group audit is an audit of the financial statements of a group of entities, such as a parent company and its subsidiaries or its business units or branches, which are combined or consolidated into a single set of financial statements. Under the new standard, ISA 600 (Revised), group financial statements include the financial information of more than one entity or business unit through a consolidation process. The term consolidation process refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions.

The group auditor is responsible for obtaining sufficient appropriate audit evidence regarding the financial information of the components (subsidiaries, divisions, or other business units) to express an opinion on the group's financial statements as a whole. The process involves coordination with component auditors who may perform audits of the financial information of the individual components.

Key elements of a group audit are:

- ***Group Financial Statements:*** According to ISA 600 (revised), group financial statements are "financial statements that include financial information of more than one entity or business unit through a consolidation process. For purposes of ISA 600 (Revised), a consolidation process includes;

  (i) Consolidation, proportionate consolidation, or an equity method of accounting,

  (ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management

  (iii) The aggregation of the financial information of entities or business units such as branches or divisions

- ***Group Auditor:*** The group engagement partner and members of the engagement team other than component auditors, who're part of group engagement team. The Group Auditor is responsible for:

  (i) Establishing the overall group audit strategy and group audit plan;

  (ii) Directing and supervising component auditors and reviewing their work;

  (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

- ***Component Auditors:*** Auditors who perform work on the financial information of the components. They may be part of the same firm as the group auditor or different audit firms. In line with ISA 600 (Revised), *a component auditor is a part of the engagement team for a group audit*.

- ***Components:*** Individual entities or business units within the group, such as subsidiaries, divisions, or branches. Thus, the new standard ISA 600 (revised) defines a component as "*an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning & performing audit procedures in a group audit*".

- ***Aggregation Risk***: The probability that the aggregate of uncorrected & undetected misstatements exceeds materiality for the financial statements as a whole. This is amongst the newly introduced concepts under ISA 600 (revised) to replace old concepts like significant component and component materiality.

- ***Group performance materiality***: Performance materiality in relation to the group financial statements.

Auditing a group of companies is a bit different from a stand-alone audit and these special considerations are covered by ISA 600 (Revised).

5.2 Acceptance and Continuance

The Group Engagement Partner of the audit must consider initially whether to accept the engagement and, in given circumstances during the audit, consider whether to continue

with it. Specific considerations are shown below:

- ***Terms of the Engagement*:** The group auditor must obtain group management's agreement on their responsibilities to provide:
    - Access to all relevant information.
    - Additional information requested by the audit team.
    - Unrestricted access to necessary personnel.
- ***Restrictions on Access to Information or People Outside Control of Group Management*:** If access cannot be provided due to external restrictions, the partner must consider the potential impact on the audit.
- ***Restrictions Imposed by Group Management*:** If group management imposes restrictions that prevent obtaining sufficient audit evidence, leading to a potential disclaimer of opinion:
    - For initial engagements, the partner should not accept the engagement.
    - For recurring engagements, the partner should withdraw if possible.
    - If withdrawal is not possible due to legal constraints, the partner should disclaim an opinion on the financial statements after performing the audit as far as possible.

5.3 Group Audit Risks

There are a series of specific risks in relation to a group audit and these should be identified during the audit planning phase and appropriate audit procedures performed.

Audit Risk	Audit Procedures
Inconsistent Accounting Policies Across Components	Review and evaluate the accounting policies of each component to ensure consistency with the group's policies. Assess the impact of any inconsistencies and adjust accordingly.
Misstatement Due to Complex Group Structures	Understand the group's structure, including special-purpose entities and related parties. Perform risk assessments and substantive testing on complex transactions.
Incomplete or Inaccurate Consolidation Adjustments	Review the consolidation process, including intercompany eliminations and foreign currency translations. Test consolidation adjustments for accuracy and completeness.
Non-compliance with Local Laws and Regulations at Component Level	Evaluate compliance frameworks and controls at each component. Perform substantive procedures and tests of controls to verify adherence to local laws and regulations.

5.3.1 Group Audit Materiality

ISA 600 (Revised) requires the group engagement partner to determine appropriate materiality levels for both the group and its components to ensure the overall audit of the group financial statements is effectively planned and conducted. Under the new standard ISA 600 (Revised), the component materiality is no longer required but only component performance materiality and component clearly trivial threshold aligned with that of the group.

Group Materiality:

- ***Definition:*** Group materiality is the threshold set for the financial statements of the entire group.
- ***Determination:*** The group engagement partner determines group materiality to ensure that the financial statements as a whole are free from material misstatement.
- ***Application:*** Group materiality is used to evaluate the effect of identified misstatements on the group financial statements and to determine the nature, timing, and extent of further audit procedures.

Component Performance Materiality:

- ***Definition:*** Component performance materiality is an amount set by the group auditor to reduce aggregate risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
- ***Determination:*** The assigned component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:

  (i) The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk).

  (ii) Expectations about the nature, frequency, and magnitude of misstatements in the component financial information.

- ***Application:*** ISA 600 (Revised) does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, ISA 320 requires a determination of the materiality level or levels to be applied to those particular classes of transactions,

account balances or disclosures. In these circumstances, the group auditor may need to consider whether a component (specific) performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures. In some other circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements.

5.3.2 Non-coterminous year-ends

Non-coterminous year-ends occur when the financial reporting periods of the components do not align with the group's financial reporting period. This can complicate the consolidation process and the audit of the group financial statements due to differences in reporting periods. In response to this, the auditor should perform specific audit procedures.

- ***Understanding Reporting Dates:*** The group engagement team should obtain an understanding of the reporting dates of the components and how they differ from the group's reporting date.
- ***Adjustments for Differences:*** Adjustments should be made for significant transactions or events that occur between the component's financial reporting date and the group's reporting date to ensure the group financial statements are not materially misstated.
- ***Component Auditor's Work:*** The group engagement team should determine the extent of the work to be performed by the component auditor on the component's financial information as of a different date. This may include performing additional procedures or obtaining specific representations from component management.
- ***Consistency and Reconciliation:*** Ensure that the financial information of the components is consistently prepared and reconciled to the group's financial reporting framework. This includes ensuring that appropriate adjustments are made to account for the time difference.
- ***Communication and Coordination:*** Maintain effective communication and coordination with component auditors regarding the need for additional audit procedures to cover the period between the component's financial reporting date and the group's reporting date.
- ***Disclosure:*** Ensure that any significant events or transactions occurring between the component's reporting date and the group's reporting date are adequately disclosed in the group financial statements.

5.3.3 Changes in Group Structure

Changes in group structure refer to acquisitions, disposals, reorganisations, or other significant changes that affect the composition of the group during the period under audit. Such changes can affect the scope of the group audit, the identification of components, and the assessment of risks and materiality. Specific considerations are shown below.

- ***Understanding the Change:***
    - Obtain an understanding of the nature and details of the changes in the group structure, including acquisitions, disposals, mergers, or other reorganisations.
    - Assess the impact of these changes on the group's financial statements and the scope of the audit.
- ***Assessing Risks:***
    - Identify and assess the risks of material misstatement arising from the changes in group structure.
    - Evaluate the design and implementation of controls related to the changes.
- ***Component Identification and Materiality:***
    - Reassess the identification of components and determine if new components have been added or if any components are no longer relevant.
    - Adjust the materiality levels for components affected by the changes in group structure.
- ***Communication with Component Auditors:***
    - Communicate with component auditors about the changes in group structure and the implications for their work.
    - Ensure that component auditors are aware of any changes in the scope of their audit work and any additional audit procedures required.
- ***Consolidation Adjustments:***
    - Review and test the consolidation adjustments related to the changes in group structure, such as the elimination of intercompany transactions and balances, and the accounting for business combinations or disposals.
    - Ensure that the changes are appropriately reflected in the group financial statements.
- ***Disclosures:***
    - Ensure that adequate disclosures are made in the group financial statements regarding the changes in group structure, including the nature and impact of the changes.

5.4 Group Audit Procedures

Suggested audit procedures on specific aspects of a group audit are presented below.

Business Combinations (including Investments)

Audit Step	Objective	Procedures
Test for Acquisition Accounting and Valuation	To ensure that the business combination is accounted for in accordance with applicable financial reporting standards (e.g., IFRS 3 - Business Combinations).	Verify the acquisition date and ensure the proper recognition of assets acquired, liabilities assumed, and any non-controlling interest. Assess the fair values of identifiable assets and liabilities at the acquisition date. This includes reviewing valuation reports, reperforming fair value calculations, and comparing with market data. Examine the purchase consideration paid, including cash, shares, or other forms of payment. Ensure the correct calculation of goodwill or gain from a bargain purchase.
Test for Classification and Measurement of Investments	To ensure that investments are appropriately classified and measured in accordance with applicable standards (e.g., IFRS 9 - Financial Instruments).	Verify the initial classification of investments as per the business model and contractual cash flow characteristics. This includes determining whether investments are classified as fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), or amortised cost. Test the subsequent measurement of investments based on their classification. For FVPL and FVOCI investments, verify the fair value adjustments and ensure proper recognition in the financial statements. Review the impairment testing of investments measured at amortised cost and FVOCI, including the evaluation of expected credit losses.

Audit Step	Objective	Procedures
Test for Disclosure Requirements	To ensure that the disclosures related to the business combination and investments are complete and accurate in accordance with applicable financial reporting standards (e.g., IFRS 3, IFRS 7 - Financial Instruments: Disclosures, and IFRS 12 - Disclosure of Interests in Other Entities).	Review the financial statements to ensure that all required disclosures related to the business combination are made, including the details of the acquisition, the fair values of assets and liabilities acquired, and the amount of goodwill or gain recognised. Verify the disclosures related to investments, including their classification, measurement basis, and any changes in classification. Ensure that disclosures about the risks associated with investments, such as credit risk, liquidity risk, and market risk, are adequately presented in the financial statements.

Goodwill

Audit Step	Objective	Procedures
Test for Initial Recognition and Valuation of Goodwill	To ensure that goodwill is initially recognised and measured correctly in accordance with applicable financial reporting standards (e.g., IFRS 3 - Business Combinations).	Verify the calculation of goodwill at the acquisition date. This involves reviewing the purchase price allocation, ensuring that the consideration transferred, non-controlling interest, and previously held equity interest are correctly included. Assess the fair values of identifiable assets acquired and liabilities assumed. This includes reviewing valuation reports and comparing fair value calculations with market data to ensure they are reasonable and accurate. Confirm that any excess of the purchase price over the fair value of the net identifiable assets is correctly recorded as goodwill. If the fair value of net assets exceeds the purchase price, verify that a gain from a bargain purchase is recognised.

Audit Step	Objective	Procedures
Test for Impairment Testing of Goodwill:	To ensure that goodwill is not carried at an amount exceeding its recoverable amount and that any impairment losses are properly recognised in accordance with applicable standards (e.g., IAS 36 - Impairment of Assets).	Review the entity's goodwill impairment testing process, including the identification of cash-generating units (CGUs) to which goodwill is allocated. Assess the assumptions and methodologies used in the impairment test. This includes evaluating the reasonableness of cash flow projections, discount rates, and growth rates used in the value-in-use calculations. Perform sensitivity analysis on key assumptions to determine the potential impact on the recoverable amount of goodwill. Verify that any identified impairment loss is correctly recorded and disclosed in the financial statements.
Test for Disclosure Requirements Related to Goodwill	To ensure that the disclosures related to goodwill are complete and accurate in accordance with applicable financial reporting standards (e.g., IFRS 3 and IAS 36).	Review the financial statements to ensure that all required disclosures related to goodwill are made. This includes information about the carrying amount of goodwill, the allocation of goodwill to CGUs, and the key assumptions used in the impairment testing process. Verify that any impairment losses recognised during the period are adequately disclosed, including the events and circumstances leading to the impairment. Ensure that disclosures about the sensitivity of the impairment test to changes in key assumptions are included, providing users with an understanding of the potential impact of changes in these assumptions on the recoverable amount of goodwill.

Group Accounting Policies

Audit Step	Objective	Procedures
Test for Consistency and Appropriateness of Group Accounting Policies	To ensure that the group accounting policies are consistent across all components and are appropriate in accordance with applicable financial reporting standards.	Review the group's accounting policy manual and compare it with the accounting policies applied by individual components. Ensure that all components are following the same accounting policies as adopted by the group. Evaluate the appropriateness of the group accounting policies in the context of the group's business activities and transactions. Verify that these policies comply with the relevant financial reporting standards (e.g., IFRS) Identify any deviations or exceptions in the accounting policies applied by components. Assess the impact of any such deviations on the group financial statements and ensure that appropriate adjustments are made during consolidation.
Test for Changes in Accounting Policies	To ensure that any changes in the group accounting policies are properly authorised, consistently applied, and adequately disclosed in accordance with applicable financial reporting standards.	Review the minutes of board meetings and other relevant documentation to identify any changes in accounting policies during the reporting period. Verify that these changes have been properly authorised by the appropriate level of management. Assess the rationale for the changes in accounting policies and ensure that they are consistently applied across all components. Verify that the changes are accounted for retrospectively, where required, and that comparative figures are appropriately restated. Ensure that the changes in accounting policies are adequately disclosed in the group financial statements, including the nature of the change, the reason for the change, and the impact on the current and comparative periods.

Audit Step	Objective	Procedures
Test for Disclosure of Group Accounting Policies	To ensure that the group accounting policies are adequately disclosed in the financial statements in accordance with applicable financial reporting standards.	Review the group financial statements to ensure that all significant accounting policies are disclosed, including the basis of consolidation, revenue recognition, financial instruments, and other relevant policies. Verify that the disclosures provide sufficient detail to enable users of the financial statements to understand the key accounting policies and their application. Ensure that any changes in accounting policies and their impact on the financial statements are clearly disclosed, including the reasons for the change and the effect on the current and prior periods.

Intra-group Trading

Audit Step	Objective	Procedures
Test for Identification and Recording of Intra-Group Transactions	To ensure that all intra-group transactions are identified and accurately recorded in the financial statements	Review the group's accounting policies and procedures for identifying and recording intra-group transactions. Ensure that there are appropriate controls in place to capture all such transactions. Obtain a listing of all intra-group transactions from the general ledgers of the parent and subsidiary companies. Reconcile these transactions between the group entities to ensure that they are accurately recorded. Perform substantive testing on a sample of intra-group transactions to verify the completeness and accuracy of the recorded amounts. This includes reviewing supporting documentation such as invoices, contracts, and intercompany agreements.

Audit Step	Objective	Procedures
Test for Elimination of Intra-Group Balances and Transactions	To ensure that all intra-group balances and transactions are properly eliminated during the consolidation process to prevent double counting or misstatement of the group financial statements.	Review the consolidation process to understand how intra-group balances and transactions are identified and eliminated. Ensure that the consolidation worksheets or software correctly reflect these eliminations. Verify the elimination of intra-group sales, purchases, dividends, and other transactions by reviewing consolidation adjustments. Test a sample of elimination entries to ensure they are accurate and complete. Check for any remaining intra-group balances in the consolidated financial statements. Ensure that any discrepancies or unresolved differences are investigated and appropriately adjusted.
Test for Disclosure of Intra-Group Transactions	To ensure that intra-group transactions are adequately disclosed in the group financial statements in accordance with applicable financial reporting standards (e.g., IFRS)	Review the financial statements to ensure that disclosures regarding intra-group transactions are complete and accurate. This includes the nature, amount, and terms of the transactions. Verify that the financial statements include disclosures about the elimination of intra-group transactions and balances, as well as any remaining intra-group receivables and payables. Ensure that the disclosures provide sufficient detail to enable users of the financial statements to understand the nature and impact of intra-group transactions on the group's financial position and performance.

Equity Accounting for Associates and Joint Ventures

Audit Step	Objective	Procedures
Test for Initial Recognition and Measurement	To ensure that investments in associates and joint ventures are initially recognised and measured correctly in accordance with applicable financial reporting standards (e.g., IFRS 11 - Joint Arrangements and IAS 28 - Investments in Associates and Joint Ventures).	Obtain and review the agreements and other documentation supporting the investment in the associate or joint venture. Verify the classification as an associate or joint venture based on the level of control or influence. Check the initial recognition of the investment, ensuring it is recorded at cost, which includes the purchase price and any directly attributable acquisition costs. Verify that the share of the investee's net assets at acquisition is correctly calculated and recorded, ensuring the correct allocation between goodwill and other identifiable assets and liabilities.
Test for Equity Method of Accounting	To ensure that the equity method of accounting is properly applied in the group financial statements for associates and joint ventures.	Review the periodic financial statements of the associate or joint venture and verify the group's share of the investee's profit or loss is correctly recognised in the group's profit or loss. Ensure that the group's share of other comprehensive income (OCI) of the associate or joint venture is correctly recognised in the group's OCI. Verify that dividends received from the associate or joint venture are appropriately recorded as a reduction in the carrying amount of the investment. Check that any adjustments for intercompany transactions between the group and the associate or joint venture are appropriately made to prevent double counting or misstatement.

Audit Step	Objective	Procedures
Test for Impairment and Disclosures	To ensure that investments in associates and joint ventures are not carried at amounts exceeding their recoverable amounts and that disclosures are complete and accurate.	Review and assess the impairment testing process for investments in associates and joint ventures. Evaluate the reasonableness of assumptions and methodologies used in calculating the recoverable amount. Perform substantive procedures to test the carrying amount of the investment. Compare the carrying amount with the recoverable amount and ensure that any impairment loss is correctly recognised in the financial statements. Review the financial statements to ensure that all required disclosures related to investments in associates and joint ventures are made, including the nature of the relationship, the financial information of the investee, and any significant restrictions on the ability of the investee to transfer funds to the group. Ensure that any changes in the group's ownership interest in the associate or joint venture are adequately disclosed, including the impact on the financial statements.

Changes in Group Structure

Audit Step	Objective	Procedures
Test for Identification and Recording of Changes in Group Structure	To ensure that all changes in the group structure, such as acquisitions, disposals, mergers, or reorganisations, are identified and accurately recorded in the financial statements.	Review the minutes of board meetings, contracts, and other relevant documentation to identify any changes in the group structure during the reporting period. Verify that the changes are properly authorised and documented. Ensure that all acquisitions, disposals, and restructurings are accurately recorded in the accounting records. Obtain a detailed understanding of the terms and conditions of each transaction, including the consideration transferred, assets acquired, and liabilities assumed or disposed of.
Test for Consolidation Adjustments and Elimination of Intra-Group Transactions	To ensure that the financial effects of changes in the group structure are accurately reflected in the consolidated financial statements, including appropriate consolidation adjustments and elimination of intra-group transactions.	Review the consolidation process to understand how changes in the group structure are accounted for. Ensure that the consolidation worksheets or software correctly reflect these changes. Verify that any intra-group transactions, balances, and unrealised profits or losses arising from changes in the group structure are appropriately eliminated during consolidation. Test a sample of consolidation adjustments related to the changes in group structure to ensure they are accurate and complete. Check that intercompany transactions and balances are properly eliminated.

Audit Step	Objective	Procedures
Test for Disclosure Requirements Related to Changes in Group Structure	To ensure that changes in the group structure are adequately disclosed in the financial statements in accordance with applicable financial reporting standards (e.g., IFRS 3 - Business Combinations, IFRS 10 - Consolidated Financial Statements, and IFRS 12 - Disclosure of Interests in Other Entities).	Review the financial statements to ensure that all required disclosures related to changes in the group structure are made. This includes information about acquisitions, disposals, and any other significant changes. Verify that the disclosures provide sufficient detail about the nature and impact of each change, including the consideration transferred, the fair values of assets acquired, and liabilities assumed or disposed of, and the amount of any goodwill or gain on bargain purchase recognised. Ensure that any contingent liabilities, commitments, or significant post-acquisition events related to the changes in group structure are adequately disclosed.

Accounting for a Foreign Subsidiary

Audit Step	Objective	Procedures
Test for Translation of Foreign Currency Financial Statements	To ensure that the financial statements of the foreign subsidiary are accurately translated into the group's reporting currency in accordance with applicable financial reporting standards (e.g., IAS 21 - The Effects of Changes in Foreign Exchange Rates).	Obtain the foreign subsidiary's financial statements prepared in its functional currency and verify the accuracy of these statements. Review the translation method used to convert the subsidiary's financial statements into the group's reporting currency. Ensure that assets and liabilities are translated at the closing rate, income and expenses are translated at the exchange rates at the dates of the transactions or at an average rate, and that any exchange differences are correctly recognised in other comprehensive income.

Audit Step	Objective	Procedures
		Perform substantive testing on the translated balances to verify the accuracy of the exchange rates used and the correctness of the translation adjustments. Recalculate the translation of a sample of transactions and balances to confirm accuracy.
Test for Consolidation Adjustments	To ensure that the financial results of the foreign subsidiary are correctly consolidated with those of the parent company, including appropriate elimination of intra-group transactions and balances.	Review the consolidation process to ensure that the foreign subsidiary's financial information is accurately included in the group's consolidated financial statements. Verify that all intra-group transactions and balances between the foreign subsidiary and other group entities are identified and eliminated. Test the consolidation adjustments related to the foreign subsidiary, including the elimination of intercompany sales, purchases, dividends, and other transactions. Ensure that any resulting unrealised profits or losses are appropriately adjusted. Check that any foreign currency translation differences arising from the consolidation are correctly recorded in the group's equity under other comprehensive income.

Audit Step	Objective	Procedures
Test for Disclosure Requirements	To ensure that the financial impact of having a foreign subsidiary is adequately disclosed in the group financial statements in accordance with applicable financial reporting standards (e.g., IFRS 12 - Disclosure of Interests in Other Entities).	Review the financial statements to ensure that all required disclosures related to the foreign subsidiary are made, including the nature of the entity's operations, the functional currency, and the basis for determining the functional currency. Verify that disclosures include information about the exchange rates used, the impact of foreign exchange differences on the group's financial position and performance, and any significant restrictions on the foreign subsidiary's ability to transfer funds to the parent company. Ensure that the financial statements provide sufficient information about the risks associated with foreign exchange rate changes and the group's exposure to these risks.

Consolidation Process

Audit Step	Objective	Procedures
Test for Identification and Inclusion of All Subsidiaries	To ensure that all subsidiaries are identified and appropriately included in the consolidated financial statements in accordance with applicable financial reporting standards (e.g., IFRS 10 - Consolidated Financial Statements).	Obtain and review the group structure, including details of all entities controlled by the parent company. Verify that all subsidiaries are identified and included in the consolidation. Confirm that the parent company controls each subsidiary, either through direct or indirect ownership of more than 50% of the voting rights or through other means of control. Cross-check the list of subsidiaries with the legal and regulatory filings, board minutes, and other relevant documents to ensure completeness and accuracy.

Audit Step	Objective	Procedures
Test for Elimination of Intra-Group Transactions and Balances	To ensure that all intra-group transactions and balances are eliminated during the consolidation process to prevent double counting or misstatement of the group financial statements.	Obtain a listing of all intra-group transactions and balances, including sales, purchases, loans, dividends, and other intercompany transactions. Verify that these transactions and balances are identified for elimination. Review the consolidation worksheets or software to ensure that all intra-group transactions and balances are appropriately eliminated. Test a sample of elimination entries to ensure they are accurate and complete. Verify that any unrealised profits or losses arising from intra-group transactions are eliminated and confirm that intercompany account balances are reconciled and eliminated in the consolidated financial statements.
Test for Consolidation Adjustments and Disclosures	To ensure that all necessary consolidation adjustments are made and adequately disclosed in the consolidated financial statements in accordance with applicable financial reporting standards.	Review the consolidation adjustments, including those for fair value adjustments on acquisition, goodwill, non-controlling interests, and foreign currency translation. Test a sample of these adjustments to ensure they are correctly calculated and recorded. Verify that the consolidated financial statements include all required disclosures related to the consolidation process. This includes information about the basis of consolidation, the accounting policies used, and the details of any non-controlling interests. Ensure that the financial statements provide sufficient information about the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent company, as well as any material contingent liabilities or commitments.

5.5 Working with Other Auditors

For a successful group audit, it is critical that group and component auditors communicate well throughout the engagement.

5.5.1 Assess Component Auditor

Under ISA 600 (Revised), the group engagement partner is responsible for assessing the component auditor to ensure that their work can be relied upon in forming an opinion on the group financial statements. The assessment involves evaluating the component auditor's competence, independence, understanding of group audit requirements, and the quality of their work.

Competence and Independence

The group engagement partner must first evaluate the competence and independence of the component auditor. This involves reviewing the qualifications, experience, and professional reputation of the component auditor. The partner should check the component auditor's membership with professional accounting bodies and their history of work on similar engagements to ensure they have the necessary skills and experience. Additionally, the group engagement partner must assess the independence of the component auditor by reviewing their independence declarations and evaluating any potential threats to independence, such as financial interests or relationships with the component or its management. It is essential to confirm that the component auditor complies with relevant ethical requirements, such as the International Ethics Standards Board for Accountants (IESBA) Code of Ethics or other applicable ethical standards.

Understanding of Group Audit Requirements

The group engagement partner must ensure that the component auditor understands the requirements of the group audit and can effectively coordinate their work with the group engagement team. This involves clear communication with the component auditor to ensure they understand the scope of their work, including the specific audit procedures they need to perform and the reporting requirements to the group engagement team. The group engagement partner should review the component auditor's audit plan and risk assessment to ensure it aligns with the group audit strategy and addresses significant risks identified by the group engagement team. Additionally, the partner should evaluate the component auditor's documentation and work papers to ensure they are of sufficient quality and detail to support their audit conclusions and to enable the group engagement team to rely on their work.

Quality of Work Performed

Finally, the group engagement partner must ensure that the work performed by the component auditor is of high quality and can be relied upon for the purposes of the group audit. This involves performing a detailed review of the component auditor's work papers, focusing on areas of significant risk, key audit judgements, and any findings or issues identified during the audit. The group engagement partner should assess the sufficiency and appropriateness of the audit evidence obtained by the component auditor, ensuring it supports their conclusions and is adequately documented. Discussions with the component auditor may be necessary to address any concerns or issues identified

during the review of their work, and additional explanations or audit evidence should be obtained if necessary to resolve any outstanding matters.

5.5.2 Responsibilities of a Component Auditor

Component auditor's responsibility before accepting the engagement or appointment;

- Whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.
- Need or request to offer non-assurance services engagements (e.g. tax advisory) to the group's subsidiary or related entity.
- Have a formal terms/letter of engagement, with appropriate responsibilities including reference to supporting or cooperation-with, group auditors.

Under ISA 600 (Revised), the responsibilities of a component auditor are vital to the success of a group audit. These responsibilities ensure that the component auditor's work is effectively integrated into the group audit and meets the required standards. Here's a narrative outlining these responsibilities:

Understanding the Scope and Requirements

The component auditor must first understand the scope of their work as determined by the group engagement team. This involves comprehending the specific audit procedures to be performed, the reporting requirements, and the deadlines set by the group engagement team. Regular communication with the group engagement team is essential to maintain alignment on the audit approach and to address any issues encountered during the audit process.

Performing Audit Procedures

The component auditor is responsible for executing the audit procedures as instructed by the group engagement team. This includes conducting risk assessments, testing controls, and performing substantive testing to gather sufficient appropriate audit evidence. It is crucial for the component auditor to document their audit work comprehensively, ensuring that it meets the required quality standards and provides a clear basis for their conclusions.

Reporting Findings

Upon completing the audit procedures, the component auditor must report their findings to the group engagement team in a timely and comprehensive manner. This involves providing detailed documentation of the audit procedures performed, the evidence obtained, and the conclusions reached. Any significant issues, risks, or areas requiring further attention should be communicated promptly to the group engagement team to ensure they are addressed appropriately.

Ensuring Compliance with Ethical Requirements

The component auditor must comply with relevant ethical requirements, including those related to independence. This compliance ensures that their work remains objective and

free from any conflicts of interest. The component auditor should also provide written confirmations of their independence to the group engagement team as required, maintaining the integrity of the audit process.

Addressing Significant Risks and Issues

Identifying and assessing the risks of material misstatement within their scope of work is a critical responsibility for the component auditor. This involves gaining an understanding of the entity and its environment, including its internal controls. Based on this understanding, the component auditor develops and performs audit procedures to respond to these risks, ensuring that sufficient appropriate audit evidence is gathered to support their findings.

Cooperation and Coordination

Effective collaboration with the group engagement team is essential for the component auditor. This includes attending meetings, discussing audit approaches, and sharing information as needed. The component auditor must be responsive to any requests from the group engagement team for additional information or clarification on their work, fostering a cooperative audit environment.

Documentation

Maintaining thorough and accurate documentation of all audit procedures performed, evidence obtained, and conclusions reached is another key responsibility for the component auditor. This documentation should be sufficiently detailed to allow the group engagement team to understand the work performed and the basis for the component auditor's conclusions. The component auditor should also be prepared to provide access to their work papers to the group engagement team or other reviewers as necessary.

5.5.3 Joint Audits

In the context of group audits, joint audits involve two or more independent audit firms working together to audit an entity, such as a group or a subsidiary within a group. This collaborative approach aims to enhance the quality of the audit by leveraging the combined expertise and perspectives of multiple audit firms, ultimately managing and mitigating audit risks more effectively.

The execution of a joint audit begins with the audit firms collaborating to plan, execute, and report on the audit. Each firm is responsible for performing specific audit procedures, and they review each other's work to ensure thoroughness and accuracy. This dual review process significantly increases the robustness of the audit, as it involves cross-verification of findings and conclusions.

One of the key aspects of joint audits is the reporting process. Both audit firms issue a joint audit report, sharing responsibility for the audit opinion. This report reflects the collective findings and conclusions of both firms, providing a more comprehensive assurance to stakeholders.

Joint audits are not specifically included within ISA 600 (Revised) however they could be useful in some circumstances. Some potential reasons (or benefits) of joint audits are shown below.

- ***Regulatory or Legal Requirements:***
    - Mandated by regulations in certain jurisdictions (e.g., France for large public companies).
    - Enhances audit quality through dual firm involvement.
- ***Complexity of the Entity:***
    - Used for entities with complex structures or operations.
    - Benefits large multinationals or firms with intricate financial instruments.
- ***Risk Management:***
    - Mitigates audit risks through collaboration of two independent firms.
    - Important for high-risk industries or entities under regulatory scrutiny.
- ***Enhancing Audit Quality:***
    - Combines strengths and expertise of different audit firms.
    - Leads to more rigorous procedures and higher likelihood of detecting issues.
- ***Stakeholder Assurance:***
    - Increases confidence among investors, creditors, and regulators.
    - Provides assurance that financial statements are free from material misstatement.
- ***Mergers and Acquisitions:***
    - Ensures accurate representation of financial information.
    - Aids in fair valuation of assets and liabilities.
- **Transition Periods:**
    - Ensures continuity when changing primary audit firms.
    - Facilitates smooth transitions and maintains audit quality.

Quiz Questions

1 When assessing significant audit risks, which of the following factors should an auditor consider most?	Learning Outcome: D1
A	The number of transactions processed by the entity
B	The financial strength of the entity
C	The complexity and judgment involved in transactions
D	The geographic location of the entity's operations

2 What is a key characteristic of a transnational audit?	Learning Outcome: E1
A	It is conducted entirely within one country.
B	It involves auditing financial statements of entities operating in multiple countries.
C	It focuses exclusively on non-profit organisations.
D	It is performed by auditors working in a single office.

3 Why are related party transactions considered to have a higher risk of material misstatement?	Learning Outcome: E2
A	They may not be conducted at arm's length and can be used to manipulate financial results
B	They are always complex and difficult to audit
C	They are typically immaterial to the financial statements
D	They are always disclosed transparently by management

4 Which of the following is a typical audit procedure for verifying the existence of non-current assets?	Learning Outcome: E3

A	Reviewing the entity's budget for the next financial year
B	Inspecting the physical assets at the entity's premises
C	Comparing current year asset balances with prior year balances
D	Examining the entity's internal control policies

5 To verify the occurrence of payroll transactions, the auditor should:	Learning Outcome: E3
A	Inspect the authorisations for payroll changes such as raises and bonuses
B	Analyse the payroll tax returns for consistency
C	Compare total payroll expense to industry benchmarks
D	Recalculate pension contributions for a sample of employees

6 When an auditor uses the work of an expert, which of the following is the auditor's primary responsibility?	Learning Outcome: E4
A	To rely entirely on the expert's conclusions without any further procedures
B	To understand the scope of the expert's work and evaluate the appropriateness of their findings
C	To perform the expert's work independently to confirm the results
D	To ensure the expert is paid by the client before the audit report is issued

7 How should an external auditor use the work of internal auditors when relying on it during an audit?	Learning Outcome: E4

A	The external auditor should use the internal auditors' work as a complete substitute for their own testing
B	The external auditor should independently evaluate and test the internal auditors' work to determine its adequacy
C	The external auditor should only use the internal auditors' work for areas with low risk of material misstatement
D	The external auditor should review the internal audit work to ensure it aligns with management's objectives

8 Which ISA provides guidance on materiality in a group audit context?	Learning Outcome:
A	ISA 320
B	ISA 450
C	ISA 500
D	ISA 600

Exercises

1. Identify sources of information to be used by an auditor to understand the entity.
2. Suggest audit procedures for the audit of revenue.
3. In what areas might an auditor rely on the work of an expert?

Exercise Solutions

1

Internal Sources:

- **Management and Governance Interviews:**
    - Meetings with management, the audit committee, and those charged with governance provide insights into the entity's strategic objectives, risks, and internal controls.
- **Internal Audit Reports:**
    - These reports offer detailed assessments of the entity's internal controls, risk management processes, and compliance with policies and procedures.
- **Organisational Charts:**
    - These charts help auditors understand the entity's structure, reporting lines, and key personnel.
- **Policies and Procedures:**
    - Reviewing the entity's documented policies and procedures gives auditors insight into the operational and control environment.
- **Board Minutes and Committee Reports:**
    - Board minutes and reports from key committees (such as audit and risk committees) provide information on significant decisions, discussions, and concerns.
- **Financial Statements and Internal Financial Reports:**
    - Past and current financial statements, along with internal management reports, offer valuable information about the entity's financial performance, position, and trends.

- **Budgets and Forecasts:**
    - Reviewing the entity's budgets and forecasts helps auditors understand management's expectations and financial planning processes.

- **Corporate Strategies and Business Plans:**
    - These documents outline the entity's strategic goals, market positioning, and plans for growth or restructuring.

External Sources:

- **Industry Reports and Analyses:**
    - Industry publications, analyst reports, and market research provide context on the industry in which the entity operates, including key trends, risks, and benchmarks.

- **Regulatory Filings and Compliance Reports:**
    - Regulatory filings (such as those with Companies House or other relevant bodies) and compliance reports can highlight legal and regulatory requirements the entity must adhere to.

- **Economic and Market Conditions:**
    - Reports on economic conditions, interest rates, currency fluctuations, and other macroeconomic factors that could impact the entity's performance.

- **Press Releases and News Articles:**
    - Media coverage and press releases can reveal information about significant events, such as mergers, acquisitions, legal disputes, or management changes.

- **Competitor Information:**
    - Understanding competitors' performance, strategies, and financials can provide valuable benchmarks and insights into the entity's competitive position.

Previous Audit Work:

- **Prior Audit Files:**
    - Reviewing previous audit workpapers and reports can provide insights into historical issues, recurring risks, and areas that required significant attention in past audits.

- **Predecessor Auditor Communication:**
    - If applicable, communication with the predecessor auditor can reveal important information about past audit challenges and the client's audit history.

Legal and Regulatory Sources:

- **Legal Counsel:**
  - Discussions with the entity's legal counsel can provide information on ongoing or potential litigation, regulatory investigations, or other legal matters that may impact the audit.
- **Regulatory Agencies:**
  - Information from regulatory bodies, such as industry-specific regulators or financial authorities, can help auditors understand the regulatory environment and compliance requirements.

Observation and Inspection:

- **Site Visits:**
  - Visiting the entity's physical locations allows auditors to observe operations firsthand and gain a better understanding of the business processes and controls.
- **Inspection of Documents and Records:**
  - Reviewing contracts, agreements, and other key documents helps auditors understand the entity's obligations, rights, and risk exposures.

2.

Analytical Procedures:

- **Purpose:** To identify unusual trends, variances, or relationships in revenue that may indicate a risk of material misstatement.
- **Procedure:** Compare current year revenue figures with prior periods, budgets, or industry benchmarks. Analyse revenue growth rates, revenue per unit sold, or revenue by product line to detect any unexpected changes or anomalies that require further investigation.

Substantive Testing of Transactions (Vouching):

- **Purpose:** To verify the occurrence and accuracy of revenue transactions.
- **Procedure:** Select a sample of revenue transactions and trace them back to supporting documentation, such as sales invoices, contracts, or shipping documents. This helps to confirm that the revenue was earned and recorded in the correct period.

Cut-off Testing:

- **Purpose:** To ensure that revenue is recorded in the correct accounting period.

- **Procedure:** Examine revenue transactions around the year-end date to verify that they are recognised in the appropriate period. For example, check that sales made just before year-end are included in the current period and those after are not prematurely recognised.

Confirmation of Receivables:

- **Purpose:** To validate the existence and accuracy of accounts receivable, which provides indirect evidence of revenue.
- **Procedure:** Send confirmations to a sample of customers requesting them to verify the amounts they owe to the entity. Reconcile any differences reported by customers to the entity's records and investigate any discrepancies.

Review of Significant Contracts:

- **Purpose:** To assess the appropriateness of revenue recognition based on the terms of contracts.
- **Procedure:** Examine key customer contracts to understand the terms and conditions that affect revenue recognition, such as delivery terms, payment terms, and any clauses related to returns or discounts. Evaluate whether revenue has been recognised in accordance with these terms and applicable accounting standards (e.g., IFRS 15).

3.

- ***Valuation of Complex Financial Instruments:*** The valuation of derivatives, structured products, or other complex financial instruments often requires sophisticated models and deep understanding of financial markets, which may be beyond the auditor's expertise.
- ***Actuarial Valuations***: Pension obligations, insurance reserves, and other employee benefits often require actuarial calculations that involve complex assumptions and statistical models. Auditors may engage actuaries to assess the reasonableness of these estimates.
- ***Valuation of Real Estate and Tangible Assets:*** Determining the fair value of property, plant, equipment, and other tangible assets, especially for impairment testing or when these assets are revalued, may require the expertise of a professional valuer or appraiser.
- ***Environmental and Legal Matters:*** Auditors may need to consult legal experts or environmental specialists when evaluating the impact of environmental regulations, ongoing litigation, or potential legal liabilities on the financial statements.
- ***Estimating Reserves for Natural Resources:*** For companies in the oil, gas, and mining industries, estimating the reserves of natural resources is a highly technical process that often requires geological and engineering expertise to determine the appropriate amount of depletion, depreciation, and amortisation.

- ***Assessing the Fair Value of Intangible Assets:*** Valuing intangible assets such as goodwill, patents, trademarks, or customer relationships, especially during a business combination or impairment testing, often requires specialised knowledge of the market and the use of complex valuation models.
- ***Evaluating IT Systems:*** When auditing an entity with complex IT systems, especially in the context of IT general controls, cybersecurity risks, or data integrity issues, auditors may rely on IT experts to assess the adequacy and effectiveness of these systems.
- ***Assessment of Tax Provisions and Deferred Tax Assets/Liabilities:*** Tax provisions and deferred tax accounting can be complex, particularly when dealing with multinational entities with different tax jurisdictions, or when there are significant changes in tax laws. Tax experts can help in evaluating the appropriateness of these amounts.
- ***Evaluation of Fair Value Measurements for Investment Properties:*** Investment properties often need to be measured at fair value, which may require specialised knowledge in real estate markets and valuation techniques that auditors may not possess.
- ***Medical or Pharmaceutical Estimates:*** In the healthcare or pharmaceutical sectors, the valuation of inventories, or the estimation of provisions for clinical trial outcomes, regulatory approvals, or patent expirations may require input from medical or pharmaceutical experts.

Unit E: Concluding and Reporting on Audit and Assurance Engagements

Learning outcomes

E1. Subsequent events and going concern

E2. Completion

E3. Auditor´s reports

E4. Reports to those charged with governance and management

Introduction to Unit E

Upon completing Unit E, you will have the skills to evaluate audit and assurance engagement findings and create appropriate reports for internal and external stakeholders. You'll learn to recommend procedures to identify subsequent events that may affect financial statements and evaluate circumstances that cast doubt on an entity's going concern status. Additionally, you will be able to assess management's disclosures regarding going concern and understand their impact on the auditor's report.

You will also gain the ability to explain the significance of analytical procedures at the audit's completion stage, ensuring the engagement meets professional standards and sufficient evidence supports the draft opinion. You'll learn to recommend necessary review procedures and evaluate written representation letters as audit evidence.

You will understand the form and content of an unmodified auditor's report for both public and private entities and know how to form and critique audit opinions based on the results of audit procedures. You'll be able to address implications of modified opinions in group financial statements and determine when other modifications to the auditor's report are appropriate, including emphasis of matter, other matters, and key audit matters.

Finally, you will be skilled in assessing and advising on the appropriateness and content of reports to those charged with governance and management.

Note that much of the core content of this Unit has been covered by the Technical Level Unit on Audit and Assurance and it is assumed that you understand the key concepts covered there.

Summary of Unit E and key learning outcomes

After completing Unit E, you should be able to evaluate the findings from audit and assurance engagement work and produce suitable reports thereon for relevant internal and external stakeholders.

The key learning outcomes are presented in the table below.

Ref	Learning Outcome	
E1	Subsequent events and going concern	Recommend audit procedures to identify subsequent events which may require adjustment to the financial statements.
		Identify and evaluate circumstances that suggest the going concern basis may be in doubt.
		Recommend audit procedures or suggest evidence that ought to be available, to assess the going concern status of the entity.
		Assess the adequacy of management disclosures made in relation to the going concern status of the entity. Explain the impact this may have on the auditor's report.
E2	Completion	Explain the importance of analytical procedures at the completion stage of the audit.
		Evaluate whether the engagement has been planned and performed in accordance with professional standards.
		Evaluate whether sufficient and appropriate evidence has been obtained to support the draft opinion.
		Recommend the review procedures at the completion stage of an audit and consider any additional procedures in the circumstances.
		Describe the contents of a written representation letter and evaluate the use of written representations as a form of audit evidence.

Ref	Learning Outcome	
E3	Auditor´s reports	Explain the form and content of an unmodified auditor's report for both public and private audited entities.
		Identify and evaluate the key elements that must be taken into account when forming an audit opinion in a given situation and recommend audit opinions that are consistent with the results of audit procedures.
		Critically appraise an auditor's report in a given situation and conclude whether the proposed audit opinion is appropriate.
		Explain the implications for the auditor's report on the group financial statements of an entity where the opinion on a component entity is modified.
		Demonstrate an understanding of when other modifications to the auditor's report may be appropriate and the content of such disclosures, including: i) emphasis of matter ii) other matters iii) key audit matters.
		Discuss the course of action available to an auditor if a material inconsistency or material misstatement exists in relation to other information accompanying the financial statements.
E4	Reports to those charged with governance and management	Critically assess the appropriateness of a report to those charged with governance and management.
		Advise on the content of reports to those charged with governance and management in a given situation.

E.1 Subsequent Events and Going Concern

1.1 Introduction

ISA 560 outlines the auditor's responsibilities regarding events occurring between the date of the financial statements and the date of the auditor's report, as well as facts that become known to the auditor after the date of the auditor's report. These events are defined as ***Subsequent Events.***

Here's a summary of the key responsibilities of an auditor:

- **Identifying Subsequent Events:**
  - **Period between Financial Statement Date and Auditor's Report Date**:
    - ***Perform Procedures***: The auditor must perform audit procedures designed to obtain sufficient and appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment or disclosure have been identified.

    Examples of Procedures: These may include:

    - Reviewing management procedures for identifying subsequent events.
    - Reading minutes of meetings held after the financial statement date.
    - Reviewing the entity's latest interim financial statements.
    - Inquiring of management regarding any significant changes or events after the financial statement date.
  - **Period after the Auditor's Report Date but before the Financial Statements Are Issued**:
    - ***No Obligation to Perform Procedures***: The auditor is not required to perform any audit procedures regarding the financial statements after the date of the auditor's report.
    - ***Awareness of Subsequent Events***: If the auditor becomes aware of a fact that may materially affect the financial statements, the auditor should discuss the matter with management and take appropriate action.

- **Responsibility for Events Discovered After the Auditor's Report Date:**
  - **Before Financial Statements Are Issued**:
    - ***Management Action***: If management amends the financial statements, the auditor should perform the necessary audit procedures on the amendment and extend the audit report to include the new audit work.
    - ***Revised Auditor's Report***: The auditor should issue a new auditor's report on the amended financial statements.
  - **After Financial Statements Are Issued**:
    - ***No Active Responsibility***: The auditor does not have an active responsibility to seek out subsequent events but should act if they become aware of material subsequent events.

- **Discuss with Management**: If a fact becomes known that may materially affect the financial statements, the auditor should discuss it with management and, if necessary, take appropriate action.

- **Communicating with Those Charged with Governance:**
  - ***Reporting***: The auditor should communicate with those charged with governance about the nature and extent of subsequent events identified and the audit procedures performed.

- **Implications for the Auditor's Report:**
  - ***Modification of Opinion***: If the auditor concludes that the financial statements need to be adjusted or disclosed but management does not amend the financial statements, the auditor should modify the opinion in the auditor's report.

Practically, an auditor should consider:

- ***Awareness and Vigilance***: The auditor should remain vigilant for subsequent events that might affect the financial statements up until the date the audit report is signed.
- ***Comprehensive Procedures***: Implementing robust procedures to identify subsequent events is crucial for ensuring the financial statements are free from material misstatement.
- ***Timely Communication***: Prompt communication with management and those charged with governance about subsequent events and the actions taken enhances transparency and the reliability of the financial statements.

Subsequent Event – Example

ABC Corp., with a financial year-end of December 31, 2023, has its auditor's report dated February 15, 2024. On March 1, 2024, ABC Corp. discovers that a major customer, responsible for 20% of its 2023 revenue, has filed for bankruptcy.

- **Auditor Action:**
  - ***Between Financial Statement Date and Auditor's Report Date***: The auditor performs procedures to identify subsequent events.
  - ***After Auditor's Report Date but Before Financial Statements Are Issued***: The auditor discusses the bankruptcy with management to assess its impact.

- **FS Adjustments:**
  - ***Accounts Receivable***: Write down the receivables from the bankrupt customer.
  - ***Allowance for Doubtful Accounts***: Adjust to reflect increased credit risk.
  - ***Notes***: Disclose the bankruptcy, its impact, and management's response.

- **Revised Auditor's Report:**
  - ***New Report Date:*** Reflects the completion of subsequent event procedures.

- ***Opinion:*** May be unmodified if adjustments and disclosures are sufficient; otherwise, it may be modified.

1.2 Going Concern

Under International Standard on Auditing ISA 570 (Revised) auditors have specific responsibilities regarding the assessment of an entity's ability to continue as a going concern.

The ***going concern basis*** is an accounting principle that assumes an entity will continue its operations into the foreseeable future and has neither the intention nor the necessity to liquidate or significantly reduce its operational activities. This assumption is fundamental to the preparation of financial statements, as it affects the valuation and classification of assets and liabilities.

It is based on the following key principles:

- **Continuity Assumption**:
  - Financial statements are prepared with the expectation that the entity will continue to operate for at least 12 months from the reporting date.
  - It implies that the entity will not be forced to halt operations or liquidate its assets in the near term.
- **Asset Valuation**:
  - Under the going concern basis, assets are valued based on their intended use rather than their liquidation value.
  - For example, inventory is valued at cost or net realisable value, whichever is lower, assuming it will be sold in the normal course of business.
- **Liability Settlement**:
  - Liabilities are recorded with the expectation that they will be settled during the normal course of business operations.
  - Long-term liabilities are not classified as current liabilities since the entity is expected to meet its obligations as they come due.
- **Impact on Financial Statements**:
  - The going concern basis affects the presentation and classification of accounts in the financial statements.
  - It ensures that financial statements reflect a realistic view of the entity's financial position and performance, assuming ongoing operations.
- **Assessment of Going Concern**:
  - Management is responsible for assessing whether the going concern assumption is appropriate when preparing financial statements.
  - This involves evaluating factors such as profitability, cash flow, debt obligations, and market conditions.

Auditor responsibilities in relation to going concern are shown below:

- **Risk Assessment**:
  - Evaluate management's assessment of the entity's ability to continue as a going concern.
  - Identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- **Obtaining Evidence**:
  - Obtain sufficient and appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.
  - Consider whether there are any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- **Evaluating Management's Plans**:
  - Evaluate management's plans for future actions in relation to its going concern assessment.
  - Consider the feasibility and effectiveness of these plans.
- **Concluding and Reporting**:
  - Conclude whether a material uncertainty exists about the entity's ability to continue as a going concern.
  - Determine the implications for the auditor's report based on the findings:
    - If no material uncertainty exists, and the going concern basis is appropriate, the auditor issues an unmodified report.
    - If a material uncertainty exists, ensure it is adequately disclosed in the financial statements. The auditor may need to include an emphasis of matter paragraph.
    - If the financial statements are not appropriately prepared using the going concern basis, or if there is inadequate disclosure, the auditor may need to modify the opinion.
- **Communication**:
  - Communicate with those charged with governance about the going concern assessment and any material uncertainties identified.

Auditor reporting responsibilities in relation to going concern can be summarised as shown in the table below.

Scenario	Impact – Opinion	Impact - Report
No material uncertainty exists regarding going concern.	***Unmodified*** – Financial Statements give a true and fair view	No impact

Scenario	Impact – Opinion	Impact - Report
Material uncertainty exists and is adequately disclosed by management	***Unmodified*** – Financial Statements give a true and fair view	Additional communication "Material uncertainty related to going concern"
Material uncertainty exists which is not adequately disclosed or is omitted	***Modified*** - Qualified or adverse	Basis for opinion should explain the going concern issues that management has failed to disclose
Company is not a going concern and has prepared the financial statements on the breakup basis appropriately and made adequate disclosure of this fact	***Unmodified*** – Financial Statements give a true and fair view	Additional communication in emphasis of matter paragraph
Company is not a going concern and has prepared the financial statements using the going concern basis of accounting	***Modified*** – Adverse Opinion	Basis for adverse opinion should explain the incorrect basis of accounting and estimate the effect on the financial statements
The period assessed by management is less than twelve months from the statement of financial position date and management is unwilling to extend the assessment	***Modified*** – qualified or disclaimer due to an inability to obtain sufficient appropriate audit evidence regarding the use of the going concern basis of accounting.	Basis for opinion paragraph should explain sufficient appropriate evidence was not available

Indicators of a going concern issue are signs that may suggest significant doubt about an entity's ability to continue its operations into the foreseeable future. These indicators can be categorised into financial, operational, and other factors.

1.2.1 Financial Indicators

- **Recurring Losses**: Sustained periods of operating losses, which may indicate that the business model is not profitable.
- **Negative Cash Flows**: Continuous negative cash flows from operating activities, suggesting liquidity problems.
- **Net Liability or Net Current Liability Position**: Having more liabilities than assets, or more current liabilities than current assets, indicating potential solvency issues.

- **Inability to Meet Debt Obligations**: Defaulting on loan agreements or difficulty in meeting interest and principal payments on debt.
- **Denial of Trade Credit**: Suppliers refusing to extend further credit, which could constrain the entity's ability to purchase inventory and supplies.
- **Adverse Financial Ratios**: Deterioration in key financial ratios, such as debt-to-equity ratio, current ratio, or quick ratio.

1.2.2 Operational Indicators:

- **Loss of Key Management or Staff**: High turnover of senior management or essential staff, potentially disrupting operations.
- **Loss of Major Customers**: Losing significant customers that contribute a substantial portion of revenue.
- **Dependence on a Few Suppliers**: Over-reliance on key suppliers whose failure to deliver could halt operations.
- **Declining Market Share**: Steady decline in market share, possibly indicating competitive pressures or a declining industry.
- **Legal or Regulatory Issues**: Pending legal cases or regulatory investigations that could result in significant financial penalties or operational restrictions.

1.2.3 Other Indicators:

- **Negative Economic Conditions**: Adverse changes in the economy or industry that negatively impact the entity's operations and financial health.
- **Natural Disasters or Accidents**: Events such as natural disasters, fires, or other accidents that severely disrupt business operations.
- **Uninsured Losses**: Significant losses that are not covered by insurance, leading to unexpected financial burdens.
- **Inability to Raise Capital**: Difficulty in securing new financing or raising additional capital from investors, lenders, or other sources.
- **Significant Changes in Technology**: Inability to keep up with technological advancements, leading to obsolescence of products or services.

E.2 Completion

2.1Introduction

Before forming an opinion on the financial statements and deciding on the wording of the auditor's report, the auditor should conduct an overall review.

The auditor should perform the following procedures:

- Review the financial statements to ensure:
    - compliance with accounting standards and local legislation disclosure requirements. This is sometimes performed using a disclosure checklist.
    - accounting policies are sufficiently disclosed and to ensure that they are in accordance with the accounting treatment adopted in the financial statements.
    - they adequately reflect the information and explanations previously obtained and conclusions reached during the course of the audit.
- Perform analytical procedures to corroborate conclusions formed during the audit and assist when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.
- Review the aggregate of the un*corrected misstatements to assess whether a material misstatement arises.* If so, discuss the potential adjustment with management.

2.2 Final Analytical Procedures

Final analytical procedures (FAR) are an essential part of the audit completion stage, serving as a last check to ensure the financial statements are free from material misstatement and align with the auditor's understanding of the entity's financial situation.

Investigating Results of Analytical Procedures. If analytical procedures performed in accordance with ISA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, auditor shall investigate such differences by:

- Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
- Performing other audit procedures as necessary in the circumstances.

Here's a brief summary of their (FAR) importance:

- **Overall Financial Assessment**: Provide a high-level overview to ensure the financial statements make sense in the context of the auditor's knowledge of the business and its environment.
- **Identification of Anomalies**: Highlight unusual trends, variances, or relationships in financial data that may indicate potential errors or misstatements.
- **Verification of Consistency**: Ensure internal consistency within the financial statements and across comparative periods, confirming that figures align logically with each other.
- **Substantiation of Evidence**: Corroborate evidence obtained from other audit procedures, providing additional assurance that the financial statements are

accurate and complete.

- **Evaluation of Sufficiency of Evidence**: Assess whether sufficient and appropriate audit evidence has been obtained throughout the audit to support the auditor's opinion.
- **Risk Reassessment**: Reassess the risks identified during the planning stage to ensure they have been adequately addressed and mitigated.
- **Final Check for Reasonableness**: Serve as a final reasonableness check to validate that the financial statements reflect the auditor's understanding of the entity's financial performance and position.

2.3 Review Procedures

As part of the overall review, the auditor should assess whether:

- The a*udit work was performed in accordance with professional standards.*
- *Significant matters have been raised for further consideration and appropriate consultations have taken place.*
- *There is a need to revise the nature, timing and extent of the work performed.*
- *The a*udit evidence gathered by the team is sufficient and appropriate to support the conclusions reached and provides a basis for the audit opinion.

The auditor should ensure that initial assessments made at the start of the audit are still valid in light of the information gathered during the audit and that the audit plan has been flexed to meet any new circumstances.

2.3.1 Evaluation of Misstatements

The auditor must consider the effect of misstatements on both the audit procedures performed and ultimately, if uncorrected, on the financial statements as a whole. Guidance on how this is performed given in ISA 450.

The auditor must:

- Accumulate a record of all identified misstatements, unless they are clearly trivia*l.*
- *Consider if the existence of such misstatements indicates that others may exist, which, when aggregated with other misstatements, could be considered material.*
- *If so, consider if the audit strategy and plan need to be revised.*
- *Communicate all accumulated misstatements to an appropriate level of management on a timely basis and request that all misstatements are corrected.*
- *If man*agement refuses to correct some or all of the misstatements the auditor should consider their reasons for refusal and take these into account when considering if the financial statements are free from material misstatement

If management has failed to correct all of the misstatements, the auditor should:

- Reassess materiality to determine whether it is still appropriate in the circ*umstances as the level of risk may be deemed higher as a result of management's refusal.*
- *Determine whether the uncorrected misstatements, either individually or in aggregate, are material to the financial statements as a whole, considering both the size and nature of the misstatements and the effect of misstatements related to prior periods (e.g. on corresponding figures, comparatives and opening balances). If an individual misstatement is considered material, it cannot be offset by other misstatements.*
- *Communicate the uncorrected misstatements to those charged with governance and explain the effect this will have on the audit opinion.*
- *Req*uest a written representation from management and those charged with governance that they believe the effects of uncorrected misstatements are immaterial.

2.4 Management Representation Letter

ISA 580 Written Representations requires the auditor to obtain written representations from management:

- That it has fulfilled its responsibility for the preparation of the financial statements.
- To support other audit evidence relevant to the financial statements or specific assertions if deemed necessary by the auditor or required by specific ISAs.
- That the auditor has been provided with all relevant information.
- That all transactions have been recorded and reflected in the financial statements.

A representation to support other audit evidence may be appropriate where more reliable forms of evidence are not available, particularly in relation to matters requiring management judgement or knowledge restricted to management. Examples include:

- Whether the selection and application of accounting policies are appropriate.
- Whether the following matters have been measured, presented and disclosed in accordance with the relevant financial reporting framework:
    - Plans or intentions that may affect the carrying value or classification of assets and liabilities.
    - Liabilities, both contingent and actual.
    - Title to, or control over, assets.
    - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.
- That the directors have communicated all deficiencies in internal control to the auditor.

- Specific assertions about classes of transactions, accounts balances and disclosures requiring management judgement.

Note that written representations cannot be a substitute for more reliable evidence that should be available and do not constitute sufficient appropriate evidence on their own, about any of the matters with which they deal. Written representations should only be sought to support other audit evidence.

In practice, the auditor will draft the wording of the written representation letter but it must be printed on client headed paper, addressed to the auditor and signed by the client. The letter must be signed by an appropriate senior member of client management, with appropriate responsibilities for the financial statements and knowledge of the matters concerned. This would normally be the chief executive and chief financial officer.

The date of the written representation letter should be the same as the date the financial statements are authorised. It must be obtained and signed before the auditor's report is finalised.

Written representations are client generated and may be subject to bias. It is therefore, potentially, an unreliable form of audit evidence.

The auditor must consider the reliability of written representations in terms of:

- Concerns about the competence, integrity, ethical values or diligence of management.
- Inconsistencies with other forms of evidence.

If written representations are inconsistent with other evidence

- Consider the reliability of representations in general.
- Reconsider the initial risk assessment.
- Consider the need to perform further audit procedures.

If management refuse to provide written representations the auditor should:

- Discuss the matter with management to understand why they are refusing.
- Re-evaluate the integrity of management and consider the effect that this may have on the reliability of other representations (oral or written) and audit evidence in general.
- Consider the implication for the auditor's report.

The auditor should issue a disclaimer of opinion if:

- The auditor concludes there is sufficient doubt about the integrity of management which means the written representations are not reliable, or
- Management does not provide the written representations required in relation to confirming their responsibility to prepare the financial statements and to provide the auditor with information and confirming completeness of transactions.

2.4.1 Management Representation Letter – Example

[Company Letterhead]

*[**Date** – near to or as at auditor's report date]*

To: *[Audit Firm Name and Address]*

Dear *[Audit Firm's Partner/Manager Name],*

This representation letter is provided in connection with your audit of the financial statements of [Company Name] (the "Company") for the year ended [Date], for the purpose of expressing an opinion on whether the financial statements present fairly, in all material respects, the financial position of the Company as of [Date], and the results of its operations and its cash flows for the year then ended in accordance with [applicable financial reporting framework, e.g., IFRS or Generally Accepted Accounting Principles (GAAP)].

We confirm, to the best of our knowledge and belief, the following representations:

Financial Statements:

- *We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [Date], for the preparation of the financial statements in accordance with [applicable financial reporting framework].*
- *We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.*

Completeness of Information:

- *We have provided you with all relevant information and access as agreed in the terms of the audit engagement.*
- *All transactions have been recorded and are reflected in the financial statements.*

Recognition, Measurement, and Disclosure:

- *The financial statements are free of material misstatements, including omissions.*
- *We believe that the significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.*
- *We have appropriately accounted for and disclosed related party relationships and transactions in the financial statements.*

- *The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A summary of such items is attached to this letter.*

Subsequent Events:

- *There have been no events subsequent to the balance sheet date which require adjustment of, or disclosure in, the financial statements, except as disclosed in the financial statements.*

Litigation and Claims:

- *We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements, and such matters have been accounted for and disclosed in accordance with [applicable financial reporting framework].*

Going Concern:

- *We have assessed the Company's ability to continue as a going concern and have disclosed, in the financial statements, all matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including principal conditions or events and our plans.*

Title and Liens:

- *The Company has satisfactory title to all assets, and there are no liens or encumbrances on the Company's assets, except as disclosed in the financial statements.*

Compliance with Laws and Regulations:

- *We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.*
- *We are not aware of any non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.*

Fraud:

- *We have no knowledge of fraud or suspected fraud that affects the Company and involves:*
  - *Management;*
  - *Employees who have significant roles in internal control; or*
  - *Others where the fraud could have a material effect on the financial statements.*
- *We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators, or others.*

Estimates:

- *Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.*

Related Parties:

- *We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.*

Environmental Matters:

- *There are no known environmental matters that would have a material impact on the financial statements, except as disclosed therein.*

Other Matters:

- *There are no other matters that may affect the financial statements that have not been communicated to you.*

We confirm that the above representations are made on the basis of inquiries of management and staff with relevant knowledge and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully,

Signature

Name

Title

Company Name

E.3 Auditor's Reports

3.1 Introduction

When the audit work is complete, the auditor will prepare the auditor's report containing an opinion on the financial statements.

The objectives of the auditor are:

- To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained, and
- To express clearly that opinion through a written report.

The auditor forms an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. An example of an unmodified audit opinion is provided in the Technical Level Unit on Audit and Assurance and is appended to ISA 700 (Revised).

3.2 Forming an Audit Opinion

The auditor's opinion provides the auditor's conclusion as to whether the financial statements give a true and fair view. The audit opinion can be ***unmodified*** or ***modified.***

Nature of Issue	***Not material***	***Material but not pervasive***	***Material and pervasive***
Misstatement	Unmodified opinion – true and fair view	Modified. Qualified opinion "Except for"	Modified Adverse Opinion – FS not true and fair
Inability to obtain sufficient appropriate audit evidence	Unmodified opinion – true and fair view	Modified. Qualified opinion "Except for"	Modified Disclaimer opinion – Do not express an opinion

3.2.1 Unmodified Opinion

The auditor will give an unmodified opinion when they conclude that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

This will mean:

- The financial statements adequately disclose the significant accounting policies.
- The accounting policies selected are consistently applied and appropriate.
- Accounting estimates made by management are reasonable.
- Information is relevant, reliable, comparable and understandable.
- The financial statements provide adequate disclosures to enable the users to understand the effects of material transactions and events.

- The terminology used is appropriate.

3.2.2 Modified Opinion

The auditor should modify the opinion when they conclude that:

- Based on the evidence obtained, ***the financial statements*** as a whole ***are not free from material misstatement.*** This is where the client has not complied with the applicable financial reporting framework.
- They have been ***unable to obtain sufficient appropriate evidence*** to be able to conclude that the financial statements as a whole are free from material misstatement. This is evidence that the auditor would expect to exist to support the figures in the financial statements.

The nature of the modification depends on whether the auditor considers the matter to be ***material but not pervasive,*** or ***material and pervasive***, to the financial statements.

A matter is considered ***'pervasive'*** if, in the auditor's judgement:

- The effects are not confined to specific elements, accounts or items of the financial statements
- If so confined, represent or could represent a substantial proportion of the financial statements, or
- In relation to disclosures, are fundamental to users' understanding of the financial statements.

In summary, a pervasive matter must be fundamental to the financial statements, therefore rendering them unreliable as a whole.

3.2.3 Qualified Opinion

- If the misstatement or lack of sufficient appropriate evidence is ***material but not pervasive***, a ***qualified opinion*** will be issued.
- This means the matter is material to the area of the financial statements affected but does not affect the remainder of the financial statements.
- Although significant to users' decision making, a material matter can be isolated while the remainder of the financial statements may be relied upon.
- The opinion will state that ***'Except for'*** this matter, the financial statements give a true and fair view.

3.2.4 Adverse Opinion

An ***adverse opinion*** is issued when a misstatement is considered ***material and pervasive***.

This will mean the financial statements ***do not give a true and fair view***. Examples include:

- Preparation of the financial statements on the wrong basis.
- Non-consolidation of a material subsidiary.
- Material misstatement of a balance which represents a substantial proportion of the assets or profits e.g. would change a profit to a loss.

3.2.5 Disclaimer of Opinion

A ***disclaimer of opinion*** is issued when the auditor has not obtained sufficient appropriate evidence and the effects of any possible misstatements could be ***pervasive***.

The auditor does not express an opinion on the financial statements in this situation.

Examples include:

- Failure by the client to keep adequate accounting records.
- Refusal by the directors to provide written representation.
- Failure by the client to provide evidence over a single balance which represents a substantial proportion of the assets or profits or over multiple balances in the financial statements.

3.3 Group Audit Report

The implications of a modified opinion on a component entity for the auditor's report on the group financial statements are specifically addressed in **I**SA 600 (Revised). Here are the key considerations are shown below:

- **Reference to the Component Auditor's Opinion:**
    - ***Decision to Refer*:** The group engagement partner may decide to refer to the modified opinion of the component auditor in their own auditor's report. However, this is only permissible when the component's financial statements are prepared using a different financial reporting framework, and if law or regulation requires a reference to the component auditor.
    - ***Impact on the Group Auditor's Report*:** If the group engagement partner decides to refer to the component auditor's opinion, they must clearly indicate the nature of the modification and how it affects the group financial statements.

- **Impact on the Group Audit Opinion**
    - ***Nature and Significance of the Issue*:** The group engagement partner must assess the nature and significance of the issue that led to the modified opinion at the component level. If the issue is material and pervasive to the group financial statements, the group auditor may also need to modify the audit opinion on the group financial statements.
    - ***Types of Modifications*:**
        - ***Qualified Opinion*:** If the component's modified opinion is due to a specific issue, the group auditor must assess whether this issue is material to the group. If it is material, the group auditor may issue a qualified opinion on the group financial statements.
        - ***Adverse Opinion*:** If the component auditor issues an adverse opinion, the group auditor must assess whether the underlying issues are pervasive to the group financial statements. If so, the group auditor might issue an adverse opinion on the group financial statements.
        - ***Disclaimer of Opinion*:** If the component auditor is unable to ob-

tain sufficient appropriate audit evidence and issues a disclaimer of opinion, the group auditor must evaluate whether a similar lack of evidence affects the group audit. This might result in a disclaimer of opinion on the group financial statements.

- **Communication with Those Charged with Governance:**
    - The group auditor should communicate with those charged with governance of the group about the nature of the modified opinion on the component's financial statements and its implications for the group financial statements.

3.4 Emphasis of Matter

An Emphasis of Matter paragraph is used to refer to a matter that has been appropriately presented or disclosed in the financial statements by the directors. The auditor's judgement is that these matters are of such fundamental importance to the users' understanding of the financial statements that the auditor should emphasise the disclosure.

Examples of such fundamental matters include:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event occurs between the date of the financial statements and the date of the auditor's report.
- Early application of a new accounting standard.
- Major catastrophes that have had a significant effect on the entity's financial position.

In addition, an Emphasis of Matter paragraph will be used where:

- The financial statements have been prepared on a basis other than the going concern basis.
- The corresponding figures have been restated.
- The financial statements have been recalled and reissued or when the auditor provides an amended auditor's report.

An Emphasis of matter paragraph is usually included after the Basis for Opinion section. When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgement as to the relative significance of the information included in the Emphasis of Matter paragraph.

The heading of the paragraph can be amended to provide further context, for example, "Emphasis of Matter – Subsequent event."

3.5 Other Matter

An Other Matter paragraph is included in the auditor's report if the auditor considers it necessary to communicate to the users regarding matters other than those presented or disclosed in the financial statements that, in the auditor's judgement, are relevant to understanding the audit, the auditor's responsibilities, or the auditor's report.

Examples of its use include:

- To communicate that the auditor's report is intended solely for the intended users and should not be distributed to or used by other parties.
- When law, regulation or generally accepted practice requires or permits the auditor to provide further explanation of their responsibilities.
- To explain why the auditor has not resigned, when a pervasive inability to obtain sufficient appropriate evidence is imposed by management (e.g. denying the auditor access to books and records) but the auditor is unable to withdraw from the engagement due to legal restrictions.
- To communicate audit planning and scoping matters where laws or regulations require.
- Where an entity prepares one set of accounts in accordance with a general-purpose framework and another set in accordance with a different one (e.g. one according to US and one according to International standards) and engages the auditor to report on both sets.

When an Other Matter paragraph is included to draw the users' attention to a matter relating to other reporting responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section. When relevant to all auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Other Legal and Regulatory Requirements.

The heading may be amended to provide further context, for example, "Other Matter – Scope of the audit".

3.6 Key Audit Matters

ISA 701 requires **auditors of listed companies** to determine key audit matters and to communicate those matters in the auditors report. The auditor of a non-listed entity may voluntarily, or at the request of management or those charged with governance, include key audit matters in the auditor's report.

Key audit matters are those that in the auditor's professional judgement were of most significance in the audit and are selected from matters communicated to those charged with governance.

The purpose of including these matters is to assist users in understanding the entity, and to provide a basis for the users to engage with management and those charged with governance about matters relating to the entity and the financial statements. Each key audit matter should describe why the matter was considered to be significant and how it was addressed in the audit.

Key audit matters include:

- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised 2019).
- Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.

- The effect on the audit of significant events or transactions that occurred during the period.

Specific examples might include:

- Significant fraud risk
- Goodwill
- Valuation of financial instruments
- Fair values
- Effects of new accounting standards
- Revenue recognition
- Material provisions such as a restructuring provision
- Implementation of a new IT system, or significant changes to an existing system.

3.6.1 Entities for which Auditors are required to Communicate KAMs

Public Interest Entities (PIEs) in line with ICPAR's Circular No. 001/08/19, as listed below;

- Listed Entities on Rwanda Stock Exchange (RSE)
- Regulated financial institutions (Banks and Insurance Companies)
- Investment Banks
- Regulated Fund Management Companies

3.6.2 Key Audit Matters – Example

Key Audit Matter: Valuation of Goodwill

Description:

As described in Note X to the financial statements, the Group's goodwill balance as at December 31, 2023, was 50 million, representing approximately 25% of the Group's total assets. The annual impairment test for goodwill is significant to our audit because the assessment process is complex and highly judgmental, requiring management to make assumptions about future profitability, growth rates, and discount rates used in the calculation of the value in use of the cash-generating units (CGUs) to which the goodwill is allocated. These assumptions are affected by expected future market or economic conditions. Please refer to Note XX and Note XXX for material accounting policy information and disclosures of Group's Goodwill.

How Our Audit Addressed the Key Audit Matter:

Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group in its impairment assessment. We assessed the reasonableness of key assumptions, such as projected cash flows, growth rates, and discount rates, by comparing them to external industry and economic data. We also involved our internal valuation specialists to assist in assessing the methodologies used and the discount rates applied. Additionally, we evaluated the sensitivity of the

impairment model to changes in these assumptions and assessed the adequacy of the disclosures in the financial statements, including those relating to the sensitivity of the goodwill valuation to changes in key assumptions.

Conclusion:

Based on our procedures, we found the assumptions used by management in the goodwill impairment assessment to be within a reasonable range and the related disclosures to be appropriate.

3.7 Other Information

Other information refers to financial or non-financial information, other than the financial statements and auditor's report thereon, included in the entity's annual report. Examples include:

- Chair's report
- Operating and financial review
- Social and environmental reports
- Corporate governance statements.

If the auditor obtains the final version of the other information before the date of the auditor's report, they must read it to identify any material inconsistencies with the financial statements or the auditor's knowledge obtained during the audit.

If the auditor identifies a material inconsistency they should:

- Perform procedures to evaluate the inconsistency. The auditor should consider whether it is the financial statements or the other information that requires amendment.
- Discuss the matter with management and ask them to make the correction.
- If management refuses to make the correction, communicate the matter to those charged with governance.
- If the matter remains uncorrected the auditor must describe the material misstatement in the Other Information section of the auditor's report.
- Alternatively, the auditor should withdraw from the engagement if possible under applicable law or regulation as the issue casts doubt over management integrity.

The Other Information section within the auditor's report:

- Identifies the other information obtained by the auditor prior to the date of the auditor's report.
- States that the auditor has not audited the other information and accordingly does not express an opinion or conclusion on that information.
- Includes a description of the auditor's responsibilities with respect to the other information.
- States either that the auditor has nothing to report or provides a description of the material misstatement if applicable.

E.4 Reports to Those Charged with Governance

4.1 Introduction

ISA 260 (Revised) Communication with Those Charged with Governance and ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, require the external auditor to engage in communications with management. The main forms of formal communication between the auditors and management are the engagement letter, and another written communication, usually sent at the end of the audit, which is often referred to as 'the management letter.' In addition, the auditor will communicate with those charged with governance throughout the audit as required. Detailed guidance on how to report to those charged with governance is presented in the Technical Level Audit and Assurance Unit.

Reasons for communicating with those charged with governance include:

- To communicate responsibilities of the auditor and an overview of the scope and timing of the audit.
- To obtain information relevant to the audit.
- To report matters from the audit on a timely basis.
- To promote effective two-way communication.
- The auditor's responsibilities in relation to the financial statements audit.
- The planned scope and timing of the audit including, for example:
    - How the auditor plans to address the risks of material misstatement
    - The application of materiality in the context of an audit
    - Preliminary views about matters which may be key audit matters
    - The auditor's approach to the entity's system of internal control
    - The extent to which the auditor is planning to use the work of internal audit and the arrangements for so doing
    - Business risks that may result in material misstatements
    - Communications with regulators
- Significant findings from the audit, such as:
    - The auditor's views about qualitative aspects of the entity's accounting practices/policies
    - Significant difficulties encountered during the audit
    - Significant matters arising during the audit that were discussed with management
    - Written representations the auditor is requesting

- Circumstances that affect the form and content of the auditor's report, if any. This includes any expected modifications to the opinion, key audit matters and material uncertainty related to going concern
- Other matters that, in the auditor's opinion, are significant to the oversight of the reporting process.

- Matters of auditor independence including:
  - A statement that the firm has complied with ethical requirements
  - Professional fees for audit and non-audit services charged during the period
  - Safeguards applied to eliminate or reduce threats to independence.

Ultimately what constitutes a matter requiring the attention of those charged with governance is a matter of professional judgement. Typical examples include:

- Delays in obtaining information for the audit.
- An unreasonably brief time within which to complete the audit.
- Expected limitations on the audit, either imposed by management or other circumstances.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, which are required to be disclosed in the financial statements.
- A summary of identified misstatements, whether corrected or not by the entity and a request that they are adjusted.
- Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Any other matters agreed upon in the terms of the audit engagement.

Quiz Questions

1. What is the auditor's primary responsibility regarding subsequent events?	Learning Outcome: E1
A	To ensure that all subsequent events are adjusted in the financial statements.
B	To identify subsequent events that provide additional evidence about conditions that existed at the balance sheet date.
C	To prepare a separate report on subsequent events.
D	To only consider subsequent events that occur after the audit report is issued.

2. Which of the following conditions might indicate substantial doubt about an entity's ability to continue as a going concern?	Learning Outcome: E1
A	The entity has a large amount of long-term debt that is not due for several years.
B	The entity has announced a merger with another company.
C	The entity has significant cash reserves and no debt.
D	The entity has experienced significant losses and negative cash flows from operations.

3 What is the primary purpose of performing a final analytical review towards the end of an audit?	Learning Outcome: E2
A	To gain assurance over balances in the financial statements
B	To detect fraud within the financial statements.
C	To evaluate the overall reasonableness of the financial statements and identify any unusual trends or balances.
D	To identify audit risks

4. If management refuses to provide a letter of representation, what is the most appropriate course of action for the auditor?	Learning Outcome: E2
A	Issue an unmodified opinion without the letter of representation.
B	Discuss the refusal with those charged with governance and consider the impact on the audit opinion.
C	Continue the audit without the letter of representation, as it is not required.
D	Automatically issue an adverse opinion.

5. An auditor issues a qualified opinion when:	Learning Outcome: E3
A	There is a material misstatement in the financial statements that is pervasive.
B	There is a material misstatement in the financial statements that is not pervasive.
C	The auditor is unable to obtain sufficient appropriate audit evidence, and the possible effects could be material and pervasive.
D	The financial statements are free from material misstatements, but the auditor wants to emphasise a matter disclosed in the financial statements.

6. Which of the following matters is an auditor **required** to communicate to those charged with governance?	Learning Outcome: E4
A	The auditor's opinions on the company's business strategy.
B	Significant difficulties encountered during the audit.
C	The detailed audit procedures performed on each account balance.
D	The auditor's recommendations for improving business operations.

Exercises

1. You are the auditor of XYZ Corporation, a manufacturing company. During the audit for the year ended December 31, 20XX, you encounter the following situations:

    1. **Inventory Valuation Issue:** A significant portion of the inventory was incorrectly valued due to a failure to apply lower of cost or net realisable value. Management has not adjusted the financial statements for this misstatement, which is material but not pervasive to the financial statements.

    2. **Litigation Disclosure:** XYZ Corporation is involved in a lawsuit that could potentially result in a large financial loss. Management has disclosed the existence of the lawsuit but has not recorded a provision for the possible loss, stating that the outcome is uncertain. You believe the disclosure is adequate, but the uncertainty could have a significant impact on the company's financial position.

Based on these circumstances, what is the most appropriate audit opinion to issue?

2. You are the lead auditor for ABC Corporation, a company that operates in the technology sector. During the audit for the year ended December 31, 20XX, you encountered the following situation:

    1. **Limited Access to Financial Information:** ABC Corporation's accounting system experienced a major data breach in November 20XX, resulting in the loss of significant financial data. Despite efforts to recover the data, management was unable to restore or provide alternative evidence for a substantial portion of the transactions that occurred during the last quarter of the year. This missing data represents approximately 25% of the company's revenue and expenses.

    2. **Inadequate Documentation:** In addition to the data loss, the company has not maintained adequate documentation for several significant transactions. When you requested supporting documentation for certain large transactions, management was unable to provide it. As a result, you could not verify the accuracy and completeness of these transactions.

    3. **Management's Response:** Management has acknowledged the issues but has not been able to provide satisfactory explanations or alternative audit evidence. They have also declined to extend the audit timeline, citing budgetary constraints and the need to publish the financial statements as scheduled.

Based on the scenario above, what is the most appropriate audit opinion for you to issue, and why?

3. Suggest audit procedures for assessing going concern.

Exercise Solutions

1. **Qualified Opinion** due to the inventory valuation issue. The litigation might warrant an Emphasis of Matter paragraph.
2. **Disclaimer of opinio**n because the auditor is unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements.

The auditor is unable to obtain sufficient appropriate audit evidence for a substantial portion of the financial statements due to the loss of data and inadequate documentation. This situation represents a significant scope limitation, meaning the auditor cannot form an opinion on the financial statements as a whole. Therefore, a **disclaimer of opinion** is the most appropriate response, as it indicates that the auditor cannot express an opinion due to the lack of sufficient evidence.

3.

1. Review of Management's Assessment:

- **Procedure:** Obtain and evaluate management's assessment of the entity's ability to continue as a going concern for at least 12 months from the balance sheet date.
- **Purpose:** To understand the basis of management's assumptions and whether they are reasonable and supported by evidence.

2. Analysis of Cash Flow Forecasts:

- **Procedure:** Examine the entity's cash flow forecasts, including underlying assumptions, and compare them with actual results from previous periods.
- **Purpose:** To assess the entity's future liquidity and ability to meet obligations as they fall due.

3. Examination of Subsequent Events:

- **Procedure:** Review subsequent events for any developments that may impact the entity's going concern status, such as new financing arrangements, significant changes in market conditions, or major legal proceedings.
- **Purpose:** To identify any events occurring after the balance sheet date that could affect the entity's ability to continue operating.

4. Enquiry of Management and Those Charged with Governance:

- **Procedure:** Enquire of management and those charged with governance about their plans for dealing with any identified going concern risks, such as cost-cutting measures, asset sales, or restructuring.
- **Purpose:** To understand the strategies management has in place to mitigate going concern risks.

5. Review of Loan Agreements and Debt Covenants:

- **Procedure:** Review the terms of loan agreements and debt covenants to determine if the entity is in compliance and whether there are any clauses that could trigger immediate repayment or affect the entity's liquidity.
- **Purpose:** To assess the risk of covenant breaches that could lead to liquidity issues or insolvency.

6. Examination of Financial Ratios:

- **Procedure:** Calculate and analyse key financial ratios such as the current ratio, quick ratio, debt-to-equity ratio, and interest coverage ratio.
- **Purpose:** To assess the entity's financial stability and ability to meet its short-term and long-term obligations.

7. Evaluation of Contingent Liabilities:

- **Procedure:** Review the entity's contingent liabilities, such as ongoing litigation or guarantees, and assess the potential impact on the entity's financial position.
- **Purpose:** To determine if any contingent liabilities could significantly affect the entity's ability to continue as a going concern.

8. Review of Auditor's Prior Year Reports and Discussions:

- **Procedure:** Review the prior year audit reports and any discussions related to going concern issues to see if any ongoing or unresolved matters might affect the current period.
- **Purpose:** To ensure that ongoing concerns from previous periods have been appropriately addressed.

9. Consideration of External Factors:

- **Procedure:** Assess external factors such as economic conditions, industry trends, and regulatory changes that might affect the entity's ability to continue as a going concern.
- **Purpose:** To determine if external pressures could impact the entity's financial health and sustainability.

10. Assessment of Plans for Restructuring or Financing:

- **Procedure:** Evaluate management's plans for restructuring, refinancing, or obtaining additional capital, and consider the feasibility and likelihood of these plans succeeding.
- **Purpose:** To determine if the entity has realistic plans to address going concern issues.

11. Audit of Projections and Budgets:

- **Procedure:** Test the assumptions and reliability of the projections and budgets prepared by management for the future periods.
- **Purpose:** To assess whether the projections are realistic and based on sound reasoning, which is critical for assessing going concern.

These procedures help auditors gather sufficient appropriate evidence to conclude on the appropriateness of the going concern assumption and to determine whether there are material uncertainties that need to be disclosed in the financial statements.

Unit F: Other Assurance and Non-Assurance Services

Learning outcomes

F1. Other assurance services

F2. Specific assignments

F3. The audit of performance information in the public sector

F4. The audit of social, environmental and integrated reporting

Introduction to Unit F

This Unit explains the nature of various assignments undertaken by public and private sector audit functions and devise the necessary work plans to fulfil their objectives.

You will learn to describe and evaluate other assurance services that audit firms provide, assessing their benefits to management and other users. You will be able to conclude the level of assurance provided for an engagement based on factors such as the subject matter evaluated, the criteria used, the procedures applied, and the quality and quantity of evidence obtained.

For specific assignments, including performance audits, compliance audits, due diligence, reviews of interim and prospective financial information, and forensic audits, you will be able to define and describe the purpose of each engagement. You will evaluate the level of assurance that can be provided to the audited entity and the matters to be considered before accepting an engagement. Additionally, you will be able to recommend a plan to gather sufficient and appropriate evidence, suggest appropriate procedures for this purpose, and compare and contrast the form and content of other assurance reports with an auditor's report.

In the context of the public sector, you will understand the audit of performance information and differentiate it from performance auditing. You will be able to recommend a plan for the audit of performance information, describe the examination procedures used, and discuss the criteria for such an engagement, including compliance with reporting requirements, usefulness, measurability, and reliability. You will also be able to discuss and recommend the form and content of a report on the audit of performance information, including the conclusion.

Lastly, you will learn to plan an engagement to provide assurance on integrated reporting, covering performance measures and sustainability indicators. You will evaluate the issues in measuring and reporting on economic, environmental, and social performance, providing examples of relevant performance measures and sustainability indicators. You will recommend procedures to detect misstatements in respect of social and

environmental matters and discuss the form and content of an independent verification statement on an integrated report.

Summary of Unit F and key learning outcomes

After completing Unit F, you should be able to explain the nature of other types of assignment performed by public and private sector audit functions and formulate the work required to meet their objectives.

The key learning outcomes are presented in the table below:

Ref	Learning Outcome	
F1	Other assurance services	Describe the main types of other assurance services that audit firms can provide and assess the benefits of these to management and other users.
		Conclude on the level of assurance provided for an engagement depending on factors such as: i) subject matter evaluated ii) criteria used iii) procedures applied iv) quality and quantity of evidence obtained.
F2	Specific assignments	• Performance audit • Compliance audit • Due diligence assignment • Review of interim financial information • Review of prospective financial information • Forensic audit For each of the specific assignments listed above:
		Define and describe the purpose of the engagement and evaluate the level of assurance which may be provided to the audited entity.
		Evaluate the matters to be considered before accepting an engagement.
		Recommend a plan to gather sufficient and appropriate evidence to provide the level of assurance needed for the assignment.
		Recommend appropriate procedures to gather sufficient and appropriate evidence.

Ref	Learning Outcome	
		Compare and contrast the form and content of other assurance reports with an auditor's report.
F3	The audit of performance information in the public sector	Describe the audit of performance information and differentiate from performance auditing.
		Recommend a plan for the audit of performance information and describe examination procedures to be used in the audit of this type of information.
		Discuss the criteria for such an engagement, including: i) compliance with reporting requirements ii) usefulness iii) measurability iv) reliability.
		Discuss and recommend the form and content of a report on the audit of performance information, including the conclusion.
F4	The audit of social, environmental and integrated reporting	Plan an engagement to provide assurance on integrated reporting (performance measures and sustainability indicators).
		Evaluate the issues in measuring and reporting on economic, environmental and social performance, providing examples of performance measures and sustainability indicators.
		Recommend procedures to detect misstatements in respect of social and environmental matters.
		Discuss the form and content of an independent verification statement on an integrated report.

F.1 Other Assurance Services

1.1 Introduction

For clarity, an "***Assurance Engagement***" is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. Each assurance engagement is classified on two dimensions:

(a) ***Reasonable assurance engagement***. An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on outcome of the measurement or evaluation of underlying subject matter against criteria.

(b) ***Limited assurance engagement***. An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has/have come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated.

Audit firms provide a variety of assurance services beyond traditional financial statement audits. These services aim to enhance the credibility and reliability of information used by management, stakeholders, and other users. Below are the common other assurance engagements normally conducted by practitioners other than the usual traditional assurance engagements of statutory audits and review of financial statements;

Prospective Financial Information Review. This is an engagement where a practitioner examines and reports on the reviewed prospective financial information including examination procedures for best-estimates and hypothetical assumptions. Prospective financial information is the financial information based on assumptions about events that may occur in the future and possible actions by an entity. This can be in the form of; a forecast, a projection, or a combination of both, e.g. a one year forecast plus a five year projection. Under this nature of engagement, the practitioner should obtain sufficient appropriate evidence, about prospective financial information, as to whether;

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

Reporting Accountant's Engagement. This is an engagement in which a practitioner acting as a "reporting accountant" provides certain 'public' opinion/conclusion required by the rules governing capital markets and security exchange transactions. The main output of this engagement is the Reporting Accountant's Report, as the accountant's report on historical financial information. The Accountant's Report gives a conclusion or an opinion on the company's periodical (normally 5-year or 3-year period) historical financial information. The Accountant's Report is published in the Prospectus (or Information Memorandum or Investment Circular) alongside the reviewed historical financial information.

Reporting Engagements on Controls at Service Organisations. These are engagements in which a practitioner conducts them to obtain sufficient appropriate audit evidence

about the services or internal controls of the service organisation, and confirm if the controls are sufficient to address the assessed risks of material misstatements in relation to use of service organisation(s). The auditor issues a report on controls for the service organisation. Below are the objectives of the auditor, when the user entity (audit client) uses the services of a service organisation, are;

- To obtain an understanding of the nature and significance of the services provided by the service organisation, & their effect on user entity's internal control relevant to the audit, sufficient to identify, and assess the risks of material misstatement.
- To design & perform audit procedures responsive to those risks.

Some types of other assurance services though some of which can be conducted as non-assurance engagements, and their benefits for management and other stakeholders are shown in the table below:

Assurance Service	Overall objective	Benefits and specific objectives
Review Engagements, of financial information	Limited assurance that there are no material modifications needed for financial statements to comply with applicable frameworks. These engagements are usually reasonable or limited assurance engagements	***Cost-Effective:*** Less costly than a full audit. ***Timely Information:*** Provides timely insights and early detection of issues. ***Stakeholder Confidence:*** Enhances confidence in financial information.
Compliance Audits	Assess adherence to regulatory requirements, contractual obligations, or internal policies. These are normally either limited assurance engagements or non-assurance engagements	***Risk Management:*** Identifies and mitigates compliance risks. ***Regulatory Assurance:*** Provides assurance to regulators and stakeholders. ***Operational Improvement:*** Highlights areas for improvement.
Performance Audits	Evaluate the efficiency, effectiveness, and economy of operations or specific programmes. These are usually conducted as limited assurance engagements or non-assurance engagements	***Operational Insights:*** Valuable insights into operations. ***Resource Optimisation:*** Identifies cost-saving opportunities. ***Accountability:*** Enhances accountability for programme results.

Assurance Service	Overall objective	Benefits and specific objectives
Forensic Audits	Investigate and uncover fraud, embezzlement, or other financial misconduct through detailed examination and analysis. These are normally conducted as non-assurance engagements, in form of advisory assignments	***Fraud Detection*:** Helps detect and prevent fraud. ***Legal Support*:** Provides evidence for legal proceedings. ***Reputation Management*:** Assists in addressing financial misconduct.
Sustainability and Environmental Audits	Assess the accuracy and reliability of sustainability reports and environmental performance data, evaluating compliance with regulations and initiatives. These engagements can take a form of either reasonable assurance or limited assurance or non-assurance engagements	***Sustainability Assurance*:** Enhances credibility of sustainability reports. ***Regulatory Compliance*:** Ensures compliance with environmental laws. ***Stakeholder Trust*:** Builds trust with stakeholders.

1.2 Level of Assurance

The level of assurance provided for an engagement can vary significantly depending on several critical factors including those shown below:

- **Subject Matter Evaluated:**
    - ***Nature and Complexity***: The complexity and nature of the subject matter significantly impact the level of assurance. For instance, financial audits of well-defined financial statements typically offer higher assurance than evaluations of less tangible areas like sustainability practices.
    - ***Scope of Evaluation***: Broader, more comprehensive subject matters might provide lower assurance levels due to the extensive range of variables, whereas more narrowly defined subjects can be examined in greater detail, potentially yielding higher assurance.
- **Criteria Used:**
    - ***Clear and Established Criteria***: Using clear, well-established criteria (e.g., IFRS Accounting Standard for financial audits) facilitates higher assurance levels because the standards and expectations are clearly defined and widely accepted.

- ***Ambiguous or New Criteria***: When criteria are less clear or newly established, it can be challenging to provide high assurance because of the increased likelihood of varying interpretations and the lack of historical precedent.

- **Procedures Applied:**
  - ***Rigorous and Comprehensive Procedures***: More rigorous and comprehensive procedures (such as detailed testing, in-depth interviews, and thorough document reviews) generally result in higher levels of assurance. These procedures allow auditors to gather robust and compelling evidence to support their conclusions.
  - ***Limited Procedures***: Engagements involving limited procedures, such as simple inquiries or analytical reviews, typically offer lower levels of assurance due to the reduced scope and depth of the evaluation.

- **Quality and Quantity of Evidence Obtained:**
  - ***High-Quality Evidence***: High-quality evidence that is relevant, reliable, and corroborated from multiple sources supports higher assurance levels. This includes primary evidence (original documents, direct observations) and secondary evidence (reports, third-party confirmations).
  - ***Sufficient Quantity of Evidence***: Collecting a sufficient quantity of evidence across the relevant scope is crucial. Even if the evidence is high-quality, an insufficient quantity can undermine the assurance level as it may not adequately cover all aspects of the subject matter.
  - ***Consistency of Evidence***: Consistent findings across various pieces of evidence strengthen the overall assurance level. Discrepancies or inconsistencies can reduce the reliability of conclusions drawn.

F.2 Specific Assignments

2.1 Introduction

Some other specific assignments which can take a form of either other assurance (Especially as limited assurance) or non-assurance engagement, and the main factors to be considered are shown below.

2.1.1 Performance Audit

- **Definition and Purpose:**
  - **Definition**: A performance audit evaluates the efficiency, effectiveness, and economy of an organisation's operations or specific programmes.
  - **Purpose**: To determine if resources are being used optimally to achieve intended outcomes.
  - **Level of Assurance**: Typically provides moderate to high assurance, depending on the comprehensiveness of the procedures applied and the quality of evidence obtained.

- **Matters to Consider Before Accepting the Engagement:**
    - **Scope and Objectives**: Clear understanding of the audit scope and objectives.
    - **Availability of Data:** Accessibility of relevant data and information.
    - **Stakeholder Expectations:** Expectations of stakeholders regarding the audit outcomes.
    - **Legal and Regulatory Environment:** Compliance with applicable laws and regulations.

- **Plan to Gather Sufficient and Appropriate Evidence:**
    - **Develop an Audit Plan**: Define objectives, scope, and methodology.
    - **Identify Key Areas**: Focus on areas with the highest potential for improvement or risk.
    - **Resource Allocation**: Ensure adequate resources are allocated for comprehensive coverage.

- **Appropriate Procedures:**
    - **Interviews and Surveys**: Collect information from employees, management, and stakeholders.
    - **Document Review**: Analyse policies, procedures, and performance reports.
    - **Data Analysis**: Use quantitative methods to assess efficiency and effectiveness.
    - **Field Observations**: Observe operations and activities directly.

A performance audit report focuses on findings related to efficiency, effectiveness, and economy, providing recommendations for improvement.

2.1.2 Compliance Audit

Compliance Audit

- **Definition and Purpose:**
    - **Definition**: A compliance audit assesses whether an entity adheres to regulatory requirements, contractual obligations, or internal policies.
    - **Purpose**: To ensure compliance and identify areas of non-compliance.
    - **Level of Assurance**: Typically provides high assurance due to the detailed nature of compliance checks.

- **Matters to Consider Before Accepting the Engagement:**
    - **Regulatory Environment**: Understanding the specific regulations and standards applicable.
    - **Access to Information**: Ensuring availability of necessary documents and data.

- **Scope Definition**: Clearly defining the scope to include relevant compliance areas.

- **Plan to Gather Sufficient and Appropriate Evidence:**
  - **Compliance Framework**: Develop a framework to guide the audit process.
  - **Checklists and Questionnaires**: Use these tools to systematically assess compliance.
  - **Sampling Strategy**: Determine an appropriate sampling strategy to review compliance.

- **Appropriate Procedures:**
  - **Document Examination**: Review contracts, policies, and regulatory filings.
  - **Interviews**: Conduct interviews with management and compliance officers.
  - **Testing**: Perform tests of controls and transactions to verify compliance.
  - **Reconciliation**: Cross-check information from various sources for consistency.

A compliance audit report focuses on specific compliance issues, detailing areas of non-compliance and recommendations for corrective actions.

2.1.3 Due Diligence Assignment

- **Definition and Purpose:**
  - **Definition**: A due diligence assignment involves a thorough investigation of a potential investment or business partnership.
  - **Purpose**: To assess the viability, risks, and benefits of the transaction.
  - **Level of Assurance**: Provides moderate to high assurance depending on the depth of the investigation.

- **Matters to Consider Before Accepting the Engagement:**
  - **Objectives and Scope**: Clearly defined objectives and scope of the due diligence.
  - **Availability of Information**: Ensuring access to relevant financial, operational, and legal documents.
  - **Stakeholder Requirements**: Understanding the needs and concerns of stakeholders.

- **Plan to Gather Sufficient and Appropriate Evidence:**
  - **Due Diligence Checklist**: Create a comprehensive checklist covering all critical areas.
  - **Engage Experts**: Involve legal, financial, and industry experts as needed.
  - **Timeline**: Establish a timeline for completing the due diligence process.

- **Appropriate Procedures:**
    - **Financial Analysis**: Review financial statements, projections, and key ratios.
    - **Operational Review**: Evaluate operational efficiency and effectiveness.
    - **Legal Review**: Assess legal compliance and potential liabilities.
    - **Market Analysis**: Analyse market conditions and competitive positioning.

A due diligence report provides a detailed assessment of various aspects of the target entity, including financial, operational, and legal issues.

2.1.4 Review of Interim Financial Information

Review of interim financial statements or financial information is done for various reasons like regulatory requirement of all regulated Banks and listed entities or voluntary basis initiated by management in collaboration with their independent auditors in a bid to reduce pressure or workload at final audit stage for purposes of timely reporting or completion of statutory audit. Interim review engagements of financial information are classified into two (2) categories with separate auditing standards;

(i) Interim review of financial information conducted by the company's independent auditor in line with International Standard on Review Engagements (ISRE) 2410 (Revised), Review of Interim Financial Information Performed by the Independent Auditor of the Entity

(ii) Interim review of financial information conducted by a practitioner who is not a current auditor of the entity, in line with International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements.

- **Definition and Purpose:**
    - **Definition**: A review of interim financial information provides limited assurance that interim financial statements are free from material misstatements.
    - **Purpose**: To provide stakeholders with timely insights into financial performance during the year.
    - **Level of Assurance**: Provides limited assurance due to the nature of the review procedures.

- **Matters to Consider Before Accepting the Engagement:**
    - **Materiality**: Determining materiality thresholds for interim periods.
    - **Time Constraints**: Ensuring there is sufficient time to conduct the review.
    - **Access to Records**: Availability of interim financial records and related documentation.

- **Plan to Gather Sufficient and Appropriate Evidence:**
    - **Review Plan**: Develop a plan outlining the scope and procedures for the review.
    - **Analytical Procedures**: Use analytical procedures to identify significant trends and anomalies.

- **Inquiries**: Conduct inquiries of management regarding financial information.

- **Appropriate Procedures:**
  - **Analytical Review**: Perform ratio analysis, trend analysis, and other analytical procedures.
  - **Management Inquiries**: Interview management about significant transactions and events.
  - **Comparative Analysis**: Compare interim results with prior periods and budgets.

An Interim Review Report provides limited assurance, usually stating that nothing has come to the reviewer's attention to indicate material misstatements.

2.1.5 Review of Prospective Financial Information

- **Definition and Purpose:**
  - **Definition**: A review of prospective financial information evaluates the assumptions and methodologies used to prepare financial forecasts or projections.
  - **Purpose**: To provide assurance that the prospective financial information is based on reasonable assumptions.
  - **Level of Assurance**: Provides limited assurance due to the inherent uncertainties in forecasting.

- **Matters to Consider Before Accepting the Engagement:**
  - **Assumptions**: Understanding the key assumptions underlying the prospective information.
  - **Purpose of the Information**: Clarifying the intended use and audience for the prospective information.
  - **Data Availability**: Ensuring access to relevant historical data and assumptions.

- **Plan to Gather Sufficient and Appropriate Evidence:**
  - **Review Plan**: Develop a plan outlining the scope and procedures for reviewing the prospective information.
  - **Assumption Evaluation**: Focus on evaluating the reasonableness of key assumptions.
  - **Sensitivity Analysis**: Plan for sensitivity analysis to assess the impact of changes in assumptions.

- **Appropriate Procedures:**
  - **Assumption Review**: Evaluate the reasonableness and support for key assumptions.
  - **Historical Analysis**: Compare prospective information to historical data for consistency.

- **Sensitivity Testing**: Conduct sensitivity analysis to determine the impact of changes in key assumptions.
- **Discussions with Management**: Discuss assumptions and methodologies with management.

A Prospective Financial Information Review Report typically provides limited assurance, highlighting whether assumptions provide a reasonable basis for the prospective information.

2.1.6 Forensic Audit

- **Definition and Purpose:**
  - **Definition**: A forensic audit involves investigating financial records to uncover fraud, embezzlement, or other financial misconduct.
  - **Purpose**: To gather evidence for legal proceedings and identify control weaknesses that allowed the misconduct.
  - **Level of Assurance**: Provides high assurance in detecting specific instances of fraud or misconduct.
- **Matters to Consider Before Accepting the Engagement:**
  - **Legal Implications**: Understanding the legal context and implications of the investigation.
  - **Scope and Objectives**: Clearly defining the scope and objectives of the forensic audit.
  - **Resource Requirements**: Ensuring availability of necessary forensic accounting expertise.
- **Plan to Gather Sufficient and Appropriate Evidence:**
  - **Investigation Plan**: Develop a detailed investigation plan outlining specific areas of focus.
  - **Data Collection**: Identify and secure relevant data sources.
  - **Expert Involvement**: Engage forensic accounting experts as needed.
- **Appropriate Procedures:**
  - **Detailed Examination**: Conduct thorough examination of financial records and transactions.
  - **Interviews**: Interview relevant personnel to gather additional information.
  - **Analytical Procedures**: Use forensic data analytics to identify unusual patterns.
  - **Document Review**: Review relevant documents, emails, and other communications for evidence of misconduct.

A Forensic Audit Report provides detailed findings related to specific instances of fraud or misconduct, often including recommendations for legal action.

2.2 Other Non-Assurance or Related Services

Agreed-upon procedure (AUP) engagements. Any assignment conducted based on agreed-upon procedures like confirming entity's solvency, performed under the guidance of International Standards on Related Services (ISRS). The scope of International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures (AUP) Engagement, covers all "subject matters" which are anything on which agreed-upon procedures (AUP) are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.

Examples of "Financial" subject matters potential for AUP engagements;

- The entity's financial statements or specific classes of transactions, account balances, or disclosures within the financial statements.
- Eligibility of expenditures claimed from a funding program.
- Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
- Capital adequacy ratios for regulatory authorities.

Examples of "Non-financial" subject matters potential for AUP engagements;

- Numbers of passengers reported to a civil aviation authority.
- Observations of destruction of fake or defective goods reported to a regulatory authority.
- Data generating processes for lottery draws reported to a regulatory authority.
- Volume of greenhouse gas emissions reported to a regulatory authority.

Compilation engagements. That is, preparation of financial statements performed under the guidance of International Standards on Related Services (ISRS). International Standard on Related Services (ISRS) 4410 (Revised) deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement in accordance with ISRS 4410 (Revised).

Income tax compliance or tax advisory engagement. This is one of the common non-assurance services offered by practitioners (audit firms), in form of advisory or specialised services. For instance, the preparation of tax returns or preparation of income tax balances (income tax expense/credit, income tax payable/recoverable, and deferred tax asset/liability) or filing income tax returns to the tax authority, is a professional service where no assurance conclusion is expressed by the practitioner (Tax Expert).

Other non-assurance services. Some of other common non-assurance services offered by practitioners include but not limited to; internal audit services, risk advisory services, management consulting services, business valuation services, and general business advisory services.

F.3 The Audit of Performance Information in the Public Sector

3.1 Introduction

The audit of performance information in the public sector involves evaluating the accuracy, reliability, and relevance of data used to measure an entity's performance against its objectives and targets. The purpose of auditing this information is to provide assurance that it is presented fairly and in accordance with established criteria, enabling stakeholders to assess the entity's efficiency, effectiveness, and accountability. Note that this is different from "performance audit" which is concerned with the operations themselves – not the data relating to the operations.

Key planning considerations are shown below:

- **Understanding the Entity and Its Environment:**
    - ***Context***: The auditor must gain an understanding of the entity's objectives, key performance indicators (KPIs), and the processes used to collect and report performance information.
    - ***Risk Assessment***: Identify and assess risks of material misstatement in performance information due to fraud or error.
- **Materiality in Planning and Performing an Audit:**
    - ***Materiality Levels***: Determine materiality levels for performance information, considering both quantitative and qualitative factors.
    - ***Performance Metrics***: Assess the significance of various performance metrics to stakeholders and the impact of potential misstatements.
- **Audit Evidence:**
    - ***Sufficient and Appropriate Evidence***: Gather sufficient and appropriate audit evidence to support conclusions about the accuracy and reliability of performance information.
    - ***Data Sources***: Evaluate the reliability of data sources and the processes used to compile performance information.
- **Internal Control:**
    - ***Control Environment***: Assess the effectiveness of the entity's internal controls over the collection, processing, and reporting of performance information.
    - ***Control Testing***: Perform tests of controls to determine their operating effectiveness in preventing or detecting material misstatements.

The criteria to audit performance information could include:

- ***Compliance with Reporting Requirements***: Ensure that performance information complies with relevant laws, regulations, and reporting frameworks.
- ***Usefulness***: Assess whether the performance information is relevant and useful for stakeholders in making informed decisions.

- ***Measurability***: Evaluate the extent to which performance measures are quantifiable and can be reliably assessed.
- ***Reliability***: Determine the accuracy and consistency of performance information, ensuring it is free from material misstatement.

Typical audit procedures might include:

Audit Procedures for Performance Information

- **Review of Objectives and KPIs:**
  - ***Objective Alignment***: Ensure that performance indicators align with the entity's objectives and strategic goals.
  - ***Relevance***: Evaluate the relevance and appropriateness of KPIs in measuring performance.
- **Examination of Data Collection and Reporting Processes:**
  - ***Process Review***: Assess the processes and systems used to collect, process, and report performance data.
  - ***Control Evaluation***: Evaluate internal controls over these processes to ensure data integrity.
- **Verification of Performance Data:**
  - ***Source Verification***: Trace performance data back to original source documents to verify accuracy.
  - ***Analytical Procedures***: Use analytical procedures to compare current performance data with historical data and expected trends.
- **Stakeholder Engagement:**
  - ***Feedback***: Obtain feedback from stakeholders to understand their perceptions of the performance information's reliability and usefulness.
  - ***Inquiries***: Conduct inquiries with management and staff responsible for performance reporting.

3.2 Auditing Standards for Public Sector Auditing

Auditing standards in the public sector must emphasize the importance of ensuring that government entities are held accountable for their actions and decisions. This involves assessing the effectiveness of governance structures, internal controls, and risk management processes in achieving organizational objectives. International Standards of Supreme Audit Institutions (ISSAIs) are professional auditing standards essential for enhancing the credibility, quality and professionalism of public sector auditing.

The International Organization of Supreme Audit Institutions (INTOSAI) is a worldwide affiliation of governmental entities. Its members are the Chief Financial Controller/ Comptroller and General/Auditor General Offices of nations. INTOSAI develops the International Standards of Supreme Audit Institutions (ISSAIs). The ISSAIs encompass

public-sector auditing requirements at the organisational (SAI) level, while on the level of individual audits they aim to support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.

The ISSAIs are the authoritative international standards on public sector auditing, whose primary purpose is to:

- ensure the quality of the audits conducted.
- strengthen the credibility of the audit reports for users.
- enhance transparency of the audit process.
- specify the auditor's responsibility in relation to the other parties involved.
- define the different types of audit engagements and the related set of concepts that provides a common language for public sector auditing.

Types of public-sector audit:

In general, public-sector audits can be categorised into one or more of three main types: audits of financial statements, audits of compliance with authorities and performance audits. The objectives of any given audit will determine which standards apply. The three main types of public-sector audit are defined as follows:

i) *Financial audit* – a public sector auditor with an overall objective of determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether audited public sector entity's financial information is free from material misstatement due to fraud or error.

ii) *Performance audit* – a public sector auditor with an overall objective of ascertaining whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed.

iii) *Compliance audit* – a public sector auditor with an overall objective of verifying whether a particular subject matter is in compliance with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity.

F.4 The Audit of Social, Environmental and Integrated Reporting

4.1 Introduction

An audit of social, environmental and integrated reporting assesses the accuracy, reliability, and completeness of information related to an organisation's social, environmental, and economic performance as presented in its sustainability or integrated reports. The audit provides stakeholders with assurance that the information in the reports is credible and accurately reflects the organisation's performance in these areas.

Key considerations in planning such an audit might include:

- **Understanding the Entity and Its Environment (ISA 315, Revised 2019):**
    - ***Context***: Gain an understanding of the entity's social, environmental, and economic activities, objectives, and the frameworks used for reporting.
    - **Risk Assessment**: Identify and assess risks of material misstatement in social, environmental, and integrated reports due to fraud or error.
- **Planning the Audit (ISA 300):**
    - ***Audit Strategy***: Develop an audit strategy that outlines the scope, timing, and direction of the audit, considering the unique aspects of social and environmental reporting.
- **Materiality in Planning and Performing an Audit (ISA 320):**
    - ***Materiality Levels***: Determine materiality levels for social, environmental, and integrated reporting, considering both quantitative and qualitative factors.
    - ***Impact Assessment***: Assess the significance of various performance metrics to stakeholders and the potential impact of misstatements.
- **Audit Evidence (ISA 500):**
    - ***Sufficient and Appropriate Evidence***: Gather sufficient and appropriate audit evidence to support conclusions about the accuracy and reliability of social, environmental, and economic performance information.
    - ***Data Sources***: Evaluate the reliability of data sources and the processes used to compile the information.
- **Internal Control (ISA 330):**
    - ***Control Environment***: Assess the effectiveness of the entity's internal controls over the collection, processing, and reporting of social and environmental information.
    - ***Control Testing***: Perform tests of controls to determine their operating effectiveness in preventing or detecting material misstatements.

4.2 Issues in Measuring and Reporting on Economic Performance

Financial data can be intricate and challenging to interpret, particularly when integrating non-financial metrics. A significant issue is the lack of standardised reporting frameworks, which makes it difficult to ensure consistency and comparability across different entities. Additionally, varying disclosure requirements across jurisdictions can complicate the reporting process, as organisations must navigate different regulations and standards. Another challenge is the quantification of intangible assets, such as intellectual property, brand value, and human capital, which are difficult to measure accurately but critical to understanding an organisation's full economic value.

Examples of Performance Measures:

- ***Revenue Growth***: This measure indicates the increase in an organisation's sales over a specific period, reflecting its ability to expand its market presence and attract more customers.
- ***Return on Investment (ROI)***: ROI is a key indicator of profitability, showing how effectively an organisation generates profit relative to its investments.
- ***Cost Efficiency***: This metric evaluates how well an organisation manages its costs in relation to its output, highlighting its operational efficiency.
- ***Net Profit Margin***: This ratio of net profit to total revenue indicates overall profitability, providing insight into how much profit is made for every currency unit of revenue generated.

4.3 Issues in Measuring and Reporting on Environmental Performance

One major issue is the availability and reliability of environmental data, which is often dispersed across different systems and not consistently maintained. The lack of universally accepted standards for environmental reporting adds to the complexity, as organisations may follow different guidelines, leading to inconsistent reporting. Additionally, determining the scope and boundaries for environmental impact assessments can be difficult. For example, deciding whether to include direct emissions only or to also account for indirect emissions from the supply chain involves complex decisions that can significantly affect the reported data.

Examples of Performance Measures:

- ***Carbon Footprint***: This measure quantifies the total greenhouse gas emissions caused directly and indirectly by an organisation, providing insight into its environmental impact.
- ***Energy Consumption***: Tracking the amount of energy used by an organisation helps in understanding its efficiency and environmental footprint.
- ***Waste Reduction***: Measuring the reduction in waste generation reflects an organisation's efforts in improving its sustainability practices.
- ***Water Usage***: Monitoring water consumption helps in assessing the organisation's impact on local water resources and its efficiency in using this critical resource.

4.4 Issues in Measuring and Reporting on Economic Performance

Social performance measurement and reporting face several obstacles. One of the main challenges is the subjective nature of social indicators, which can vary widely depending on the context and stakeholder expectations. Additionally, there is often a lack of clear, quantifiable metrics for social performance, making it difficult to measure and compare. The integration of social data with financial and environmental data adds another layer of complexity, requiring comprehensive and cohesive reporting systems. Furthermore, organisations may encounter resistance to transparency in social reporting due to concerns about public perception and potential negative feedback.

Examples of Performance Measures:

- ***Employee Satisfaction***: Surveys and metrics that gauge the satisfaction and engagement levels of employees, reflecting the organisation's workplace environment.
- ***Community Impact***: Measures of the organisation's contributions to the local community, including economic support, volunteer efforts, and social initiatives.
- ***Diversity and Inclusion***: Metrics that track the diversity of the workforce and the effectiveness of inclusion policies, indicating the organisation's commitment to equality.
- ***Health and Safety***: Statistics on workplace incidents, injuries, and safety compliance, highlighting the organisation's commitment to providing a safe working environment.

4.5 Audit Procedures

- **Review of Objectives and Performance Indicators:**
    - ***Objective Alignment***: Ensure that social, environmental, and economic indicators align with the entity's strategic goals.
    - ***Relevance***: Evaluate the relevance and appropriateness of performance indicators in measuring outcomes.
- **Examination of Data Collection and Reporting Processes:**
    - ***Process Review***: Assess the processes and systems used to collect, process, and report *data.*
    - ***Control Evaluation***: Evaluate internal controls over these processes to ensure data integrity.

- **Verification of Performance Data:**
    - ***Source Verification***: Trace performance data back to original source documents to verify accuracy.
    - ***Analytical Procedures***: Use analytical procedures to compare reported data with historical data and expected trends.
    - **Stakeholder Engagement**:
    - ***Feedback***: Obtain feedback from stakeholders to understand their perceptions of the information's reliability and usefulness.
    - ***Inquiries***: Conduct inquiries with management and staff responsible for reporting.

4.6 Reporting

- **Audit Findings:**
    - Present findings on the accuracy, reliability, and relevance of the information.
    - Highlight any discrepancies, inaccuracies, or areas of non-compliance identified during the audit.
- **Recommendations:**
    - Provide actionable recommendations for improving data collection, processing, and reporting processes.
    - Suggest enhancements to internal controls to prevent future misstatements.
- **Audit Opinion:**
    - Issue an audit opinion on whether the social, environmental, and integrated reporting is fairly presented in all material respects.
    - Include a summary of key audit procedures and evidence supporting the opinion.

Quiz Questions

1. What is a key benefit of compliance audits?	Learning Outcome: F1
A	Identifying and mitigating compliance risks.
B	Increasing the overall profitability of the entity.
C	Providing absolute assurance on financial statements.
D	Assessing the efficiency of the organisation

2. In a forensic audit, what is the primary objective?	Learning Outcome: F1
A	To provide limited assurance on interim financial information.
B	To review and verify prospective financial information.
C	To assess compliance with environmental regulations.
D	To investigate and uncover fraud, embezzlement, or other financial misconduct.

3 Which of the following is a key consideration when assessing the assumptions used in prospective financial information?	Learning Outcome: F2
A	Historical financial performance.
B	The entity's compliance with past regulations.
C	The reliability of past financial data.
D	The reasonableness and supportability of the assumptions.

4 What does an audit of performance information primarily focus on?	Learning Outcome: F3
A	Assessing the financial health of the entity.
B	Evaluating the internal control systems.
C	Verifying the accuracy, reliability, and relevance of performance data against set criteria.
D	Reviewing compliance with laws and regulations.

5 Which of the following is a key difference between a performance audit and an audit of performance information?	Learning Outcome: F3
A	Performance audits focus on financial data, while audits of performance information do not.
B	Performance audits evaluate operational processes, while audits of performance information assess the accuracy of reported performance data.
C	Performance audits are always conducted annually, while audits of performance information are not.
D	Performance audits require more detailed testing

6 Which of the following is an example of a metric that might be assessed in an environmental audit?	Learning Outcome: F4
A	Net profit margin
B	Carbon footprint
C	Customer satisfaction index.
D	Return on investment (ROI

Exercises

1. Identify key audit procedures to audit performance information.
2. What factors determine the level of assurance which can be provided?

Exercise Solutions

1

Auditing performance information involves assessing the accuracy, reliability, and relevance of the data used to measure an entity's performance against its objectives and targets. Here are the key procedures involved:

- **Understanding the Entity and its Environment:**
  - **Review Strategic Objectives**: Understand the entity's strategic objectives and how performance information aligns with these goals.
  - **Identify Key Performance Indicators (KPIs)**: Identify the KPIs that the entity uses to measure performance and assess their relevance and appropriateness.
- **Planning the Audit:**
  - **Audit Plan Development**: Develop an audit plan outlining the scope, objectives, and methodology for auditing performance information.
  - **Risk Assessment**: Identify and assess the risks of material misstatement in performance information.
- **Assessing Internal Controls:**
  - **Evaluate Control Environment**: Assess the effectiveness of the entity's internal controls over the collection, processing, and reporting of performance information.
  - **Test Controls**: Perform tests of controls to determine their operating effectiveness in ensuring accurate and reliable performance information.
- **Evidence Gathering:**
  - **Data Collection and Verification**:
    - **Source Verification**: Trace performance data back to original source documents to verify accuracy and completeness.
    - **Reconciliation**: Reconcile performance data with related financial and operational records.
  - **Analytical Procedures**:
    - **Trend Analysis**: Perform trend analysis to identify unusual fluctuations or patterns in performance data.

        - **Comparative Analysis**: Compare current performance data with historical data, benchmarks, and industry standards.
    - **Substantive Testing**:
        - **Sampling**: Use sampling techniques to test the accuracy and completeness of performance information.
        - **Detail Testing**: Perform detailed testing of selected transactions and events to verify their impact on performance metrics.

- **Review of Processes and Methodologies:**
    - **Evaluate Data Collection Processes**: Assess the processes and methodologies used to collect, process, and report performance information.
    - **Assess Data Quality**: Evaluate the quality of data, including its accuracy, completeness, and timeliness.

- **Interviews and Inquiries:**
    - **Management Interviews**: Conduct interviews with management to understand the processes and controls in place for generating performance information.
    - **Staff Inquiries**: Inquire with staff responsible for collecting and reporting performance data to assess their understanding and adherence to procedures.

- **Examination of Documentation:**
    - **Policy and Procedure Review**: Review relevant policies and procedures to ensure they are comprehensive and consistently applied.
    - **Documentation Check**: Examine documentation supporting the performance information, such as reports, spreadsheets, and databases.

- **Benchmarking and External Comparisons:**
    - **Industry Benchmarks**: Compare the entity's performance metrics with industry benchmarks and standards.
    - **Peer Comparisons**: Perform peer comparisons to evaluate the entity's performance relative to similar organisations.

- **Testing of IT Systems:**
    - **IT Environment Assessment**: Evaluate the IT environment and systems used for collecting and reporting performance information.
    - **System Controls Testing**: Test the controls over IT systems to ensure data integrity and security.

- **Reporting:**
    - **Drafting Audit Report**: Prepare a draft audit report summarising the findings, conclusions, and recommendations.

- **Discussion with Management**: Discuss the draft report with management to obtain their feedback and responses.
- **Final Report Issuance**: Issue the final audit report, including recommendations for improving the accuracy, reliability, and relevance of performance information.

2.

The level of assurance provided in an audit engagement is influenced by several key factors. Understanding these factors helps in planning and executing the audit to meet the required assurance level effectively. Here are the primary factors:

- **Nature of the Subject Matter:**
  - **Complexity**: The complexity of the subject matter impacts the level of assurance. Simple, well-defined subjects are easier to audit and can provide higher assurance levels, whereas complex and ambiguous subjects may result in lower assurance.
  - **Inherent Risk**: Subjects with higher inherent risk, such as those involving significant judgement or estimates, may limit the level of assurance that can be provided.
- **Criteria Used:**
  - **Clarity and Relevance**: Clear, objective, and relevant criteria enhance the auditor's ability to provide higher assurance. Ambiguous or poorly defined criteria can make it difficult to form a definitive conclusion.
  - **Frameworks and Standards**: The existence of established frameworks or standards, such as IFRS for financial reporting or GRI for sustainability reporting, facilitates higher assurance by providing a clear benchmark against which to assess the subject matter.
- **Procedures Applied:**
  - **Extent of Testing**: The thoroughness and extent of audit procedures, including the scope of substantive testing and control testing, directly impact the assurance level. More extensive and rigorous procedures typically result in higher assurance.
  - **Analytical Procedures**: The use of detailed analytical procedures to identify anomalies and verify data consistency contributes to the assurance level.
- **Quality and Quantity of Evidence Obtained:**
  - **Sufficiency**: The quantity of evidence must be sufficient to support the audit conclusion. Inadequate evidence can limit the level of assurance.
  - **Appropriateness**: The relevance and reliability of evidence are crucial. High-quality, reliable evidence provides a stronger basis for assurance.
  - **Consistency**: Consistent findings across multiple sources of evidence strengthen the assurance level. Inconsistent evidence may require additional procedures to resolve discrepancies.

- **Internal Controls:**
    - **Effectiveness of Controls**: Strong internal controls over financial reporting and data collection processes contribute to higher assurance. Weak or ineffective controls increase the risk of material misstatement and can lower the assurance level.
    - **Control Testing**: The results of control testing provide insights into the reliability of the entity's processes and impact the assurance level.
- **Auditor's Expertise and Experience:**
    - **Professional Judgment**: The auditor's experience and expertise play a significant role in assessing risks, designing procedures, and interpreting evidence. Experienced auditors can provide higher assurance through better risk assessment and evidence evaluation.
    - **Specialist Knowledge**: Engagements requiring specialist knowledge, such as IT systems or complex financial instruments, may provide higher assurance if conducted by auditors with the relevant expertise.
- **Scope of the Engagement:**
    - **Defined Scope**: A well-defined scope that clearly outlines the objectives and extent of the audit allows for a more focused and effective audit, contributing to higher assurance.
    - **Limitations and Restrictions**: Any limitations or restrictions on the scope of the audit, such as limited access to necessary information or time constraints, can reduce the assurance level.

Unit G: Use of technology in audit and assurance

Learning outcomes

G.1. Computer Assisted Audit Techniques (CAATs)

G2. Electronic Working Papers

Introduction to Unit G

This unit focuses on two topics: Computer Assisted Audit Techniques (CAATs) and electronic working papers.

Computer Assisted Audit Techniques (CAATs)

CAATs are invaluable tools in the modern audit process. They serve the crucial purpose of identifying potential material misstatements within financial data. This section will help you understand why CAATs are useful and how they contribute to a more effective audit. You will learn to determine the appropriate circumstances for using test data and audit software during an audit. Moreover, you will be able to recommend specific tests of controls and substantive procedures that incorporate CAATs, tailored to particular scenarios.

Electronic Working Papers

The adoption of electronic working papers offers significant advantages in the audit process. This section will guide you through the benefits of using electronic working papers, such as improved efficiency and organisation. However, it also highlights the potential risks associated with retaining working papers electronically, such as data security and integrity issues. You will be encouraged to consider these factors within specific scenarios.

This section also emphasises the importance of using electronic working paper software that ensures audits are performed in accordance with applicable auditing standards. The software should support documentation standards expected of an auditor, including features for review and approval. Understanding these aspects will help you appreciate how technology can enhance the quality and reliability of audit documentation.

Summary of Unit G and key learning outcomes

After completing Unit G, you should be able to assess the impact of technology on the audit process with regard to improving audit efficiency and the quality of audit working papers.

The key learning outcomes are presented in the table below.

Ref	Learning Outcome	
G1	Computer Assisted Audit Techniques (CAATs)	Consider the purpose of CAATs (why they are useful and how they help to detect potential material misstatements) and when to use test data and audit software during an audit.
		Recommend test of controls and substantive procedures that utilise CAATs, applied to a specified scenario.
G2	Electronic working papers	Examine the advantages of using electronic working papers, whilst showing awareness for the risk of retaining working papers this way.
		Consider, in the context of a specified scenario, the importance of electronic working paper software that clearly demonstrates the audit was performed in accordance with applicable auditing standards, and that has features that support the documentation standards expected of an auditor, such as review and approval.

G.1 Computer Assisted Audit Techniques (CAATs)

1.1 Introduction

Computer Assisted Audit Techniques (CAATs) are tools and methods used by auditors to facilitate the auditing process through the use of computer technology. Common software used includes ACL Analytics, IDEA (Interactive Data Extraction and Analysis) and Teammate Analytics.

CAATs can be broadly categorised into several types, including data extraction, data analysis, and the testing of controls and transactions. Here are the main aspects of CAATs:

- **Data Extraction and Analysis:**
    - ***Data Mining***: Extracting large volumes of data from an organisation's systems to identify patterns, anomalies, and trends.
    - ***Audit Software***: Specialised software that performs a range of audit tasks such as analysing large datasets, sampling data, and generating reports. Examples include ACL and IDEA.

- **Testing of Controls:**
    - ***Continuous Auditing***: Using software to continuously monitor systems and transactions, providing real-time assurance over processes and controls.
    - ***Embedded Audit Modules***: Programs embedded within a client's application systems to continuously monitor and analyse transactions.

- **Simulation and Modelling:**
    - ***What-if Analysis***: Using computer simulations to test the effects of various scenarios on financial statements and operations.
    - ***Statistical Sampling***: Automated selection and analysis of a sample from a large population to draw conclusions about the entire population.

- **Compliance and Risk Assessment:**
    - ***Risk Analysis Software***: Tools that assess risks by analysing data patterns and identifying areas that require further scrutiny.
    - ***Compliance Monitoring***: Automated tools that ensure transactions and processes comply with relevant laws, regulations, and internal policies.

- **Document Management and Analysis:**
    - ***Electronic Workpapers***: Digital versions of traditional audit workpapers that allow for easier documentation, review, and collaboration. (covered below)
    - ***Text Analysis***: Tools that analyse text in documents (such as contracts or emails) for keywords, patterns, or anomalies.

Generally, the use of CAATs makes the audit process easier. Some specific benefits are shown below.

1.2 CAATs – Specific Audit Procedures

CAATS can be used at all stages of the audit process. Some specific examples are shown below.

1.2.1 Scenario 1 – Inventory System

An audit firm is planning an audit for a large retail company with numerous transactions and a complex inventory system. The objective is to assess the effectiveness of internal controls, identify areas of potential risk, and ensure the accuracy of financial statements.

- **Data Extraction:**
    - ***Process***: The audit team extracts transaction data from the company's ERP system. This includes sales transactions, purchase orders, inventory movements, and financial records.
    - ***Outcome***: A comprehensive dataset that includes all transactions for the financial year under review.

- **Data Profiling and Cleansing:**
    - ***Process***: The extracted data is imported into a data analysis tool to profile the data. This involves checking for missing values, duplicates, and outliers. The tool helps identify any anomalies or inconsistencies in the data.
    - ***Outcome***: A clean and accurate dataset ready for analysis.

- **Risk Assessment:**
    - ***Process***: Using data analytics, the audit team performs a risk assessment. The tool helps identify high-risk areas by analysing transaction patterns, identifying unusual trends, and comparing them to industry benchmarks.
    - ***Outcome***: A risk map highlighting areas that require further attention during the audit.

- **Sampling:**
    - ***Process***: The audit team uses a data analysis tool to generate a statistically valid sample of transactions. This sample will be used for detailed testing and verification.
    - ***Outcome***: A representative sample that ensures the audit covers a diverse range of transactions and scenarios.

- **Continuous Monitoring:**
    - ***Process***: For continuous auditing purposes, an automated monitoring system is set up to oversee key controls. This includes monitoring sales thresholds, inventory levels, and compliance with financial policies.
    - ***Outcome***: Real-time alerts and reports that help the audit team stay updated on critical issues throughout the audit period.

- **Planning and Documentation:**
    - ***Process***: The audit plan is documented in a spreadsheet, enhanced with add-ins for advanced data analysis and visualisation. The plan includes detailed steps, timelines, and responsibilities.
    - ***Outcome***: A well-documented audit plan that outlines the scope, objectives, and procedures for the audit.

1.2.2 Scenario 2 – Payroll System

An audit firm is tasked with auditing the payroll system of a mid-sized company. The objective is to ensure the accuracy and integrity of payroll transactions, verify compliance with relevant laws and regulations, and assess the effectiveness of internal controls.

Step-by-Step Use of CAAT in Auditing a Payroll System

- **Data Extraction:**
    - ***Process***: The audit team extracts payroll data from the company's HR and payroll

systems. This includes employee details, salary information, timesheets, tax withholdings, and payment records.

- ***Outcome***: A comprehensive dataset that includes all payroll transactions for the audit period.

- **Data Profiling and Cleansing:**
  - ***Process***: The extracted data is imported into a data analysis tool to profile the data. This involves checking for missing values, duplicates, and anomalies such as unexpected salary changes or unusual overtime patterns.
  - ***Outcome***: A clean and accurate dataset ready for analysis.

- **Risk Assessment:**
  - ***Process***: Using data analytics, the audit team performs a risk assessment. The tool helps identify high-risk areas by analysing transaction patterns, identifying anomalies such as duplicate payments or ghost employees, and comparing them to industry benchmarks.
  - ***Outcome***: A risk map highlighting areas that require further attention during the audit.

- **Sampling:**
  - ***Process***: The audit team uses a data analysis tool to generate a statistically valid sample of payroll transactions. This sample will be used for detailed testing and verification.
  - ***Outcome***: A representative sample that ensures the audit covers a diverse range of payroll transactions and scenarios.

- **Continuous Monitoring:**
  - ***Process***: For continuous auditing purposes, an automated monitoring system is set up to oversee key controls in the payroll system. This includes monitoring for compliance with salary policies, tax regulations, and detecting any unauthorised changes to payroll data.
  - ***Outcome***: Real-time alerts and reports that help the audit team stay updated on critical issues throughout the audit period.

- **Analytical Procedures:**
  - ***Process***: The audit team applies analytical procedures to the payroll data, such as trend analysis, ratio analysis, and benchmarking against industry standards. These procedures help identify unusual patterns or deviations that may indicate errors or fraud.
  - ***Outcome***: Identification of potential issues or areas requiring further investigation.

- **Planning and Documentation:**
  - ***Process***: The audit plan is documented in a spreadsheet, enhanced with add-ins

for advanced data analysis and visualisation. The plan includes detailed steps, timelines, and responsibilities.

- ***Outcome***: A well-documented audit plan that outlines the scope, objectives, and procedures for the payroll audit.

G.2 Electronic Working Papers

2.1 Introduction

Electronic audit working papers are digital versions of the traditional paper-based documents used by auditors to record and store evidence, observations, and analyses gathered during an audit. These electronic documents are essential for planning, conducting, and documenting audit procedures and findings in a systematic and organised manner.

Key features of electronic working papers are shown below.

- **Digital Documentation:**
  - ***Format***: Working papers are stored in digital formats such as PDFs, Word documents, spreadsheets, and specialised audit software files.
  - ***Accessibility***: Can be accessed, updated, and reviewed electronically, making collaboration easier.
- **Organisation and Structure:**
  - ***Indexed***: Working papers are organised in a hierarchical structure, typically indexed by sections, making it easy to navigate and locate specific documents.
  - ***Templates***: Standardised templates ensure consistency in documentation and facilitate compliance with audit standards.
- **Integration with Audit Software:**
  - ***Automation***: Audit software can automate the preparation, review, and storage of *working papers.*
  - ***Linking***: Working papers can be linked to relevant audit procedures, risks, and findings, providing a comprehensive audit trail.
- **Real-time Collaboration:**
  - ***Multiple Users***: Multiple team members can access and work on the same documents simultaneously.
  - ***Version Control***: Keeps track of changes and maintains a history of document revisions.
- **Security and Confidentiality:**
  - ***Access Controls***: Role-based access controls ensure that only authorised personnel can view or edit specific documents.

- ***Encryption***: Data encryption protects sensitive information from unauthorised access.

- **Audit Trail and Accountability:**
  - ***Tracking***: Automatically logs actions taken on documents, such as who accessed, edited, or approved them.
  - ***Sign-offs***: Digital signoffs and approvals ensure accountability and traceability.

Advantages (mostly!) and some disadvantages are presented in the table below:

Advantages	Disadvantages
Efficiency: Automates routine tasks such as data entry, calculation, and report generation, saving time and resources. Facilitates smoother and faster audit processes, reducing the overall audit duration.	**Initial Setup Costs:** High initial costs for purchasing and setting up the necessary software and hardware. Training staff to use new systems can be time-consuming and expensive.
Improved Accuracy and Quality: Minimises manual errors through automated processes and standardised templates. Ensures consistent documentation across different audit engagements, enhancing the quality of audit work.	**Technical Issues:** Risk of technical issues such as software bugs, data corruption, and system failures.
Enhanced Collaboration: Enables seamless collaboration among audit team members, regardless of their physical location, through real-time document sharing and editing. Facilitates timely review and feedback from supervisors and peers, improving the overall audit quality.	**Security Concerns:** Potential risk of data breaches and unauthorised access to sensitive information. Requires robust – and costly - cybersecurity measures to protect data.
Environmental Impact: Reduces the need for paper, contributing to environmental sustainability.	
Audit Trail and Accountability: Provides a clear and comprehensive audit trail, enhancing transparency and accountability.	

2.2 Documentation of Electronic Working Papers

All states of the audit can be recorded using electronic working papers to demonstrate that the audit has been performed in compliance with international standards.

- **Audit Planning:**
  - ***Risk Assessment***: Documenting risk assessments and planning procedures.
  - ***Engagement Letters***: Storing engagement letters and audit plans.
- **Fieldwork:**
  - ***Data Collection***: Recording observations, interviews, and evidence collected during fieldwork.
  - ***Testing Procedures***: Documenting the procedures performed and the results obtained.
- **Review and Supervision:**
  - ***Supervisor Review***: Supervisors can review and provide feedback on working papers in real-time.
  - ***Documented Review***: Electronic signatures to record date/time and identity of officer completing, amending and reviewing working papers.
- **Reporting:**
  - ***Draft Reports***: Preparing draft audit reports and storing review comments.
  - ***Final Reports***: Maintaining final signed-off audit reports.
- **Archiving and Retrieval:**
  - ***Retention***: Storing working papers for the required retention period.
  - ***Accessibility***: Easy retrieval of documents for future reference or regulatory inspections.

Quiz Questions

1. What is the primary purpose of using Computer Assisted Audit Techniques (CAATs) in auditing?	Learning Outcome: G1
A	To replace auditors with software.
B	To automate and enhance the efficiency and effectiveness of audit processes.
C	To increase the cost of auditing.
D	To reduce the scope of the audit.

2. What is a potential disadvantage of using CAATs?	Learning Outcome: G1
A	High initial setup and training costs.
B	Reduced accuracy in audit findings.
C	Increased manual errors.
D	Slower audit processes.

3. Which feature of electronic working papers makes collaboration easier among audit team members?	Learning Outcome: G2
A	They can be printed out and mailed to team members.
B	They include no access controls
C	They enable real-time document sharing and editing.
D	They require no training to use.

Exercises

1. What are the key considerations for an audit firm planning to implement a new electronic working paper system?

Exercise Solutions

1

Key Considerations for Installing an Electronic Working Paper System

- **System Requirements and Compatibility**:
    - ***Hardware and Software***: Ensure that your current IT infrastructure (servers, computers, network) meets the system requirements of the electronic working paper software.
    - ***Integration***: Verify compatibility with existing software applications such as accounting systems, audit management tools, and other relevant applications.
- **Security and Data Protection**:
    - ***Access Controls***: Implement role-based access controls to ensure that only authorised personnel can access, edit, or approve documents.
    - ***Encryption***: Use data encryption to protect sensitive information both in transit and at rest.
    - ***Compliance***: Ensure the system complies with relevant data protection regulations such as GDPR (in the EU).
- **User Training and Support**:
    - ***Training Programmes***: Develop comprehensive training programmes to ensure that all users understand how to effectively use the system.
    - ***User Support***: Establish a support structure, including helpdesks or dedicated IT support, to assist users with any issues or questions.
- **Cost and Budget**:
    - ***Initial Costs***: Consider the initial costs of purchasing and installing the software, including any necessary hardware upgrades.

- ***Ongoing Costs***: Factor in the ongoing costs for software licences, maintenance, updates, and support.

- **Data Migration**:
  - ***Data Transfer***: Plan for the secure transfer of existing working papers and documents into the new system.
  - ***Data Integrity***: Ensure the accuracy and integrity of data during the migration process.

- **Audit Trail and Compliance**:
  - ***Documentation***: Ensure the system provides a clear and comprehensive audit trail of all actions taken on documents.
  - ***Legal/Regulatory Compliance***: Verify that the system meets all relevant audit standards and regulatory requirements.

- **User Experience and Interface**:
  - ***Ease of Use***: Select a system with an intuitive and user-friendly interface to minimise the learning curve.
  - ***Functionality***: Ensure the system offers the necessary functionalities such as real-time collaboration, version control, and advanced search capabilities.

- **Disaster Recovery and Backup**:
  - ***Backup Solutions***: Implement robust backup solutions to protect data against loss due to system failures or other disasters.
  - ***Recovery Plans***: Develop and test disaster recovery plans to ensure business continuity in case of system outages.

References and Further Reading

International Standards of Auditing – https://www.iaasb.org/publications/2022-handbook-international-quality-management-auditing-review-other-assurance-and-related-services

International Standards of Supreme Audit Institutions - https://www.issai.org/professional-pronouncements/

2023 handbook of the international code of ethics for professional accountants - https://www.ethicsboard.org/publications/2023-handbook-international-code-ethics-professional-accountants

Institute of Certified Public Accountants of Rwanda (ICPAR) Code of Ethics - https://www.icparwanda.com/download_dir/14.pdf

Accreditation of External Auditors for Regulated Institutions - https://www.bnr.rw/laws-and-regulations/regulatory-digest-market-consultation/regulatory-digest/accreditation-of-external-auditors-for-regulated-institutions/

Rwanda Companies Act - https://rdb.rw/notary/COMPANY-ACT-2021.pdf

Institute of Internal Auditors – The Audit Committee - https://www.theiia.org/globalassets/documents/about-us/about-internal-audit/the-audit-committee-internal-audit-oversight.pdf

Capital Market Corporate Governance Code - https://rwandalii.org/akn/rw/act/code/2012/9/eng@2012-07-02/source

Guiding Code of Corporate Governance - https://www.ecgi.global/sites/default/files/codes/documents/corporate_governence_rwanda.pdf

Quiz answers

Unit A

Question	Answer
1	C
2	C
3	B
4	C
5	D

Explanations

1. What is a primary responsibility of an audit committee?	Learning Outcome: A1
A	Developing new financial products for the company.
B	Managing day-to-day operations of the financial department.
C	Overseeing the organisation's internal audit function and its relationship with external auditors.
D	Designing marketing strategies for the company's products.

1. What is a primary responsibility of an audit committee?	Feedback
A	No. This is the responsibility of management
B	No. This is the responsibility of management – likely Finance Manager or similar.
C	Yes!
D	No. This is the responsibility of management – likely Head of Marketing or similar.

2. Which aspect of audit standards plays a critical role in mitigating the risk of financial statement fraud?	Learning Outcome: A1
A	Mandating the frequency of company board meetings
B	Requiring detailed disclosures about sales tactics
C	Enforcing auditor rotation to preserve independence
D	Regulating the advertisement strategies of public companies

2. Which aspect of audit standards plays a critical role in mitigating the risk of financial statement fraud?	Feedback
A	No.
B	No.
C	Yes! Auditor rotation is critical to help ensure auditor independence.
D	No.

3. Which sector should normally be considered the highest risk for money laundering?	Learning Outcome: A2
A	Software development.
B	Real estate.
C	Online retail.
D	Digital marketing services.

3. Which sector should normally be considered the highest risk for money laundering?	Feedback
A	No. Not particularly risky given nature of business.
B	Yes! It can handle large amounts of cash and offers an effective way for launderers to invest illicit funds in high-value assets, which can later be sold or rented to clean the money.
C	No. Online retail typically involving credit card payments with easily traced audit trail.
D	No. Not particularly risky given nature of business.

4. What is an auditor's primary responsibility regarding money laundering during a financial audit?	Learning Outcome: A2
A	To ensure that all employees are trained on anti-money laundering regulations.
B	To guarantee that the company never engages in money laundering activities.
C	To detect and report any suspicious activities that could be indicative of money laundering.
D	To directly enforce international money laundering laws within the company.

4. What is an auditor's primary responsibility regarding money laundering during a financial audit?	Feedback
A	No. Company responsibility.
B	No. Company responsibility.
C	Yes! While auditors are not required to guarantee that a company is completely free from money laundering, they are expected to apply due diligence in identifying and reporting suspicious financial activities that may suggest money laundering during their audits and report these if identified.
D	No. Company responsibility – and enforcement agencies.

5. According to ISA 250 (Revised), what is the auditor's responsibility when it comes to compliance with laws and regulations in an audit of financial statements?	Learning Outcome: A3
A	The auditor must ensure that the entity is fully compliant with all applicable laws and regulations.
B	The auditor is responsible for preventing non-compliance with laws and regulations by the entity.
C	The auditor needs to replace management if non-compliance with laws and regulations is detected.
D	The auditor should consider the implications of laws and regulations on the financial statements and identify material non-compliance.

5. According to ISA 250 (Revised), what is the auditor's responsibility when it comes to compliance with laws and regulations in an audit of financial statements?	Feedback
A	No. This is the responsibility of management.
B	No. This is the responsibility of management.
C	No. Holding management to account is responsibility of board/owners/ shareholders.
D	Yes! ISA 250 (Revised) emphasises that while auditors are not responsible for preventing non-compliance, they must consider how non-compliance may affect the financial statements. The standard guides auditors to focus on identifying material non-compliance that could have a significant effect on the financial statements. The auditor's approach includes gaining an understanding of the legal and regulatory framework applicable to the entity and the industry and considering the risk of material misstatements due to non-compliance.

Unit B

Quiz Answers

Question	Answer
1	B
2	D
3	A
4	C

Explanations

1. Which of the following best exemplifies the principle of integrity in auditing?	Learning Outcome: B1
A	Disclosing all information about a client to any interested party.
B	Reporting a discovered financial error in the audit report despite client pressure to ignore it.
C	Accepting a gift from a client to build a stronger relationship.
D	Ignoring a minor error in the financial statements because it is not significant.

1. Which of the following best exemplifies the principle of integrity in auditing?	Feedback
A	No. This breaches the principle of confidentiality
B	Yes!
C	No. Accepting a gift creates a potential conflict of interest.
D	No. Ignoring a minor error does not exhibit integrity.

2. Which of the following non-audit services could an audit firm (likely) allowable?	Learning Outcome: B1
A	A member of staff is seconded for three years to manage the preparation of the financial statements.
B	The firm represent the firm in a controversial high value tax case.
C	The firm are designing a new IT ledger system for the client.
D	The firm carry out deliver payroll services for the client.

2. Which of the following non-audit services could an audit firm (likely) accept?	Feedback
A	No. This secondment is too long and the member of the firm should not be involved in a management position especially with regard to financial statements preparation.
B	No. This creates an advocacy threat.
C	No. This system is likely too close to the financial statements being audited.
D	Yes. Providing the staff involved are not the same this non-audit service is likely fine.

3. For a party to succeed in a negligence claim against an auditor, which of the following must be proven?	Learning Outcome:
A	The auditor breached a duty of care which caused a loss.
B	The auditor had a contract with the third party.
C	The auditor's actions were approved by the client's management.
D	The auditor performed the audit according to the client's specifications.

3. For a party to succeed in a negligence claim against an auditor, which of the following must be proven?	Feedback
A	Yes – Duty and care and loss are the two elements required.
B	No. A contract is not necessarily required to prove duty of care.
C	No.
D	No.

4. Which of the following best describes an auditor's responsibility in relation to fraud?	Learning Outcome:
A	The auditor is responsible for preventing fraud within the company.
B	The auditor's responsibility is to provide absolute assurance that the financial statements are free from fraud.
C	The auditor is responsible for detecting and reporting material misstatements in the financial statements caused by fraud.
D	The auditor is responsible for managing the company's internal control systems to prevent fraud.

4. Which of the following best describes an auditor's responsibility in relation to fraud?	Feedback
A	No. Management and those charged with governance.
B	No. Absolute assurance can never be given due to inherent limitations of the audit process.
C	Yes.
D	No. Management and those charged with governance.

Unit C

Answers

Question	Answer
1	C
2	A
3	B

Explanations

1. What is a key quality management procedure specific to individual assurance engagements?	Learning Outcome: C1
A	Up to date audit manual
B	Staff training programs
C	Engagement performance supervision
D	Market analysis

1. What is a key quality management procedure specific to individual assurance engagements?	Feedback
A	No. Firm wide.
B	No. Firm wide.
C	Yes! Individual audit engagements should be supervised.
D	No. Irrelevant.

2. Which of the following is essential before tendering for a professional appointment?	Learning Outcome: C2
A	Understanding the client's needs
B	Preparing a social media campaign
C	Reducing service fees
D	Hiring new staff

2. Which of the following is essential before tendering for a professional appointment?	Feedback
A	Yes! It is critical you understand the needs of the client so that you can tailor the tender to these needs which, in turn, will give you the best chance of winning the work.
B	No.
C	No.
D	No.

3. Before accepting a new client, an audit firm should evaluate:	Learning Outcome: C3
A	The client's advertising strategy
B	The client's reputation, ethical, and legal matters
C	The client's office layout
D	The firm's internal marketing plan

3.. Before accepting a new client, an audit firm should evaluate:	Feedback
A	No.
B	Yes! These are critical in deciding whether to enter into an engagement.
C	No.
D	No.

Unit D

Answers

Question	Answer
1	C
2	B
3	A
4	B
5	A
6	B
7	B
8	D

Explanations

1. When assessing significant audit risks, which of the following factors should an auditor consider most?	Learning Outcome: D1
A	The number of transactions processed by the entity
B	The financial strength of the entity
C	The complexity and judgment involved in transactions
D	The geographic location of the entity's operations

1.	Feedback
A	No.
B	No.
C	Yes! Highly complex transactions that involve lots of judgement are likely to be considered.
D	No.

2. What is a key characteristic of a transnational audit?	Learning Outcome: E1
A	It is conducted entirely within one country.
B	It involves auditing financial statements of entities operating in multiple countries.
C	It focuses exclusively on non-profit organisations.
D	It is performed by auditors working in a single office.

.2.	Feedback
A	No. Across different countries.
B	Yes!
C	No. All organisations.
D	No. Likely to be auditors in different countries/offices.

3. Why are related party transactions considered to have a higher risk of material misstatement?	Learning Outcome: E2
A	They may not be conducted at arm's length and can be used to manipulate financial results
B	They are always complex and difficult to audit
C	They are typically immaterial to the financial statements
D	They are always disclosed transparently by management

3.	Feedback
A	Yes!
B	No. Sometimes they will not be complex

C	No. They are typically material given the nature of the transactions
D	No. Sometimes management may not disclose them transparently.

4. Which of the following is a typical audit procedure for verifying the existence of non-current assets?	Learning Outcome: E3
A	Reviewing the entity's budget for the next financial year
B	Inspecting the physical assets at the entity's premises
C	Comparing current year asset balances with prior year balances
D	Examining the entity's internal control policies

4.	Feedback
A	No.
B	Yes!
C	No.
D	No.

5. To verify the occurrence of payroll transactions, the auditor should:	Learning Outcome: E3
A	Inspect the authorisations for payroll changes such as raises and bonuses
B	Analyse the payroll tax returns for consistency
C	Compare total payroll expense to industry benchmarks
D	Recalculate pension contributions for a sample of employees

5.	Feedback
A	Yes!

B	No
C	No
D	No

6. When an auditor uses the work of an expert, which of the following is the auditor's primary responsibility?	Learning Outcome: E4
A	To rely entirely on the expert's conclusions without any further procedures
B	To understand the scope of the expert's work and evaluate the appropriateness of their findings
C	To perform the expert's work independently to confirm the results
D	To ensure the expert is paid by the client before the audit report is issued

6.	Feedback
A	No. They must do some work.
B	Yes!
C	No. Auditors cannot perform the work of an expert.
D	No.

7. How should an external auditor use the work of internal auditors when relying on it during an audit?	Learning Outcome: E4
A	The external auditor should use the internal auditors' work as a complete substitute for their own testing
B	The external auditor should independently evaluate and test the internal auditors' work to determine its adequacy
C	The external auditor should only use the internal auditors' work for areas with low risk of material misstatement
D	The external auditor should review the internal audit work to ensure it aligns with management's objectives

7.	Feedback
A	No. It cannot replace the work of the external auditor entirely.
B	Yes.
C	No. Internal audit work can be used in high-risk areas.
D	No. management objectives should not be a concern.

8. Which ISA provides guidance on materiality in a group audit context?	Learning Outcome:
A	ISA 320
B	ISA 450
C	ISA 500
D	ISA 600

8.	Feedback
A	No.
B	No.
C	No.
D	Yes!!

Unit E

Answers

Question	Answer
1	B
2	D
3	C
4	B
5	B
6	B

Explanations

1.. What is the auditor's primary responsibility regarding subsequent events?	Learning Outcome: E1
A	To ensure that all subsequent events are adjusted in the financial statements.
B	To identify subsequent events that provide additional evidence about conditions that existed at the balance sheet date.
C	To prepare a separate report on subsequent events.
D	To only consider subsequent events that occur after the audit report is issued.

1.	Feedback
A	No. This is the responsibility of management – and not all events require adjustment.
B	Yes!
C	No. A separate report is not prepared.
D	No. Events up to the date of the audit report are also considered.

2. Which of the following conditions might indicate substantial doubt about an entity's ability to continue as a going concern?	Learning Outcome: E1
A	The entity has a large amount of long-term debt that is not due for several years.
B	The entity has announced a merger with another company.
C	The entity has significant cash reserves and no debt.
D	The entity has experienced significant losses and negative cash flows from operations.

2.	Feedback
A	No. Debt is long-term so unlikely to be an immediate issue.
B	No. This is generally considered a positive development – improved business efficiency etc.
C	No. These are general indicators of good financial health.
D	Yes!

3. What is the primary purpose of performing a final analytical review towards the end of an audit?	Learning Outcome: E2
A	To gain assurance over balances in the financial statements
B	To detect fraud within the financial statements.
C	To evaluate the overall reasonableness of the financial statements and identify any unusual trends or balances.
D	To identify audit risks

3.	Feedback
A	No. This is substantive analytical review. Performed during audit execution.
B	No.
C	Yes!
D	No. This is preliminary analytical review – performed during audit planning.

4. If management refuses to provide a letter of representation, what is the most appropriate course of action for the auditor?	Learning Outcome: E2
A	Issue an unmodified opinion without the letter of representation.
B	Discuss the refusal with those charged with governance and consider the impact on the audit opinion.
C	Continue the audit without the letter of representation, as it is not required.
D	Automatically issue an adverse opinion.

4.	Feedback
A	No. The letter is a crucial bit of audit evidence.
B	Yes!
C	No. The letter is a crucial bit of audit evidence.
D	No. An adverse opinion is issued when the auditor concludes that the financial statements are materially misstated and do not present a true and fair view. However, if management refuses to provide a letter of representation, it primarily creates a scope limitation rather than direct evidence of material misstatement. The appropriate responses might include issuing a qualified opinion or a disclaimer of opinion, not necessarily an adverse opinion.

5. An auditor issues a qualified opinion when:	Learning Outcome: E3

A	There is a material misstatement in the financial statements that is pervasive.
B	There is a material misstatement in the financial statements that is not pervasive.
C	The auditor is unable to obtain sufficient appropriate audit evidence, and the possible effects could be material and pervasive.
D	The financial statements are free from material misstatements, but the auditor wants to emphasise a matter disclosed in the financial statements.

5.	Feedback
A	No. This should be adverse
B	Yes! "except for".
C	No. Disclaimer of opinion.
D	No – emphasis of matter paragraph and unqualified opinion.

6. Which of the following matters is an auditor **required** to communicate to those charged with governance?	Learning Outcome: E4
A	The auditor's opinions on the company's business strategy.
B	Significant difficulties encountered during the audit.
C	The detailed audit procedures performed on each account balance.
D	The auditor's recommendations for improving business operations.

6.	Feedback
A	No. Not required.
B	Yes!
C	No. Not required.
D	No. Not required.

Unit F

Answers

Question	Answer
1	A
2	D
3	D
4	C
5	B
6	B

Explanations

1.. What is a key benefit of compliance audits?	Learning Outcome: F1
A	Identifying and mitigating compliance risks.
B	Increasing the overall profitability of the entity.
C	Providing absolute assurance on financial statements.
D	Assessing the efficiency of the organisation

1.	Feedback
A	Yes!
B	No. Management responsibility
C	No. Financial audit – provides ***reasonable*** assurance
D	No. Performance audit covers the "3 e's"

2.. In a forensic audit, what is the primary objective?	Learning Outcome: F1
A	To provide limited assurance on interim financial information.

B	To review and verify prospective financial information.
C	To assess compliance with environmental regulations.
D	To investigate and uncover fraud, embezzlement, or other financial misconduct.

2.	Feedback
A	No.
B	No.
C	No.
D	Yes! Forensic audit focuses on actual or potential fraud or other wrongdoing

3. Which of the following is a key consideration when assessing the assumptions used in prospective financial information?	Learning Outcome: F2
A	Historical financial performance.
B	The entity's compliance with past regulations.
C	The reliability of past financial data.
D	The reasonableness and supportability of the assumptions.

3.	Feedback
A	No.
B	No.
C	No.
D	Yes! When auditing prospective financial information, the primary focus is on the assumptions underlying the financial forecasts or projections. These assumptions are critical because they form the basis for predicting future financial outcomes.

4. What does an audit of performance information primarily focus on?	Learning Outcome: F3
A	Assessing the financial health of the entity.
B	Evaluating the internal control systems.
C	Verifying the accuracy, reliability, and relevance of performance data against set criteria.
D	Reviewing compliance with laws and regulations.

4.	Feedback
A	No. Due Diligence.
B	No. While these might be considered this is not the primary objective.
C	Yes!
D	No. Compliance Audit.

5. Which of the following is a key difference between a performance audit and an audit of performance information?	Learning Outcome: F3
A	Performance audits focus on financial data, while audits of performance information do not.
B	Performance audits evaluate operational processes, while audits of performance information assess the accuracy of reported performance data.
C	Performance audits are always conducted annually, while audits of performance information are not.
D	Performance audits require more detailed testing

5.	Feedback
A	No. both focus on performance rather than financial information.
B	Yes!
C	No. Both audits can be conducted at any time.
D	No. Typically the other way round.

6. Which of the following is an example of a metric that might be assessed in an environmental audit?	Learning Outcome: F4
A	Net profit margin
B	Carbon footprint
C	Customer satisfaction index.
D	Return on investment (ROI

6.	Feedback
A	No. Financial/economic
B	Yes!!
C	No.
D	No.

Unit G

Answers

Question	Answer
1	B
2	A
3	C

Explanations

1. What is the primary purpose of using Computer Assisted Audit Techniques (CAATs) in auditing?	Learning Outcome: G1
A	To replace auditors with software.
B	To automate and enhance the efficiency and effectiveness of audit processes.
C	To increase the cost of auditing.
D	To reduce the scope of the audit.

1.	Feedback
A	No.
B	Yes!
C	No. The overall efficiency of the audit should be reduced.
D	No. The overall scope of the audit will be the same.

2. What is a potential disadvantage of using CAATs?	Learning Outcome: G1
A	High initial setup and training costs.
B	Reduced accuracy in audit findings.
C	Increased manual errors.
D	Slower audit processes.

2	Feedback
A	Yes! Significant costs to purchase the software and to train staff in its use.
B	No. Should be more accurate.
C	No. Less manual errors.
D	No. Should be quicker/more efficient.

3. Which feature of electronic working papers makes collaboration easier among audit team members?	Learning Outcome: G2
A	They can be printed out and mailed to team members.
B	They include no access controls
C	They enable real-time document sharing and editing.
D	They require no training to use.

3.	Feedback
A	No. There is little point in printing out working papers when team members can use the electronic version.
B	No. There are access controls.
C	Yes!
D	No. Some training will be required.

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