Preface

Any profession in order to win public confidence, respect and appreciation of the society, should be able to respond to the dynamic environment in which it operates. This is only possible if the members of the related profession render high quality services and maintain the dignity of the profession by following the ethical standards. The members of the Institute are no exception to this general rule. For this purpose, members of the Institute always try their best to continually sharpen their technical skills, keep themselves fully informed of the changes and developments.

The Institute of Chartered Accountants of Pakistan, being regulatory authority to the chartered accountancy profession, has been in the forefront in maintaining an impeccable record of quality services by its members. This has been possible by continually upgrading their technical knowledge and sharpening of skills through various pronouncements, and guidelines on performance standards, organizing continuing development programmes and issuing guidance material to their members.

Recognizing the large and increasing demand from SMPs especially for guidance on the implementation of ISAs and the development of audit practice aids, in early 2001, the Institute took the initiative by issuing the Audit Practice Manual which was very much appreciated amongst the members.

Due to the continuous ongoing changes in the international standards, it was indeed an urgent need to revise this Audit Practice Manual. The Directorate of Professional Standards Compliance and Evaluation with the guidance of the sub-committee comprising of the following members and under the leadership of Quality Assurance Board, is now releasing the revised version of this Audit Practice Manual:-

Mr. Amir Jamil Abbasi, FCA	Chairman
Mr. Muhammad Toufiq, ACA	Member
Mr. Nadeem Yousuf Adil, FCA	Member
Mr. Shafiq Ahmed, ACA	Member
Mr. Saad Kaliya, ACA	Member

The Manual has two volumes. Volume one contains the theoretical concepts of the most relevant International Standards on Auditing (ISAs) with few Council Directives whilst the Volume two covers the practical aspects such as formats of working papers, checklists etc.

Audit practice is varied from country to country and client to client, so it is not possible to develop a comprehensive manual which covers all types of audit practices. We try our best to make it useful for all types of audit practices but this is an evocative document and not a directive of the Institute. Modification can be made to suit different circumstances. Soft copy is also available for download from the Institute's website.

At the end I would like to record my sincere thanks to Mr. Amir Jamil Abbasi, Chairman, sub-committee and other committee members for their contribution and devotion as the work of this significance would not have been possible without their cooperation and support.

I also acknowledge with gratitude my indebtedness to Mr. Asad Ali Shah, FCA, Vice Chairman Quality Assurance Board (QAB) and Council member for his personal interest in the revision of this Manual.

Zafar Iqbal Sobani, FCA
Chairman
Quality Assurance Board

April 30, 2007

Summary of Some International Standards on Auditing (ISAs)

ISA 200 - Objective and General Principles governing an Audit of Financial Statements

Objective of an Audit of Financial Statements

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. (Paragraph 2)

Ethical Requirements Relating to an Audit of Financial Statements

The auditor should comply with relevant ethical requirements relating to audit engagements. (Paragraph 4)

Conduct of an Audit Financial Statements

The auditor should conduct an audit in accordance with International Standards on Auditing. (Paragraph 6)

ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of explanatory and other material that provide guidance for their application. The text of a whole Standard is considered in order to understand and apply the basic principles and essential procedures. (Paragraph 7)

In conducting an audit in accordance with ISAs, the auditor is also aware of and considers International Auditing Practice Statements (IAPSs) applicable to the audit engagement. IAPSs provide interpretive guidance and practical assistance to auditors in implementing ISAs. An auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard addressed by the IAPS have been complied with. (Paragraph 8)

The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country. (Paragraph 9)

Scope of an Audit of Financial Statements

In determining the audit procedures to be performed in conducting an audit in accordance with International Standards on Auditing, the auditor should comply with each of the International Standards on Auditing relevant to the audit. (Paragraph 11)

The auditor should not represent compliance with International Standards on Auditing unless the auditor has complied fully with all of the International Standards on Auditing relevant to the audit. (Paragraph 14)

Professional Skepticism

The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Paragraph 15)

Audit risk and materiality

The auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit. (Paragraph 24)

Determining the Accessibility of the Financial Reporting Framework

The auditor should determine whether the financial reporting framework adopted by management in preparing the financial statements is acceptable. (Paragraph 37)

ISA 210 - Terms of Audit Engagement

ISA 210 (Revised) – Appendix 2 effective date yet to be notified. It is amended as a result amendments in ISA 700 (Revised).

Introduction

The auditor and the client should agree on the terms of the engagement. (Paragraph 02)

Audit Engagement Letter

It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports. (Paragraph 05)

Principal Contents

The form and content of audit engagement letters may vary for each client, but they would generally include reference to:

- The objective of the audit of financial statements;
- Management's responsibility for the financial statements;
- The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres;
- The form of any reports or other communication of results of the engagement;
- The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered; and
- Unrestricted access to whatever records, documentation and other information requested in connection with the audit. (Paragraph 06)

The auditor may also wish to include the following in the letter:

- Arrangements regarding the planning and performance of the audit.
- Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
- Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
- Description of any other letters or reports the auditor expects to issue to the client.
- Basis on which fees are computed and any billing arrangements. (Paragraph 07)

When relevant, the following points could also be made:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other client staff.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the client.
- An example of an audit engagement letter is set out in the Appendix. (Paragraph 07)

When relevant, the following points could also be made:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other client staff.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the client. (Paragraph 07)

Agreement on the Applicable Financial Reporting Framework

The terms of the engagement should identify the applicable financial reporting framework. (Paragraph 10)

The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a financial reporting framework for general purpose financial statements that the auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users. (Paragraph 13)

Recurring Audits

On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement. (Paragraph 16)

Reporting Considerations

Acceptance of a Change in Engagement

An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so. (Paragraph 18)

If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as those charged with governance or shareholders, the circumstances necessitating the withdrawal. (Paragraph 19)

Where the terms of the engagement are changed, the auditor and the client should agree on the new terms. (Paragraph 23)

The auditor should not agree to a change of engagement where there is no reasonable justification for doing so. An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion. (Paragraph 24)

If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal. (Paragraph 25)

Directive 4.16

DIRECTIVE ON EXEMPTED SERVICES FOR AUDITORS OF LISTED COMPANIES

In pursuance of the Directive dated May 10, 2002 issued by the Securities and Exchange Commission of Pakistan to the stock exchanges, the Council of the Institute of Chartered Accountants of Pakistan in exercise of the powers conferred on it under section 15 read with Section 2(2)(iv) of the Chartered Accountants Ordinance, 1961 and with the prior approval of the Securities and Exchange Commission of Pakistan, is pleased to direct that effective May 31, 2002. Chartered Accountants in practice shall not, either directly or through a person associated with such Chartered Accountants in practice, render any services to such listed companies of which they are auditors under section 252 of the Companies Ordinance, 1984 other than the following services (here-in-after referred to as "exempted services"):

1. Attestation, certifications, special purpose audits/reviews and agreed-upon procedures as defined in the International Standards on Auditing (ISAs).
2. Taxation services
3. Opinion on accounting standards
4. Information Risk Management (IRM) Assurance and Risk Management Reviews
5. Corporate law compliance services including representation before authorities.
6. Financial due diligence exercise in relation to acquisitions and mergers

Provided that an auditor of a listed company or a person associated with him may continue to provide services, other than the above exempted services, under the contracts / arrangements with such listed companies, of which they are auditors, entered into upto May 31,2002, until the expiry of such contracts / arrangements on June 30, 2003, whichever is earlier.

Provided further that an auditor of a listed company or a person associated with him rendering share registration services (transfer agents) to its listed audit clients may continue to provide such services under existing or renewed contracts / arrangements until June 30, 2003.

Provided further that a Chartered Accountant in practice shall not accept any appointment or continue as an auditor of listed company if a person associated with such auditor is, or has been at any time during the preceding three months engaged as a consultant or advisor or has provided any service (other than exempted services), including services related to the designing of accounting systems or compilation of accounts. This a restriction shall not apply to a person associated with such auditor in respect of services provided prior to May 31,2002.

Explanation: For the purposes of this directive the expression "associated with such auditor" shall mean any person associated with the auditor, if the person:-

a. is a partner in a firm or is a director in a company or holds or controls shares carrying more than twenty percent of the voting power in a company, and the auditor is also partner of that firm or is a director in that company or so holds or controls shares in such company, or

b. is a company or body corporate in which the auditor is a director or holds or controls shares carrying more than twenty percent of the voting power in that company or has other interest to the extent.

The Council's directive contained in paragraph 9.5 of the Code of Ethics for Chartered Accountants (6.04) shall be deemed to have been modified to the extent aforesaid.

ISA 220 - Quality Control for Audits of Historical Information

ISA 220 Effective for Audit of Financial statements periods beginning on or after June 15, 2005.

Introduction

The engagement team should implement quality control procedures that are applicable to the individual audit engagement. (Paragraph 02)

Leadership Responsibilities for Quality on Audits

The engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Paragraph 06)

Ethical Requirements

The engagement partner should consider whether members of the engagement team have complied with ethical requirements. (Paragraph 08)

Independence

The engagement partner should form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner should:

- Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
- Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement;
- Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards. The engagement partner should promptly report to the firm any failure to resolve the matter for appropriate action; and
- Document conclusions on independence and any relevant discussions with the firm that support these conclusions. (Paragraph 12)

Acceptance and Continuance of Client Relationships and Specific Audit Engagements

The engagement partner should be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed and that conclusions reached in this regard are appropriate and have been documented. (Paragraph 14)

Where the engagement partner obtains information that would have caused the firm to decline the audit engagement if that information had been available earlier, the engagement partner should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Paragraph 18)

Assignments on Engagement Teams

The engagement partner should be satisfied that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report that is appropriate in the circumstances to be issued. (Paragraph 19)

Engagement Performance

The engagement partner should take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and for the auditor's report that is issued to be appropriate in the circumstances. (Paragraph 21)

Before the auditor's report is issued, the engagement partner, through review of the audit documentation and discussion with the engagement team, should be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Paragraph 26)

Conclusion

The engagement partner should:

- Be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters;
- Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
- Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are documented and agreed with the party consulted; and
- Determine that conclusions resulting from consultations have been implemented. (Paragraph 30)

Differences of Opinion

Where differences of opinion arise within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team should follow the firm's policies and procedures for dealing with and resolving differences of opinion. (Paragraph 34)

Engagement Quality Control Review

For audits of financial statements of listed entities, the engagement partner should:

- Determine that an engagement quality control reviewer has been appointed;
- Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- Not issue the auditor's report until the completion of the engagement quality control review. (Paragraph 36)

An engagement quality control review should include an objective evaluation of:

- The significant judgments made by the engagement team; and
- The conclusions reached in formulating the auditor's report. (Paragraph 38)

ISA 230 (Revised) – Audit Documentation

Effective for audits of financial information for periods beginning on or after June 15, 2006.

Introduction

The auditor should prepare, on a timely basis, audit documentation that provides:

a. A sufficient and appropriate record of the basis for the auditor's report; and
b. Evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements. (Paragraph 02)

From Content and Extent of Audit Documentation

The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:

a) The nature, timing, and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;
b) The results of the audit procedures and the audit evidence obtained; and
c) Significant matters arising during the audit and the conclusions reached thereon (Paragraph 09)

Documentation of the Identifying Characteristics of Specific Items or Matters Being Tested

In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items or matters being tested. (Paragraph 12)

Significant Matters

The auditor should document discussions of significant matters with management and others on a timely basis. (Paragraph 16)

If the auditor has identified information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor should document how the auditor addressed the contradiction or inconsistency in forming the final conclusion. (Paragraph 18)

Documentation of Departures from Basic Principles or Essential Procedures

Where, in exceptional circumstances, the auditor judges it necessary to depart from a basic principle or an essential procedure that is relevant in the circumstances of the audit, the auditor should document how the alternative audit procedures performed achieve the objective of the audit, and, unless otherwise clear, the reasons for the departure. (Paragraph 21)

Identification of preparer and reviewer

In documenting the nature, timing and extent of audit procedures performed, the auditor should record:

a. Who performed the audit work and the date such work was completed; and
b. Who reviewed the audit work performed and the date and extent of such review (Paragraph 23).

Assembly of the Final Audit File

The auditor should complete the assembly of the final audit file on a timely basis after the date of the auditor's report. (Paragraph 25)

After the assembly of the final audit file has been completed, the auditor should not delete or discard audit documentation before the end of its retention period. (Paragraph 28)

When the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor should, regardless of the nature of the modifications or additions, document:

a) When and by whom they were made, and (where applicable) reviewed;
b) The specific reasons for making them; and
c) Their effect, if any, on the auditor's conclusions. (Paragraph 30)

Changes of Audit Documentation in Exceptional Circumstances after the Date of the Auditor's Report

When exceptional circumstances arise after the date of the auditor's report that require the auditor to perform new or additional audit procedures or that lead the auditor to reach new conclusions, the auditor should document:

a) The circumstances encountered;
b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached; and
c) When and by whom the resulting changes to audit documentation were made, and (where applicable) reviewed. (Paragraph 31)

ISA 240 — The Auditors responsibility to consider Fraud in an Audit of Financial Statements

Introduction

In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud. (Paragraph 03)

Professional Skepticism

The auditor should maintain an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance. (Paragraph 24)

Discussion among the Engagement Team

Members of the engagement team should discuss the susceptibility of the entity's financial statements to material misstatement due to fraud. (Paragraph 27)

The engagement partner should consider which matters are to be communicated to members of the engagement team not involved in the discussion. (Paragraph 29)

Inquiries and Obtaining an Understanding of Oversight Exercised by Those Charged with Governance

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should make inquiries of management regarding:

a) Management’s assessment of the risk that the financial statements may be materially misstated due to fraud;
b) Management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or account balances, classes of transactions or disclosures for which a risk of fraud is likely to exist;
c) Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and
d) Management’s communication, if any, to employees regarding its views on business practices and ethical behavior. (Paragraph 34)

The auditor should make inquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Paragraph 38)

The auditor should obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Paragraph 43)

The auditor should make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Paragraph 46)

Consideration of Fraud Risk Factors

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether the information obtained indicates that one or more fraud risk factors are present. (Paragraph 48)

Consideration of Unusual or Unexpected Relationships

When performing analytical procedures to obtain an understanding of the entity and its environment, including its internal control, the auditor should consider unusual or unexpected relationships that may indicate risks of material misstatement due to fraud. (Paragraph 53)

Consideration of Other Information

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether other information obtained indicates risks of material misstatement due to fraud. (Paragraph 55)

Identification and Assessment of the Risk of Material Misstatement Due to Fraud

When identifying and assessing the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures, the auditor should identify and assess the risks of material misstatement due to fraud. Those assessed risks that could result in a material misstatement due to fraud are significant risks and accordingly, to the extent not already done so, the auditor should evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented.
(Paragraph 57)

Responses to the Risk of Material Misstatement Due to Fraud

The auditor should determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level and should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks at the assertion level. (Paragraph 61)

Overall Responses

In determining overall responses to address the risks of material misstatement due to fraud at the financial statement level the auditor should:

a) Consider the assignment and supervision of personnel;
b) Consider the accounting policies used by the entity; and
c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Paragraph 66)

Audit Procedures Responsive to Management Override of Controls

To respond to the risk of management override of controls, the auditor should design and perform audit procedures to:

a. Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements;
b. Review accounting estimates for biases that could result in material misstatement due to fraud; and
c. Obtain an understanding of the business rationale of significant transactions that the auditor becomes aware of that are outside of normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment. (Paragraph 76)

Evaluation of Audit Evidence

The auditor should consider whether analytical procedures that are performed at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's knowledge of the business indicate a previously unrecognized risk of material misstatement due to fraud. (Paragraph 85)

When the auditor identifies a misstatement, the auditor should consider whether such a misstatement may be indicative of fraud and if there is such an indication, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations. (Paragraph 86)

When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor should consider the implications for the audit. (Paragraph 89)

Management Representations

The auditor should obtain written representations from management that:

a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud;
b) It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud;
c) It has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the financial statements; and
d) It has disclosed to the auditor its knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (Paragraph 90)

Reporting Considerations

Communication with Management and Those Charged with Governance

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters as soon as practicable to the appropriate level of management. (Paragraph 93)

If the auditor has identified fraud involving

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud results in a material misstatement in the financial statements, the auditor should communicate these matters to those charged with governance as soon as practicable. (Paragraph 95)

The auditor should make those charged with governance and management aware, as soon as practicable, and at the appropriate level of responsibility, of material weaknesses in the design or implementation of internal control to prevent and detect fraud which may have come to the auditor's attention. (Paragraph 99)

The auditor should consider whether there are any other matters related to fraud to be discussed with those charged with governance of the entity. (Paragraph 101)

Auditor Unable to Continue the Engagement

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit the auditor should:

a. Consider the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
b. Consider the possibility of withdrawing from the engagement; and
c. If the auditor withdraws:
    i. Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
    ii. Consider whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. (Paragraph 103)

Documentation

The documentation of the auditor's understanding of the entity and its environment and the auditor's assessment of the risks of material misstatement required by paragraph 122 of ISA 315 should include:

a. The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and
b. The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level. (Paragraph 107)

The documentation of the auditor's responses to the assessed risks of material misstatement required by paragraph 73 of ISA 330 should include:

a. The overall responses to the assessed risks of material misstatements due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and
b. The results of the audit procedures, including those designed to address the risk of management overrride of controls. (Paragraph 108)

The auditor should document communications about fraud made to management, those charged with governance, regulators and others. (Paragraph 109)

When the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor should document the reasons for that conclusion. (Paragraph 110)

ISA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements

Introduction

When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements. (Paragraph 02)

Responsibility of management for the compliance with laws and regulations

The following policies and procedures, among others, may assist management in discharging its responsibilities for the prevention and detection of noncompliance:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate internal control.
- Developing, publicizing 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.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee. (Paragraph 10)

The auditors' considerations of compliance with laws and regulations

In accordance with ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" the auditor should plan and perform the audit with an attitude of professional skepticism recognizing that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. (Paragraph 13)

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. (Paragraph 15)

After obtaining the general understanding, the auditor should perform further audit procedures to help identify instances of noncompliance with those laws and regulations where noncompliance should be considered when preparing financial statements, specifically:

- Inquiring of management as to whether the entity is in compliance with such laws and regulations, and
- Inspecting correspondence with the relevant licensing or regulatory authorities. (Paragraph 18)

Further, the auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by the auditor to have an effect on the determination of material amounts and disclosures in financial statements. The auditor should have a sufficient understanding of these laws and regulations in order to consider them when auditing the assertions related to the determination of the amounts to be recorded and the disclosures to be made. (Paragraph 19)

The auditor should be alert to the fact that audit procedures applied for the purpose of forming an opinion on the financial statements may bring instances of possible noncompliance with laws and regulations to the auditor's attention. (Paragraph 22)

The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements. (Paragraph 23)

Audit procedures when non compliance is discovered

When the auditor becomes aware of information concerning a possible instance of noncompliance, 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. (Paragraph 26)

When the auditor believes there may be noncompliance, the auditor should document the findings and discuss them with management. (Paragraph 28)

When adequate information about the suspected noncompliance cannot be obtained, the auditor should consider the effect of the lack of sufficient appropriate audit evidence on the auditor's report. (Paragraph 30)

The auditor should consider the implications of noncompliance in relation to other aspects of the audit, particularly the reliability of management representations. (Paragraph 31)

REPORTING OF NON COMPLIANCE (Reporting Considerations)

To Management

The auditor should, as soon as practicable, either communicate with those charged with governance or obtain audit evidence that they are appropriately informed, regarding noncompliance that comes to the auditor's attention. (Paragraph 32)

If in the auditor's judgment the noncompliance is believed to be intentional and material, the auditor should communicate the finding without delay. (Paragraph 33)

If the auditor suspects that members of senior management, including members of the board of directors, are involved in noncompliance, the auditor should report the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or a supervisory board. (Paragraph 34)

To the Users of the Auditor's Report on the Financial Statements

If the auditor concludes that the noncompliance has a material effect on the financial statements, and has not been properly reflected in the financial statements, the auditor should express a qualified or an adverse opinion. (Paragraph 35)

If the auditor is precluded by the entity from obtaining sufficient appropriate audit evidence to evaluate whether noncompliance that may be material to the financial statements, has, or is likely to have, occurred, the auditor should express a qualified opinion or a disclaimer of opinion on the financial statements on the basis of a limitation on the scope of the audit. (Paragraph 36)

If the auditor is unable to determine whether or not noncompliance has occurred because of limitations imposed by the circumstances rather than by the entity, the auditor should consider the effect on the auditor's report. (Paragraph 37)

Withdrawal from engagement

As stated in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, on receipt of an inquiry from the proposed auditor, the existing auditor should advise whether there are any professional reasons why the proposed auditor should not accept the appointment. If permission from the client to discuss its affairs with the proposed auditor is denied by the client, that fact should be disclosed to the proposed auditor. (Paragraph 40)

Indications that Noncompliance may have Occurred

Examples of the type of information that may come to the auditor's attention that may indicate that noncompliance with laws or regulations has occurred are listed below:

- Investigation by government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' checks payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorized transactions or improperly recorded transactions.
- Media comment.

ISA 260 - Communication of Audit Matters with those charged with Governance

Introduction

The auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity. (Paragraph 02)

Relevant Persons

The auditor should determine the relevant persons who are charged with governance and with whom audit matters of governance interest are communicated. (Paragraph 05)

Audit Matters of Governance Interest to be Communicated

The auditor should consider audit matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. Ordinarily such matters include the following:

- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements.
- Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor's report.
- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement. (Paragraph 11)

The auditor should inform those charged with governance of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. (Paragraph 11 a)

Timing of Communications

The auditor should communicate audit matters of governance interest on a timely basis. (Paragraph 13)

ISA - 300 - Planning an Audit of Financial Statements

Introduction

The auditor should plan the audit so that the engagement will be performed in an effective manner. (Paragraph 02)

Preliminary Engagement Activities

The auditor should perform the following activities at the beginning of the current audit engagement:

- Perform procedures regarding the continuance of the client relationship and the specific audit engagement;
- Evaluate compliance with ethical requirements, including independence; and
- Establish an understanding of the terms of the engagement. (Paragraph 06)

Planning Activities

The Overall Audit Strategy

The auditor should establish the overall audit strategy for the audit. (Paragraph 08)

The Audit Plan

The auditor should develop an audit plan for the audit in order to reduce the audit risk to an acceptably low level. (Paragraph 13)

Changes to Planning Decisions during the Course of the Audit

The overall audit strategy and the audit plan should be updated and changed as necessary during the course of the audit. (Paragraph 16)

Direction, Supervision and Review

The auditor should plan the nature, timing and extent of direction and supervision of engagement team members and review of their work. (Paragraph 18)

Documentation

The auditor should document the overall audit strategy and the audit plan, including any significant changes made during the audit engagement. (Paragraph 22)

Additional Considerations in Initial Audit Engagements

The auditor should perform the following activities prior to starting an initial audit:

a. Perform procedures regarding the acceptance of the client relationship and the specific audit engagement.
b. Communicate with the previous auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Paragraph 28)

Examples of Matters the Auditor may Consider in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required to be performed by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete. In addition, the auditor may consider these matters in an order different from that shown below.

Scope of the Audit Engagement

The auditor may consider the following matters when establishing the scope of the audit engagement:

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit coverage, including the number and locations of components to be included.
- The nature of the control relationships between a parent and its components that determine how the group is to be consolidated.
- The extent to which components are audited by other auditors.
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- The availability of the work of internal auditors and the extent of the auditor's potential reliance on such work.
- The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them.
- The expected use of audit evidence obtained in prior audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- The availability of client personnel and data.

Reporting Objectives, Timing of the Audit and Communications Required

The auditor may consider the following matters when ascertaining the reporting objectives of the engagement, the timing of the audit and the nature of communications required:

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, extent and timing of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement and the expected deliverables resulting from the audit procedures.

- Communication with auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit of components.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

Direction of the Audit

The auditor may consider the following matters when setting the direction of the audit:

- With respect to materiality:

  - Setting materiality for planning purposes.
  - Setting and communicating materiality for auditors of components.
  - Reconsidering materiality as audit procedures are performed during the course of the audit.
  - Identifying the material components and account balances.

- Audit areas where there is a higher risk of material misstatement.
- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- The selection of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement.
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.
- The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified weaknesses and action taken to address them.
- Evidence of management's commitment to the design and operation of sound internal control, including evidence of appropriate documentation of such internal control.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal control.
- Importance attached to internal control throughout the entity to the successful operation of the business.
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
- Significant industry developments such as changes in industry regulations and new reporting requirements.
- Significant changes in the financial reporting framework, such as changes in accounting standards.
- Other significant relevant developments, such as changes in the legal environment affecting the entity.

ISA 315 - Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Introduction

The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and sufficient to design and perform further audit procedures. (Paragraph 02)

Risk assessment procedures

The auditor should perform the following risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control:

a. Inquiries of management and others within the entity;
b. Analytical procedures; and
c. Observation and inspection. (Paragraph 07)

When the auditor intends to use information about the entity and its environment obtained in prior periods, the auditor should determine whether changes have occurred that may affect the relevance of such information in the current audit. Paragraph 12)

Discussion among the engagement team

The members of the engagement team should discuss the susceptibility of the entity's financial statements to material misstatements. (Paragraph 14)

Industry, Regulatory and Other External Factors, Including the Applicable Financial Reporting Framework

The auditor should obtain an understanding of relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Paragraph 22)

The auditor should obtain an understanding of the nature of the entity. (Paragraph 25)

The auditor should obtain an understanding of the entity's selection and application of accounting policies and consider whether they are appropriate for its business and consistent with the applicable financial reporting framework and accounting polices used in the relevant industry. (Paragraph 28)

Objectives and Strategies and Related Business Risks

The auditor should obtain an understanding of the entity's objectives and strategies, and the related business risks that may result in material misstatement of the financial statements. (Paragraph 30)

Measurement and Review of the Entity's Financial Performance

The auditor should obtain an understanding of the measurement and review of the entity's financial performance. (Paragraph 35)

Internal Control

The auditor should obtain an understanding of internal control relevant to the audit. (Paragraph 41)

The auditor should obtain an understanding of the control environment. (Paragraph 67)

The auditor should obtain an understanding of the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof. (Paragraph 76)

The auditor should obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

- The classes of transactions in the entity's operations that are significant to the financial statements.
- The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the financial statements.
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements, in respect of initiating, recording, processing and reporting transactions.
- How the information system captures events and conditions, other than classes of transactions, which are significant to the financial statements.
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures. (Paragraph 81)

The auditor should understand how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting. (Paragraph 89)

The auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (Paragraph 90)

The auditor should obtain an understanding of how the entity has responded to risks arising from IT. (Paragraph 93)

The auditor should obtain an understanding of the major types of activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls. (Paragraph 96)

Assessing the Risks of Material Misstatement

The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. (Paragraph 100)

Significant Risks that Require Special Audit Consideration

As part of the risk assessment as described in paragraph 100, the auditor should determine which of the risks identified are, in the auditors' judgment, risks that require special audit consideration (such risks are defined as "significant risks"). (Paragraph 108)

For significant risks, to the extent the auditor has not already done so, the auditor should evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. (Paragraph 113)

Risks for which Substantive Procedures Alone do not Provide Sufficient Appropriate Audit Evidence

As part of the risk assessment as described in paragraph 100, the auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures. (Paragraph 115)

Communicating with Those Charged with Governance and Management

The auditor should make those charged with governance or management aware, as soon as practicable, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal control which have come to the auditor's attention. (Paragraph 120)

Documentation

The auditor should document:

a. The discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, and the significant decisions reached;
b. Key elements of the understanding obtained regarding each of the aspects of the entity and its environment identified in paragraph 20, including each of the internal control components identified in paragraph 43, to assess the risks of material misstatement of the financial statements; the sources of information from which the understanding was obtained; and the risk assessment procedures;
c. The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 100; and
d. The risks identified and related controls evaluated as a result of the requirements in paragraphs 113 and 115. (Paragraph 122)

ISA 320 - Audit Materiality

Introduction

The auditor should consider materiality and its relationship to audit risk when conducting an audit. (Paragraph 02)

Materiality

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. (Paragraph 04)

Materiality should be considered by the auditor when:

- Determining the nature, timing and extent of audit procedures; and
- Evaluating the effect of misstatements. (Paragraph 08)

Evaluating the Effect of Misstatements

In evaluating whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, the auditor should assess whether the aggregate of uncorrected misstatements that have been identified during the audit is material. (Paragraph 12)

Reporting Considerations

If management refuses to adjust the financial statements and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should consider the appropriate modification to the auditor's report in accordance with ISA 700, "The Auditor's Report on Financial Statements." (Paragraph 15)

Communication of Errors

If the auditor has identified a material misstatement resulting from error, the auditor should communicate the misstatement to the appropriate level of management on a timely basis, and consider the need to report it to those charged with governance in accordance with ISA 260 "Communication of Audit Matters with those charged with Governance". (Paragraph 17)

ISA 330 - The Auditor's Procedures in Response to Assessed Risks

Introduction

In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level. (Paragraph 03)

Overall Responses

The auditor should determine overall responses to address the risks of material misstatement at the financial statement level. (Paragraph 04)

Audit Procedures Responsive to Risks of Material Misstatement at the Assertion Level

The auditor should design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level. (Paragraph 07)

Tests of Controls

When the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that controls are operating effectively, the auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (Paragraph 23)

When the auditor has determined that it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures, the auditor should perform tests of relevant controls to obtain audit evidence about their operating effectiveness. (Paragraph 25)

The auditor should perform other audit procedures in combination with inquiry to test the operating effectiveness of controls. (Paragraph 29)

When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor should determine what additional audit evidence should be obtained for the remaining period. (Paragraph 37)

If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should obtain audit evidence about whether changes in those specific controls have occurred subsequent to the prior audit. The auditor should obtain audit evidence about whether such changes have occurred by performing inquiry in combination with observation or inspection to confirm the understanding of those specific controls. (Paragraph 39)

If the auditor plans to rely on controls that have changed since they were last tested, the auditor should test the operating effectiveness of such controls in the current audit. (Paragraph 40)

If the auditor plans to rely on controls that have not changed since they were last tested, the auditor should test the operating effectiveness of such controls at least once in every third audit. (Paragraph 41)

When there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of some controls each audit. (Paragraph 43)

When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk and the auditor plans to rely on the operating effectiveness of controls intended to mitigate that significant risk, the auditor should obtain the audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period. (Paragraph 44)

Substantive Procedures

Irrespective of the assessed risk of material misstatement, the auditor should design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Paragraph 49)

The auditor's substantive procedures should include the following audit procedures related to the financial statement closing process:

- Agreeing the financial statements to the underlying accounting records; and
- Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Paragraph 50)

When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk. (Paragraph 51)

When substantive procedures are performed at an interim date, the auditor should perform further substantive procedures or substantive procedures combined with tests of controls to cover the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. (Paragraph 56)

Adequacy of Presentation and Disclosure

The auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. (Paragraph 65)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Based on the audit procedures performed and the audit evidence obtained, the auditor should evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate. (Paragraph 66)

The auditor should conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial statements. (Paragraph 70)

Reporting Considerations

If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or a disclaimer of opinion. (Paragraph 72)

Documentation

The auditor should document the overall responses to address the assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level, and the results of the audit procedures. In addition, if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should document the conclusions reached with regard to relying on such controls that were tested in a prior audit. (Paragraph 73)

ISA 402 - Audit Considerations relating to Entities using Service Organisations

Introduction

The auditor should consider how an entity's use of a service organization affects the entity's internal control so as to identify and assess the risk of material misstatement and to design and perform further audit procedures. (Paragraph 02)

Considerations of the Auditor

In obtaining an understanding of the entity and its environment, the auditor should determine the significance of service organization activities to the entity and the relevance to the audit. In doing so, the auditor obtains an understanding of the following, as appropriate:

- Nature of the services provided by the service organization.
- Terms of contract and relationship between the entity and the service organization.
- Extent to which the entity's internal control interact with the systems at the service organization.
- The entity's internal control relevant to the service organization activities such as:
    - Those that are applied to the transactions processed by the service organization.
    - How the entity identifies and manages risks related to use of the service organization.
- Service organization's capability and financial strength, including the possible effect of the failure of the service organization on the entity.
- Information about the service organization such as that reflected in user and technical manuals.
- Information available on controls relevant to the service organization's information systems such as general IT-controls and application controls. (Paragraph 05)

If the auditor concludes that the activities of the service organization are significant to the entity and relevant to the audit, the auditor should obtain a sufficient understanding of the service organization and its environment, including its internal control, to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risks. The auditor assesses the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures. (Paragraph 07)

If the auditor uses the report of a service organization auditor, the auditor should consider making inquiries concerning that auditor's professional competence in the context of the specific assignment undertaken by the service organization auditor. (Paragraph 09)

Service Organization Auditor's Report

When using a service organization auditor's report, the auditor should consider the nature of and content of that report. (Paragraph 11)

Reporting Considerations

The auditor should consider the scope of work performed by the service organization auditor and should evaluate the usefulness and appropriateness of reports issued by the service organization auditor. (Paragraph 13)

For those specific tests of control and results that are relevant, the auditor should consider whether the nature, timing and extent of such tests provide sufficient appropriate audit evidence about the operating effectiveness of the internal control systems to support the auditor's assessed risks of material misstatement. (Paragraph 16)

When the auditor uses a report from the auditor of a service organization, no reference should be made in the entity's auditor's report to the auditor's report on the service organization (Paragraph 18)

ISA 500 - Audit Evidence

Introduction

The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. (Paragraph 02)

While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence that is generated internally is more reliable when the related controls imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles. (Paragraph 9)

When information produced by the entity is used by the auditor to perform audit procedures, the auditor should obtain audit evidence about the accuracy and completeness of the information. (Paragraph 11)

The auditor should use assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures. (Paragraph 16)

Assertions used by the auditor fall into the following categories:

a. Assertions about classes of transactions and events for the period under audit:

   i. Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.
   ii. Completeness—all transactions and events that should have been recorded have been recorded.
   iii. Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.
   iv. Cutoff—transactions and events have been recorded in the correct accounting period.
   v. Classification—transactions and events have been recorded in the proper accounts.

b. Assertions about account balances at the period end:
   i. Existence—assets, liabilities, and equity interests exist.
   ii. Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
   iii. Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.
   iv. Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

c. Assertions about presentation and disclosure:

i. Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.
ii. Completeness—all disclosures that should have been included in the financial statements have been included.
iii. Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.
iv. Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts. (Paragraph 17)

Audit Procedures for Obtaining Audit Evidence

The auditor obtains audit evidence to draw reasonable conclusions on which to base the audit opinion by performing audit procedures to:

a. Obtain an understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement at the financial statement and assertion levels (audit procedures performed for this purpose are referred to in the ISAs as "risk assessment procedures");
b. When necessary or when the auditor has determined to do so, test the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level (audit procedures performed for this purpose are referred to in the ISAs as "tests of controls"); and
c. Detect material misstatements at the assertion level (audit procedures performed for this purpose are referred to in the ISAs as "substantive procedures" and include tests of details of classes of transactions, account balances, and disclosures and substantive analytical procedures). (Paragraph 19)

Summary for obtaining audit evidence

- Inspection of Records or Documents
- Inspection of Tangible Assets
- Observation
- Inquiry
- Confirmation
- Recalculation
- Reperformance
- Analytical Procedures

ISA 501 - Audit Evidence – Additional consideration for specific items

When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable. (Paragraph 5)

If unable to attend the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and, when necessary, perform audit procedures on intervening transactions. (Paragraph 6)

Where attendance is impracticable, due to factors such as the nature and location of the inventory, the auditor should consider whether alternative procedures provide sufficient appropriate audit evidence of existence and condition to conclude that the auditor need not make reference to a scope limitation. (Paragraph 7).

The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements. (Paragraph 32)

When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified or when the auditor believes they may exist, the auditor should seek direct communication with the entity's legal counsel. (Paragraph 33)

The letter, which should be prepared by management and sent by the auditor, should request the entity's legal counsel to communicate directly with the auditor. When it is considered unlikely that the entity's legal counsel will respond to a general inquiry, the letter would ordinarily specify the following:

- A list of litigation and claims.
- Management's assessment of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved.
- A request that the entity's legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's legal counsel to be incomplete or incorrect. (Paragraph 34)

Reporting Considerations

If management refuses to give the auditor permission to communicate with the entity's legal counsel, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion. (Paragraph 37)

When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure. (Paragraph 38)

When segment information is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its presentation and disclosure in accordance with the applicable financial reporting framework. (Paragraph 42)

ISA 505 - External Confirmations

Introduction

The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. In making this determination, the auditor should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level. (Paragraph 02)

Design of the External Confirmation Request

The auditor should tailor external confirmation requests to the specific audit objective. (Paragraph 17)

Reporting Considerations

Management Requests

When the auditor seeks to confirm certain balances or other information, and management requests the auditor not to do so, the auditor should consider whether there are valid grounds for such a request and obtain audit evidence to support the validity of management's requests. If the auditor agrees to management's request not to seek external confirmation regarding a particular matter, the auditor should apply alternative audit procedures to obtain sufficient appropriate audit evidence regarding that matter. (Paragraph 25)

If the auditor does not accept the validity of management's request and is prevented from carrying out the confirmations, there has been a limitation on the scope of the auditor's work and the auditor should consider the possible impact on the auditor's report. (Paragraph 26)

The External Confirmation Process

When performing confirmation procedures, the auditor should maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of confirmation requests, and the responses to those requests. (Paragraph 30)

No Response to a Positive Confirmation Requests

The auditor should perform alternative audit procedures where no response is received to a positive external confirmation request. The alternative audit procedures should be such as to provide audit evidence about the assertions that the confirmation request was intended to provide. (Paragraph 31)

Evaluating the Results of the Confirmation Process

The auditor should evaluate whether the results of the external confirmation process together with the results from any other procedures performed, provide sufficient appropriate audit evidence regarding the assertion being audited. (Paragraph 36)

ISA 510 - Initial Engagements - Opening Balances

Introduction

For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that:

a. The opening balances do not contain misstatements that materially affect the current period's financial statements,

b. The prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated, and

c. Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed. (Paragraph 02)

Audit conclusions and reporting

If, after performing audit procedures including those set out above the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balances, the audit report should include:

a. A qualified opinion, or

> "*We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures*.
>
> *In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventory and satisfy ourselves as to the opening balance of inventory, the financial statements give a true and fair view of (present fairly, in all material respects,) the financial position of ... as at December 31, 19X2 and the results of its operations and its cash flows for the year then ended in accordance with ...;"*

b. A disclaimer of opinion,

c. In those jurisdictions where it is permitted, an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position. (Paragraph 11)

> *"We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures.*
>
> *Because of the significance of the above matter in relation to the results of the Company's operations for the year to December 31, 19X2, we are not in a position to, and do not, express an opinion on the results of its operations and its cash flows for the year then ended.*
>
> *In our opinion, the balance sheet gives a true and fair view of (or 'presents fairly in all material respects,') the financial position of the Company as at December 31, 19X2, in accordance with ..."*

If the effect of the misstatement is not properly accounted for and adequately presented and disclosed, the auditor should express a qualified opinion or an adverse opinion, as appropriate. (Paragraph 12)

If the current period's accounting policies have not been consistently applied in relation to opening balances and if the change has not been properly accounted for and adequately presented and disclosed, the auditor should express a qualified opinion or an adverse opinion as appropriate. (Paragraph 13)

However, if a modification regarding the prior period's financial statements remains relevant and material to the current period's financial statements, the auditor should modify the current auditor's report accordingly. (Paragraph 14)

ISA- 520 - Analytical Procedures

Introduction

The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit. (Paragraph 02)

Analytical procedures as risk assessment procedures

The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment. (Paragraph 08)

Analytical procedures in the overall review at the end of the audit

The auditor should apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the entity. (Paragraph 13)

Investigating unusual items

When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information, or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative audit evidence. (Paragraph 17)

ISA 530 - Audit Sampling and Other Means of Testing

Introduction

When designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. (Paragraph 02)

Risk considerations in obtaining audit evidence

In obtaining audit evidence, the auditor should use professional judgment to assess the risk of material misstatement (which includes inherent and control risk) and design further audit procedures to ensure this risk is reduced to an acceptably low level. (Paragraph 18)

Selecting items for testing to gather audit evidence

When designing audit procedures, the auditor should determine appropriate means of selecting items for testing. (Paragraph 22)

Design of the sample

When designing an audit sample, the auditor should consider the objectives of the audit procedure, and the attributes of the population from which the sample will be drawn. (Paragraph 31)

Sample size

In determining the sample size, the auditor should consider whether sampling risk is reduced to an acceptably low level. (Paragraph 40)

Selecting the sample

The auditor should select items for the sample with the expectation that all sampling units in the population have a chance of selection. (Paragraph 42)

Performing the audit procedure

The auditor should perform audit procedures appropriate to the particular audit objective on each item selected. (Paragraph 44)

Nature and cause of errors

The auditor should consider the sample results, the nature and cause of any errors identified, and their possible effect on the particular audit objective and on other areas of the audit. (Paragraph 47)

Projecting errors

For tests of details, the auditor should project monetary errors found in the sample to the population, and should consider the effect of the projected error on the particular audit objective and on other areas of the audit. (Paragraph 51)

Evaluating the sample results

The auditor should evaluate the sample results to determine whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised. (Paragraph 54)

ISA 540 - Audit of Accounting Estimates

Introduction

The auditor should obtain sufficient appropriate audit evidence regarding accounting estimates. (Paragraph 02)

Audit Procedures Responsive to the Risk of Material Misstatement of the Entity's Accounting Estimates

The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence as to whether the entity's accounting estimates are reasonable in the circumstances and, when required, appropriately disclosed. (Paragraph 08)

The auditor should adopt one or a combination of the following approaches in the audit of an accounting estimate:

- Review and test the process used by management to develop the estimate;
- Use an independent estimate for comparison with that prepared by management. Or
- Review of subsequent events which provide audit evidence of the reasonableness of the estimate made. (Paragraph 10).

Evaluation of results of audit procedures

The auditor should make a final assessment of the reasonableness of the entity's accounting estimates based on the auditor's understanding of the entity and its environment and whether the estimates are consistent with other audit evidence obtained during the audit. (Paragraph 24)

ISA 545 - Auditing Fair Value Measurement and Disclosures

Introduction

The auditor should obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the entity's applicable financial reporting framework. (Paragraph 03)

Understanding the Entity's Process for Determining Fair Value Measurements and Disclosures and Relevant Control Activities, and Assessing Risk

As part of the understanding of the entity and its environment, including its internal control, the auditor should obtain an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant control activities sufficient to identify and assess the risks of material misstatement at the assertion level and to design and perform further audit procedures. (Paragraph 10)

After obtaining an understanding of the entity's process for determining fair value measurements and disclosures, the auditor should identify and assess the risks of material misstatement at the assertion level related to the fair value measurements and disclosures in the financial statements to determine the nature, timing and extent of the further audit procedures. (Paragraph 14)

Evaluating the Appropriateness of Fair Value Measurements and Disclosures

The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in accordance with the entity's applicable financial reporting framework. (Paragraph 17)

The auditor should obtain audit evidence about management's intent to carry out specific courses of action, and consider its ability to do so, where relevant to the fair value measurements and disclosures under the entity's applicable financial reporting framework. (Paragraph 22)

Where alternative methods for measuring fair value are available under the entity's applicable financial reporting framework, or where the method of measurement is not prescribed, the auditor should evaluate whether the method of measurement is appropriate in the circumstances under the entity's applicable financial reporting framework. (Paragraph 24)

The auditor should evaluate whether the entity's method for its fair value measurements is applied consistently. (Paragraph 27)

Using the work of an expert

The auditor should determine the need to use the work of an expert. (Paragraph 29)

Audit Procedures Responsive to the Risk of Material Misstatement of the Entity's Fair Value Measurements and Disclosures

The auditor should design and perform further audit procedures in response to assessed risks of material misstatement of assertions relating to the entity's fair value measurements and disclosures. (Paragraph 33)

Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data

Where the auditor determines there is a significant risk related to fair values, or where otherwise applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair values, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements. (Paragraph 39)

The auditor should perform audit procedures on the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management's assumptions. (Paragraph 50)

Subsequent events

The auditor should consider the effect of subsequent events on the fair value measurements and disclosures in the financial statements. (Paragraph 53)

Disclosure about fair values

The auditor should evaluate whether the disclosures about fair values made by the entity are in accordance with its financial reporting framework. (Paragraph 56)

Evaluating the results of audit procedures

In making a final assessment of whether the fair value measurements and disclosures in the financial statements are in accordance with the entity's applicable financial reporting framework, the auditor should evaluate the sufficiency and appropriateness of the audit evidence obtained as well as the consistency of that evidence with other audit evidence obtained and evaluated during the audit. (Paragraph 61)

Management representations

The auditor should obtain written representations from management regarding the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity where relevant to the fair value measurements or disclosures. (Paragraph 63)

ISA 550 - Related Parties

Introduction

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. (Paragraph 02)

Existence and disclosure of related parties

The auditor should review information provided by those charged with governance and management identifying the names of all known related parties and should perform the following audit procedures in respect of the completeness of this information:

- Review prior year working papers for names of known related parties;
- Review the entity's procedures for identification of related parties;
- Inquire as to the affiliation of those charged with governance and officers with other entities;
- Review shareholder records to determine the names of principal shareholders or, if appropriate, obtain a listing of principal shareholders from the share register;
- Review minutes of the meetings of shareholders and those charged with governance and other relevant statutory records such as the register of directors' interests;
- Inquire of other auditors currently involved in the audit, or predecessor auditors, as to their knowledge of additional related parties; and
- Review the entity's income tax returns and other information supplied to regulatory agencies.

If, in the auditor's judgment, there is a lower risk of significant related parties remaining undetected, these procedures may be modified as appropriate. (Paragraph 07)

Where the applicable financial reporting framework requires disclosure of related party relationships, the auditor should be satisfied that the disclosure is adequate. (Paragraph 08)

Transactions with related parties

The auditor should review information provided by those charged with governance and management identifying related party transactions and should be alert for other material related party transactions. (Paragraph 09)

When obtaining an understanding of the entity's internal control, the auditor should consider the adequacy of control activities over the authorization and recording of related party transactions. (Paragraph 10)

Examining identified related party transactions

In examining the identified related party transactions, the auditor should obtain sufficient appropriate audit evidence as to whether these transactions have been properly recorded and disclosed. (Paragraph 13)

Management representations

The auditor should obtain a written representation from management concerning:

a) The completeness of information provided regarding the identification of related parties; and
b) The adequacy of related party disclosures in the financial statements. (Paragraph 15)

Audit conclusions and reporting considerations

If the auditor is unable to obtain sufficient appropriate audit evidence concerning related parties and transactions with such parties or concludes that their disclosure in the financial statements is not adequate, the auditor should modify the auditor's report appropriately. (Paragraph 16)

ISA 560 - Subsequent Events

Introduction

The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report. (Paragraph 02)

Events Occurring Up to the Date of the Auditor's Report

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified. (Paragraph 04)

When the auditor becomes aware of events that materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements. (Paragraph 07)

Facts Discovered After the Date of the Auditor's Report but Before the Financial Statements are Issued

When, after the date of the auditor's report but before the date the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management and should take the action appropriate in the circumstances. (Paragraph 09)

When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion. (Paragraph 11)

Facts Discovered After the Financial Statements have been Issued

When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances. (Paragraph 14)

The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor. (Paragraph 16)

Offering of Securities to the Public

In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered. (Paragraph 19)

ISA 570 - Going Concern

Introduction

When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements (Paragraph 02).

Examples of events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by debtors and other creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Loss of key management without replacement.
- Loss of a major market, franchise, license, or principal supplier.
- Labor difficulties or shortages of important supplies.

Other

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied.
- Changes in legislation or government policy expected to adversely affect the entity.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital. Similarly, the loss of a principal` supplier may be mitigated by the availability of a suitable alternative source of supply. (Paragraph 8)

Auditor's Responsibility

In obtaining an understanding of the entity, the auditor should consider whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern. (Paragraph 11)

The auditor should remain alert for audit evidence of events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern in performing audit procedures throughout the audit. If such events or conditions are identified, the auditor should, in addition to performing the procedures in paragraph 26, consider whether they affect the auditor's assessments of the risks of material misstatement. (Paragraph 12)

Evaluating Managements' Assessment

The auditor should evaluate management's assessment of the entity's ability to continue as a going concern (Paragraph 17)

The auditor should consider the same period as that used by management in making its assessment under the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor should ask management to extend its assessment period to twelve months from the balance sheet date. (Paragraph 18)

Period beyond Management's Assessment

The auditor should inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern. (Paragraph 22)

Further Audit Procedures when Events or Conditions are Identified

When events or conditions have been identified which may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

- Review management's plans for future action based on its going concern assessment,
- Gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors, and Seek written representation from management regarding its plans for future action. (Paragraph 26)

Audit conclusions and reporting

Based on the audit evidence obtained, the auditor should determine if, in the auditor's judgment, a material uncertainty exists related to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern. (Paragraph 30)

A material uncertainty exists when the magnitude of its potential impact is such that, in the auditor's judgment, clear disclosure of the nature and implications of the uncertainty is necessary for the presentation of the financial statements not to be misleading. (Paragraph 31)

Going Concern Assumption Appropriate but a Material Uncertainty Exists

If the use of the going concern assumption is appropriate but a material uncertainty exists, the auditor considers whether the financial statements:

a. Adequately describe the principal events or conditions that give rise to the significant doubt on the entity's ability to continue in operation and management's plans to deal with these events or conditions; and
b. State clearly that there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Paragraph 32)

Reporting considerations

If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in paragraph 32. In evaluating the adequacy of the financial statement disclosure, the auditor considers whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business. The following is an example of such a paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

"Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by ZZZ. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern."

In extreme cases, such as situations involving multiple material uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph. (Paragraph 33)

If adequate disclosure is not made in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate (ISA 700, "The Auditor's Report on Financial Statements," paragraphs 45-46). The report should include specific reference to the fact that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. The following is an example of the relevant paragraphs when a qualified opinion is to be expressed:

"The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. In our opinion, except for the omission of the information included in the preceding paragraph, the financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the Company at December 31, 20X0 and of its financial performance and its cash flows for the year then ended in accordance with …"

The following is an example of the relevant paragraphs when an adverse opinion is to be expressed:

"The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

In our opinion, because of the omission of the information mentioned in the preceding paragraph, the financial statements do not give a true and fair view of (or do not present fairly) the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with… (and do not comply with…) …" (Paragraph 34)

Going Concern Assumption Inappropriate

If, in the auditor's judgment, the entity will not be able to continue as a going concern, the auditor should express an adverse opinion if the financial statements have been prepared on a going concern basis. If, on the basis of the additional audit procedures carried out and the information obtained, including the effect of management's plans, the auditor's judgment is that the entity will not be able to continue as a going concern, the auditor concludes, regardless of whether or not disclosure has been made, that the going concern assumption used in the preparation of the financial statements is inappropriate and expresses an adverse opinion. (Paragraph 35)

When the entity's management has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis. If on the basis of the additional audit procedures carried out and the information obtained the auditor determines the alternative basis is appropriate, the auditor can issue an unqualified opinion if there is adequate disclosure but may require an emphasis of matter in the auditor's report to draw the user's attention to that basis. (Paragraph 36)

Management Unwilling to Make or Extend Its Assessment

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor should consider the need to modify the auditor's report as a result of the limitation on the scope of the auditor's work. In certain circumstances, such as those described in paragraphs 15, 18 and 24, the auditor may believe that it is necessary to ask management to make or extend its assessment. If management is unwilling to do so, it is not the auditor's responsibility to rectify the lack of analysis by management, and a modified report may be appropriate because it may not be possible for the auditor to obtain sufficient appropriate evidence regarding the use of the going concern assumption in the preparation of the financial statements. (Paragraph 37)

In some circumstances, the lack of analysis by management may not preclude the auditor from being satisfied about the entity's ability to continue as a going concern. For example, the auditor's other procedures may be sufficient to assess the appropriateness of management's use of the going concern assumption in the preparation of the financial statements because the entity has a history of profitable operations and a ready access to financial resources. In other circumstances, however, the auditor may not be able to confirm or dispel, in the absence of management's assessment, whether or not events or conditions exist which indicate there may be a significant doubt on the entity's ability to continue as a going concern, or the existence of plans management has put in place to address them or other mitigating factors. In these circumstances, the auditor modifies the auditor's report as discussed in ISA 700, "The Auditor's Report on Financial Statements," paragraphs 36-44. (Paragraph 38)

Significant Delay in the Signature or Approval of Financial Statements

When there is significant delay in the signature or approval of the financial statements by management after the balance sheet date, the auditor considers the reasons for the delay. When the delay could be related to events or conditions relating to the going concern assessment, the auditor considers the need to perform additional audit procedures, as described in paragraph 26, as well as the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 30.

ISA 580- Management Representations

The auditor should obtain appropriate representations from management. (Paragraph 02)

The auditor should obtain audit evidence that management acknowledges its responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework, and has approved the financial statements. (Paragraph 03)

The auditor should obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. (Paragraph 04)

The auditor should obtain written representation from management that:

a. It acknowledges its responsibility for the design and implementation of internal control to prevent and detect error; and
b. It believes the effects of those uncorrected financial statement misstatement aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representations. (Paragraph 05a)

If a representation by management is contradicted by other audit evidence, the auditor should investigate the circumstances and, when necessary, reconsider the reliability of other representations made by management. (Paragraph 09)

Action if management refuses to provide representation / Reporting Considerations

If management refuses to provide a representation that the auditor considers necessary, this constitutes a scope limitation and the auditor should express a qualified opinion or a disclaimer of opinion. (Paragraph 15)

Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from one entity to another and from one period to the next.
Although seeking representations from management on a variety of matters may serve to focus management's attention on those matters, and thus cause management to specifically address those matters in more detail than would otherwise be the case, the auditor needs to be cognizant of the limitations of management representations as audit evidence as set out in this ISA.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 19X1 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of (present fairly, in all material respects) the financial position of ABC Company as of December 31, 19X1 and of the results of its operations and its cash flows for the year then ended in accordance with (indicate applicable financial reporting framework).

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with (indicate applicable financial reporting framework).

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

Include here representations relevant to the entity. Such representations may include the following:

There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

We have made available to you all books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors (namely those held on March 15, 19X1 and September 30, 19X1, respectively).

- We confirm the completeness of the information provided regarding the identification of related parties.
- The financial statements are free of material misstatements, including omissions.
- The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance.
- There has been no noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.
- The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:
- The identity of, and balances and transactions with, related parties.
- Losses arising from sale and purchase commitments.
- Agreements and options to buy back assets previously sold.
- Assets pledged as collateral.
- We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realizable value.
- The Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in Note X to the financial statements.
- We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note X to the financial statements all guarantees that we have given to third parties.
- Other than . . . described in Note X to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto.
- The . . . claim by XYZ Company has been settled for the total sum of XXX which has been properly accrued in the financial statements. No other claims in connection with litigation have been or are expected to be received.
- There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements, we have no other line of credit arrangements.
- We have properly recorded or disclosed in the financial statements the capital stock repurchase options and agreements, and capital stock reserved for options, warrants, conversions and other requirements.

(Senior Executive Officer)

(Senior Financial Officer)

ISA 600 - Using the Work of another Auditor

Introduction

When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit. (Paragraph 02)

Acceptance as Principle Auditor

The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. (Paragraph 06)

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

a. The materiality of the portion of the financial statements which the principal auditor audits;
b. The principal auditor's degree of knowledge regarding the business of the components;
c. The risk of material misstatements in the financial statements of the components audited by the other auditor; and
d. The performance of additional procedures as set out in this ISA regarding the components audited by the other auditor resulting in the principal auditor having significant participation in such audit.

The Principal Auditor's Procedures

When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of the specific assignment. (Paragraph 07)

The principal auditor should perform procedures to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. (Paragraph 08)

The principal auditor should consider the significant findings of the other auditor. (Paragraph 12)

Cooperation between Auditors'

The other auditor, knowing the context in which the principal auditor will use the other auditor's work, should cooperate with the principal auditor. (Paragraph 15)

Reporting Considerations

When the principal auditor concludes that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit. (Paragraph 16)

Division of responsibility

While compliance with the guidance in the preceding paragraphs is considered desirable, the local regulations of some countries permit a principal auditor to base the audit opinion on the financial statements taken as a whole solely upon the report of another auditor regarding the audit of one or more components. **When the principal auditor does so, the principal auditor's report should state this fact clearly and should indicate the magnitude of the portion of the financial statements audited by the other auditor.** When the principal auditor makes such a reference in the auditor's report, audit procedures are ordinarily limited to those described in paragraphs 7 and 9. (Paragraph 18)

ISA - 610 - Considering the Work of Internal Audit

Introduction

The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures. (Paragraph 02)

Understanding and preliminary assessment of internal auditing

The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures. (Paragraph 09)

The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment. (Paragraph 11)

Evaluating the work of internal auditing

When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor's purposes. (Paragraph 16)

ISA 620 - Using the Work of an Expert

Introduction

When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. (Paragraph 02)

Competence and objectivity of the expert

When planning to use the work of an expert, the auditor should evaluate the professional competence of the expert. (Paragraph 08)

The auditor should evaluate the objectivity of the expert. (Paragraph 09)

Scope of the expert's work

The auditor should obtain sufficient appropriate audit evidence that the scope of the expert's work is adequate for the purposes of the audit. (Paragraph 11)

Evaluating the work of the expert

The auditor should evaluate the appropriateness of the expert's work as audit evidence regarding the assertion being considered. (Paragraph 12)

Reporting considerations

If the results of the expert's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditor should resolve the matter. (Paragraph 15)

Reference to an expert in the auditor's report

When issuing an unmodified auditor's report, the auditor should not refer to the work of an expert. (Paragraph 16)

ISA 700 (Revised) - The Auditor's Report on Financial Statements

Effective for auditor's reports dated on or after December 31, 2006

The Auditor's Report on Financial Statements

The auditor's report should contain a clear expression of the auditor's opinion on the financial statements. (Paragraph 4)

Forming an Opinion on the Financial Statements

The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements. (Paragraph 11)

Elements of the Auditor's Report in an Audit Conducted in Accordance with International Standards on Auditing

Consistency in the auditor's report, when the audit has been conducted in accordance with the ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the reader's understanding and to identify unusual circumstances when they occur. (Paragraph 16)

Paragraphs 18-60 set out the requirements relating to the following elements of the auditor's report when the audit has been conducted in accordance with the ISAs:

(a) Title;
(b) Addressee;
(c) Introductory paragraph;
(d) Management's responsibility for the financial statements;
(e) Auditor's responsibility;
(f) Auditor's opinion;
(g) Other reporting responsibilities;
(h) Auditor's signature;
(i) Date of the auditor's report; and
(j) Auditor's address. (Paragraph 17)

Title

The auditor's report should have a title that clearly indicates that it is the report of an independent auditor. (Paragraph 18)

Addressee

The auditor's report should be addressed as required by the circumstances of the engagement. (Paragraph 20)

Introductory Paragraph

The introductory paragraph in the auditor's report should identify the entity whose financial statements have been audited and should state that the financial statements have been audited. The introductory paragraph should also:

a. Identify the title of each of the financial statements that comprise the complete set of financial statements;

b. Refer to the summary of significant accounting policies and other explanatory notes; and
c. Specify the date and period covered by the financial statements. (Paragraph 22)

Management's Responsibility for the Financial Statements

The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

a. Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
b. Selecting and applying appropriate accounting policies; and
c. Making accounting estimates that are reasonable in the circumstances. (Paragraph 28)

Auditor's Responsibility

The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Paragraph 32)

The auditor's report should state that the audit was conducted in accordance with International Standards on Auditing. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. (Paragraph 34)

The auditor's report should describe an audit by stating that:

a. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
b. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
c. An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. (Paragraph 37)

The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. (Paragraph 38)

Auditor's Opinion

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (Paragraph 39)

When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used). (Paragraph 40)

When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework. (Paragraph 41)

To advise the reader of the context in which the auditor's opinion is expressed, the auditor's opinion identifies the applicable financial reporting framework on which the financial statements are based. When the applicable financial reporting framework is not IFRSs or International Public Sector Accounting Standards (IPSASs), the auditor's opinion also identifies the jurisdiction or country of origin of the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as:

- "… in accordance with International Financial Reporting Standards" or
- "… in accordance with accounting principles generally accepted in Country X …" (Paragraph 43)

When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in such terms as:

"… in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act." (Paragraph 44)

Other Reporting Responsibilities

When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's report that follows the opinion paragraph. (Paragraph 48)

Auditor's Signature

The auditor's report should be signed. (Paragraph 50)

Date of the Auditor's Report

The auditor should date the report on the financial statements no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence should include evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them. (Paragraph 52)

Auditor's Address

The report should name the location in the country or jurisdiction where the auditor practices. (Paragraph 57)

Auditor's Report

The auditor's report should be in writing. (Paragraph 58)

Auditor's Report for Audits Conducted in Accordance with Both ISAs and Auditing Standards of a Specific Jurisdiction or Country

The auditor's report should refer to the audit having been conducted in accordance with the International Standards on Auditing only when the auditor has complied fully with all of the International Standards on Auditing relevant to the audit. (Paragraph 62)

When the auditor's report refers to both International Standards on Auditing and auditing standards of a specific jurisdiction or country, the auditor's report should identify the jurisdiction or country of origin of the auditing standards. (Paragraph 64)

When the auditor prepares the auditor's report using the layout or wording specified by the law, regulation or auditing standards of the specific jurisdiction or country, the auditor's report should refer to the audit being conducted in accordance with both International Standards on Auditing and the auditing standards of the specific jurisdiction or country only if the auditor's report includes, at a minimum, each of the following elements:

a. A title;
b. An addressee, as required by the circumstances of the engagement;
c. An introductory paragraph that identifies the financial statements audited;
d. A description of management's responsibility for the preparation and fair presentation of the financial statements;
e. A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

    i. A reference to the International Standards on Auditing and the auditing standards of the specific jurisdiction or country, and
    ii. A description of the work an auditor performs in an audit.

f. An opinion paragraph containing an expression of opinion on the financial statements14 and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when International Financial Reporting Standards or International Public Sector Accounting Standards are not used);
g. The auditor's signature;
h. The date of the auditor's report; and
i. The auditor's address. (Paragraph 65)

Unaudited Supplementary Information Presented with Audited Financial Statements

The auditor should be satisfied that any supplementary information presented together with the financial statements that is not covered by the auditor's opinion is clearly differentiated from the audited financial statements. (Paragraph 67)

If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial statements, the auditor should explain in the auditor's report that that information has not been audited. (Paragraph 70)

ISA 701 MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT

(Effective for auditor's reports dated on or after December 31, 2006)

Introduction

Matters that Do Not Affect the Auditor's Opinion

- Emphasis of matter

Matters that Do Affect the Auditor's Opinion

- Qualified opinion,
- Disclaimer of opinion, or
- Adverse opinion. (Paragraph 02)

Matters that Do Not Affect the Auditor's Opinion

The auditor should modify the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem. (Paragraph 06)

The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements. (Paragraph 07)

An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor's report follows:

"Without qualifying our opinion we draw attention to Note X to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements."

(An illustration of an emphasis of matter paragraph relating to going concern is set out in ISA 570, "Going Concern.") (Paragraph 08)

Matters that Do Affect the Auditor's Opinion

A *qualified opinion* should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates. (Paragraph 12)

A *disclaimer of opinion* should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. (Paragraph 13)

An *adverse opinion* should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements. (Paragraph 14)

Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements. Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion on the financial statements and may include a reference to a more extensive discussion, if any, in a note to the financial statements. (Paragraph 15)

Circumstances that may Result in Other than an Unqualified Opinion

When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed. (Paragraph 18)

Illustrations of these matters are set out below.

Limitation on Scope—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see paragraph 60 of ISA 700 (Revised)).

Management is responsible for … (remaining words are the same as illustrated in the management's responsibility paragraph – see paragraph 60 of ISA 700 (Revised)).

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the following paragraph, we conducted our audit in accordance with ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see paragraph 60 of ISA 700 (Revised)).

We did not observe the counting of the physical inventories as of December 31, 20X1, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph – paragraph 60 of ISA
700 (Revised))."

\Limitation on Scope—Disclaimer of Opinion

"We were engaged to audit the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for … (remaining words are the same as illustrated in the management's responsibility paragraph – see paragraph 60 of ISA 700 (Revised)).

(Omit the sentence stating the responsibility of the auditor.)

(The paragraph discussing the scope of the audit would either be omitted or amended according to the circumstances.)

(Add a paragraph discussing the scope limitation as follows:

We were not able to observe all physical inventories and confirm accounts receivable due to limitations placed on the scope of our work by the Company.)

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the financial statements." (Paragraph 19)

Disagreement with Management

The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion. (Paragraph 20)

Illustrations of these matters are set out below.

Disagreement on Accounting Policies—Inappropriate Accounting Method—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see paragraph 60 of ISA 700 (Revised)).

Management is responsible for … (remaining words are the same as illustrated in the management's responsibility paragraph – see paragraph 60 of ISA 700 (Revised)).

Our responsibility is to … (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see paragraph 60 of ISA 700 (Revised)).

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting Standards. The provision for the year ended December 31, 20X1, should be xxx based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the fixed assets should be reduced by accumulated depreciation of xxx and the loss for the year and accumulated deficit should be increased by xxx and xxx, respectively.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph – see paragraph 60 of ISA 700 (Revised))."

Disagreement on Accounting Policies—Inadequate Disclosure—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see paragraph 60 of ISA 700 (Revised)).

Management is responsible for … (remaining words are the same as illustrated in the management's responsibility paragraph – see paragraph 60 of ISA 700 (Revised)).

Our responsibility is to … (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see paragraph 60 of ISA 700 (Revised)).

On January 15, 20X2, the Company issued debentures in the amount of xxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19X1. In our opinion, disclosure of this information is required by ..

In our opinion, except for the omission of the information included in the preceding paragraph, the financial statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph–see paragraph 60 of ISA 700 (Revised)).”

Disagreement on Accounting Policies—Inadequate Disclosure—Adverse Opinion

“We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see paragraph 60 of ISA 700 (Revised)).

Management is responsible for … (remaining words are the same as illustrated in the management’s responsibility paragraph – see paragraph 60 of ISA 700 (Revised)).

Our responsibility is to … (remaining words are the same as illustrated in the auditor’s responsibility paragraphs – see paragraph 60 of ISA 700 (Revised)).

(Paragraph(s) discussing the disagreement.)

In our opinion, because of the effects of the matters discussed in the preceding paragraph(s), the financial statements do not give a true and fair view of (or ‘do not present fairly, in all material respects,’) the financial position of ABC Company as of December 20, 19X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.”

ISA 710 – Comparatives

Introduction

The auditor should determine whether the comparatives comply in all material respects with the financial reporting framework applicable to the financial statements being audited. (Paragraph 02)

Corresponding figures

The auditor’s responsibility

The auditor should obtain sufficient appropriate audit evidence that the corresponding figures meet the requirements of the applicable financial reporting framework. (Paragraph 06)

Reporting

When the comparatives are presented as corresponding figures, the auditor should issue an auditor's report in which the comparatives are not specifically identified because the audit opinion is on the current period financial statements as a whole, including the corresponding figures. (Paragraph 10)

When the auditor's report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is:

- Unresolved, and results in a modification of the auditor's report regarding the current period figures, the auditor's report should also be modified regarding the corresponding figures; or
- Unresolved, but does not result in a modification of the auditor's report regarding the current period figures, the auditor's report should be modified regarding the corresponding figures. (Paragraph 12)

In such circumstances, the auditor should consider the guidance in ISA 560, "Subsequent Events" and:

- If the prior period financial statements have been revised and reissued with a new auditor's report, the auditor should obtain sufficient appropriate audit evidence that the corresponding figures agree with the revised financial statements; or
- If the prior period financial statements have not been revised and reissued, and the corresponding figures have not been properly restated and/or appropriate disclosures have not been made, the auditor should issue a modified report on the current period financial statements, modified with respect to the corresponding figures included therein. (Paragraph 15)

Incoming auditor

Prior period financial statements audited by another auditor

When the auditor decides to refer to another auditor, the incoming auditor's report should indicate:

- That the financial statements of the prior period were audited by another auditor;
- The type of report issued by the predecessor auditor and, if the report was modified, the reasons therefore; and
- The date of that report. (Paragraph 17)

Prior period financial statements not audited

When the prior period financial statements are not audited, the incoming auditor should state in the auditor's report that the corresponding figures are unaudited. (Paragraph 18)

In situations where the incoming auditor identifies that the corresponding figures are materially misstated, the auditor should request management to revise the corresponding figures or if management refuses to do so, appropriately modify the report. (Paragraph 19)

Comparative financial statements

Auditor's responsibility

The auditor should obtain sufficient appropriate audit evidence that the comparative financial statements meet the requirements of the applicable financial reporting framework. (Paragraph 20)

Reporting

When the comparatives are presented as comparative financial statements, the auditor should issue a report in which the comparatives are specifically identified because the audit opinion is expressed individually on the financial statements of each period presented. (Paragraph 24)

When reporting on the prior period financial statements in connection with the current year's audit, if the opinion on such prior period financial statements is different from the opinion previously expressed, the auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph. (Paragraph 25)

Incoming auditor – additional requirements

Prior period financial statements audited by another auditor

When the financial statements of the prior period were audited by another auditor:

(a) The predecessor auditor may reissue the auditor's report on the prior period with the incoming auditor only reporting on the current period; or
(b) The incoming auditor's report should state that the prior period was audited by another auditor & the incoming auditor's report should indicate:

    (i) That the financial statements of the prior period were audited by another auditor;
    (ii) The type of report issued by the predecessor auditor & if the report was modified, the reasons therefore ; and

(c) The date of that report (Paragraph 26)

In these circumstances, the incoming auditor should discuss the matter with management &, after having obtained management's authorization, contact the predecessor auditor & purpose that the prior period financial statements be restated. If the predecessor agrees to reissue the auditor's report on the restated financial statements of the prior period, the auditor's report on the restated financial statements of the prior period, the auditor should follow the guidance in paragraph 26. (Paragraph 28)

Prior period financial statements not audited

When the prior period financial statements are not audited, the incoming auditor should state in the auditor's report that the comparative financial statements are unaudited. (Paragraph 30)

In situations where the incoming auditor identifies that the prior year unaudited figures are materially misstated, the auditor should request management to revise the prior year's figures or if management refuses to do so, appropriately modify the report. (Paragraph 31)

ISA 720 — Other Information in Documents Containing Audited Financial Statements

Introduction

The auditor should read the other information to identify material inconsistencies with the audited financial statements. (Paragraph 02)

Material inconsistencies

If, on reading the other information, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be amended. (Paragraph 11)

Reporting Considerations

If an amendment is necessary in the audited financial statements and the entity refuses to make the amendment, the auditor should express a qualified or adverse opinion. (Paragraph 12)

If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency or taking other actions. (Paragraph 13)

Material misstatement of facts

If the auditor becomes aware that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management. (Paragraph 16)

When the auditor still considers that there is an apparent misstatement of fact, the auditor should request management to consult with a qualified third party, such as the entity's legal counsel and should consider the advice received. (Paragraph 17)

If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor should consider taking further appropriate action. (Paragraph 18)

Availability of other information after the date of auditor's report

When revision of the other information is necessary but management refuses to make the revision, the auditor should consider taking further appropriate action. (Paragraph 23)

ISA 800 – The Auditor's Report on Special Purpose Audit Engagements

(This Standard is effective. Appendix 5 contains conforming amendments to the Standard will become effective at a future date)

Introduction

The auditor should review & assess the conclusions drawn from the audit evidence obtained during the special purpose audit engagement as the basis for an expression of opinion. The report should contain a clear written expression of opinion. (Paragraph 02)

General Considerations

The nature, timing and extent of work to be performed in a special purpose audit engagement will vary with the circumstances. Before undertaking a special purpose audit engagement, the auditor should ensure there is agreement with the client as to the exact nature of the engagement and the form and content of the report to be issued. (Paragraph 03)

The auditor's report on a special purpose audit engagement, except for a report on summarized financial statements, should include the following basic elements, ordinarily in the following layout:

(a) Title;
(b) Addressee;
(c) Opening or introductory paragraph

    (i) Identification of the financial information audited; &
    (ii) A statement of the responsibility of the entity's management & the responsibility of the auditor;

(d) A scope paragraph (describing the nature of an audit)

    (i) The reference to the ISAs applicable to special purpose audit engagements or relevant national standards or practices;&
    (ii) A description of the work the auditor performed;

(e) Opinion paragraph containing an expression of opinion on the financial information;
(f) Date of the report;
(g) Auditor's address: &
(h) Auditor's signature. (Paragraph 05)

When requested to report in a prescribed format, the auditor should consider the substance & wording of the prescribed report &, when necessary, should make appropriate changes to conform to the requirements of this ISA, either by rewording the form or by attaching a separate report. (Paragraph 06)

The auditor should consider whether any significant interpretations of an agreement on which the financial information is based are clearly disclosed in the financial information. (Paragraph 08)

Reports on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than International Accounting Standards or National Standards

The auditor's report on financial statements prepared in accordance with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note to the financial statements giving that information. The opinion should state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting. (Paragraph 10)

If the financial statements prepared on an other comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report. (Paragraph 11)

Reports on a Component of Financial Statements

The auditor should consider the concept of materiality in relation to the component of financial statements being reported upon. (Paragraph 14)

The auditor's report on a component of financial statements should include a statement that indicates the basis of accounting in accordance with which the component is presented or refers to an agreement that specifies the basis. The opinion should state whether the component is prepared, in all material respects, in accordance with the identified basis of accounting. (Paragraph 16)

When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor should report on components of the financial statements only if those components are not so extensive as to constitute a major portion of the financial statements. (Paragraph 17)

Reports on Compliance with Contractual Agreements

Engagements to express an opinion as to an entity's compliance with contractual agreements should be undertaken only when the overall aspects of compliance relate to accounting & financial matters within the scope of the auditor's professional competence. (Paragraph 19)

The report should state whether, in the auditor's opinion, the entity has complied with the particular provisions of the agreement. (Paragraph 20)

Reports on summarized financial statements

An entity may prepare financial statements summarizing its annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial position & the result of its operations. Unless the auditor has expressed an audit opinion on the financial statements from which the summarized financial statements were derived, the auditor should not report on summarized financial statements were derived, the auditor should not report on summarized financial statements (Paragraph 21)

The auditor's report on summarized financial statements should include the following basic elements ordinarily in the following layout:

a. Title;
b. Addressee;
c. An identification of the audited financial statements from which the summarized financial statements were derived;
d. A reference to the date of the auditor report on the unabridged financial statements & the type of opinion given in that report;
e. An opinion as to whether the information in the summarized financial statements is consistent

with the audited financial statements in consistent with the audited financial statements from which it is derived. When the auditor has issued a modified auditor opinion on the unabridged financial statements yet is satisfied with the presentation of the summarized financial statements, the auditor's report should state that, although consistent with the unabridged financial statements, the summarized financial statements were derived from financial statements were derived from financial statements on which a modified auditor's report was issued;

f. A statement, or reference to the note within the summarized financial statements, which indicates that for a better understanding of an entity's financial performance & position & of the scope of the audit performed, the summarized financial statements should be read in conjunction with the unabridged financial statements & the auditor's report thereon;
g. Date of the report;
h. Auditor's address ;&
i. Auditor's signature. (Paragraph 25)