

CLARITY ISAs

210 – AGREEING THE TERMS OF AUDIT ENGAGEMENT

260 – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

505 – EXTERNAL CONFIRMATIONS

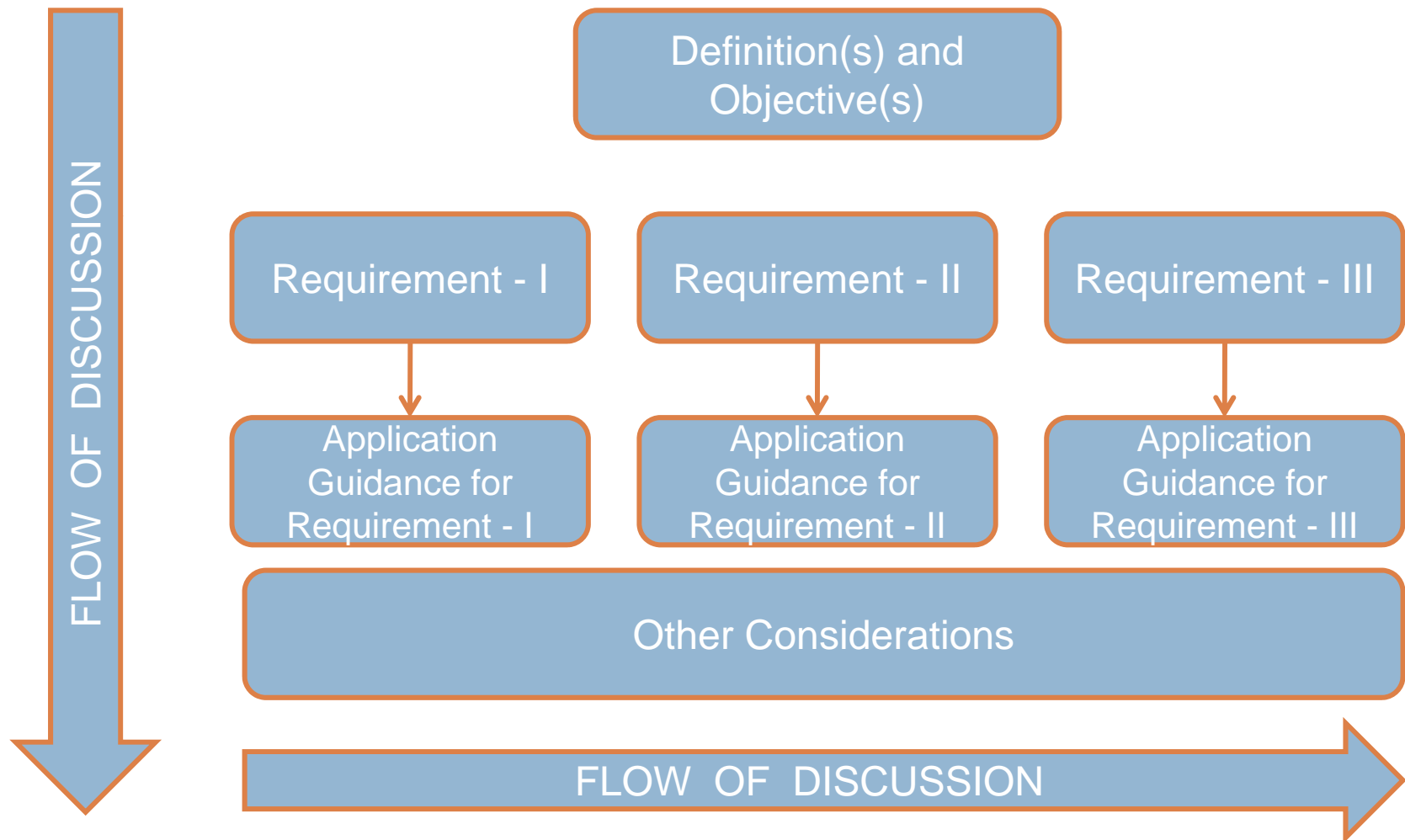
620 – USING THE WORK OF AN AUDITOR'S EXPERT

Structure of the ISAs



- Auditor's Objective(s) covered by the ISA
- Definition(s)
- Requirements (Commandments)
- Application and Other Explanatory Material

Structure of the Presentation



ISA 210

AGREEING THE TERMS OF AUDIT ENGAGEMENT

AUDITOR'S OBJECTIVE

Accept or Continue the Engagement **ONLY**
WHEN the **PERFORMANCE BASIS** have been
AGREED

Establishing **PRE-
CONDITIONS** for an
audit are present

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Confirming common
understanding between
auditor and management
/ those charged with
governance

ESTABLISHING PRE-CONDITIONS ARE PRESENT

Whether the financial reporting framework to be applied in the preparation of the financial statements is **acceptable**

Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements.

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This premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement

Agreement of Management that it acknowledges and understands its responsibility

ACCEPTABILITY OF FRF



Relevant factors for determination of
'Acceptability'

- The nature of the entity
- The purpose of the financial statements
- The nature of the financial statements
- Whether law or regulation prescribes the applicable financial reporting framework

ACCEPTABILITY OF FRF

CONT'D

PRESUMED ACCEPTABILITY

Where law or regulation prescribe the FRF to be used in the preparation of **general purpose financial statements** for certain types of entities, **in the absence of indications to the contrary**, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities.

ACCEPTABILITY OF FRF

CONT'D

FRF SUPPLEMENTED BY LAW OR REGULATION

If conflicts exists, agree with the management whether:

- additional requirements can be met through additional disclosures OR
- description of the applicable FRF can be amended accordingly

AGREEMENT OF MANAGEMENT OF ITS RESPONSIBILITY

- I. For the preparation of the FS in accordance with the applicable FRF
- II. For internal control as management determines necessary for preparation of FS free from material misstatement, whether due to fraud or error
- III. To provide the auditor with:
 - I. Access to all information of which management is aware that is relevant
 - II. Additional information that the auditor may request
 - III. Unrestricted access to persons within the entity

WHEN NOT TO ACCEPT AN ENGAGEMENT

- I. If preconditions for an audit are not present
 - I. FRF is unacceptable
 - II. Agreement of management of its responsibility has not been obtained, including management not agreeing to provided written representations
- II. If a restriction is placed on scope of the audit that audit believes to result in the auditor disclaiming the opinion

UNLESS REQUIRED BY
LAW

AGREEMENT OF TERMS

Who to agree the terms with.....

Management

OR

Those charged with
governance

The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation

AGREEMENT OF TERMS

Written agreement describing as a minimum.....

- I. The objective and scope of the audit of the financial statements
- II. The responsibilities of the auditor
- III. The responsibilities of management, including expectation to provided written representations
- IV. Identification of the applicable FRF for the preparation of the financial statements
- V. Reference to the expected form and content of any reports to be issued and a statement that there may be circumstances in which a report may differ from its expected form and content

AGREEMENT OF TERMS

Terms of engagement prescribed by law or regulation

Engagement letter gets shortened to the agreement of the fact that such law or regulation applies and that management acknowledges and understands its responsibilities

PROVIDED law or regulation prescribes in **sufficient detail**
the terms of the audit engagement

RECURRING AUDITS



No need of agreeing the terms again, unless necessitated considering:

- Any indication that the entity misunderstands the objective and scope of the audit
- Any revised or special terms of the audit engagement
- A recent change of senior management, legal or regulatory requirements
- A significant change in ownership, nature or size of the entity's business
- A change in FRF or reporting requirements

ISA 260

COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE

ROLE OF COMMUNICATION

Effective Two-Way communication assists

AUDITOR:

in obtaining from those charged with governance information relevant to the audit

BOTH:

in understanding matters related to the audit in context, and in developing a constructive working relationship

TCWG:

in fulfilling their responsibility to oversee the financial reporting process and hence reducing risk of material mis-statement

Although ISA 260 focuses primarily on communications from the auditor to those charged with governance

AUDITOR'S OBJECTIVES



- I. To communicate clearly with TCWG auditor's responsibilities in relation to the financial statement audit, and an overview of the planned scope and timing of the audit
- II. To obtain from TCWG information relevant to the audit
- III. To provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process
- IV. To promote effective two-way communication between the auditor and TCWG

DEFINITIONS

THOSE CHARGED WITH GOVERNANCE

The person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

Varying governance structure exist

- Two-tier board structure
- Executive boards
- Uni-tier board structure
- Audit committees

Auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate

COMMUNICATING TO SUB-GROUP

If auditor communicates with a subgroup (e.g. audit committee), determine whether the auditor also needs to communicate with the full governing body, considering:

- responsibilities of subgroup and the full governing body
- nature of the matter to be communicated
- relevant legal or regulatory requirements
- Whether the subgroup has the authority to take action in relation to the information communicated
- how effectively and appropriately the subgroup communicates relevant information with the governing body

Communication may be in full or summary form

ALL EXECUTIVE GOVERNING BODY



Auditor need not re-communicate the matters discussed with the management with TCWG

HOWEVER: The auditor shall nonetheless needs to be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity

MINIMUM COMMUNICATIONS



I- AUDITOR'S RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS AUDIT

This to include:

- i. auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance
- ii. audit of the financial statements does not relieve management or those charged with governance of their responsibilities

MINIMUM COMMUNICATIONS

CONT'D

II- PLANNED SCOPE AND TIMING OF THE AUDIT

III- SIGNIFICANT FINDINGS FROM THE AUDIT

- i. auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- ii. Significant difficulties, if any, encountered during the audit
- iii. **Significant matters, if any, arising from the audit**
- iv. Written representations the auditor is requesting
- v. Other matters, if any, arising from the audit that are significant to the oversight of the financial reporting process

MINIMUM COMMUNICATIONS

CONT'D

IV- AUDITOR INDEPENDENCE (LISTED ENTITIES ONLY)

- i. **A statement that engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence [self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats] including an inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed**
- ii. **All relationships that may reasonably be thought to bear on independence including total fees charged during the period covered by the financial statements and the related safeguards that have been applied [created by the profession, legislation or regulation, safeguards within the entity and safe-guards within**

MINIMUM COMMUNICATIONS

CONT'D

V- ISA 240 - THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

- i. Inquire of TCWG of their knowledge of any fraud or suspected fraud in relation to FS
- ii. Communicate withdrawal and reasons where auditor withdraws due to exceptional circumstances as a result of misstatement from fraud or suspected fraud
- iii. Communicate any identified or suspected fraud involving management, or others (where it results in material misstatement)
- iv. Other matters of fraud relevant to responsibilities of TCWG

MINIMUM COMMUNICATIONS

CONT'D

VI- ISA 250 - CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

- i. Inquire of TCWG, *where appropriate*, of whether the entity is compliance with the laws and regulations *expected to have material impact* in relation to FS
- ii. If the auditor suspects there is non-compliance, discuss with TCWG, *where appropriate*
- iii. Communicate any *other than inconsequential* non-compliances
- iv. Communicate any intentional non-compliances

VII- ISA 265 - COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

All significant control deficiencies

MINIMUM COMMUNICATIONS

CONT'D

VIII- ISA 450 - EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

- i. Separately identifying, material uncorrected misstatements, communicate the effect that they may have on the opinion in the auditor's report, with a request for these misstatements to be corrected
- ii. The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole

IX- ISA 505 – EXTERNAL CONFIRMATIONS

- i. If management's refusal to allow for external confirmation is unreasonable, communicate with TCWG

MINIMUM COMMUNICATIONS

CONT'D

X- ISA 550 – RELATED PARTIES

- i. Significant matters arising during the audit in connection with the entity's related parties

XI- ISA 560 – SUBSEQUENT EVENTS

- i. Inquire TCWG of matters discussed in their meeting for which minutes are not available
- ii. A fact has surfaced after the report date that, if earlier surfaced, would have resulted in auditor amending the report, discuss with TCWG

MINIMUM COMMUNICATIONS

CONT'D

XII- ISA 570 – GOING CONCERN

- i. Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern

XIII- ISA 705 – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

- i. Management places a scope limitation and the auditor expects to issue qualified opinion or to disclaim the opinion
- ii. When the auditor is unable to obtain sufficient appropriate audit evidence and decides resigning
- iii. Material misstatement due to non disclosure of an information required to be disclosed
- iv. Where the auditor expects to modify the opinion

MINIMUM COMMUNICATIONS

CONT'D

- XIV- ISA 706 – EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT
 - i. If the auditor expects to include and emphasis or other paragraph in the report

- XV- ISA 720 – THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS
 - i. If revision of 'other information' is necessary and management refuses

ISA 505

EXTERNAL CONFIRMATIONS

AUDITOR'S OBJECTIVE



- I. To design and perform such procedures to obtain relevant and reliable audit evidence

DEFINITIONS



External confirmations

Audit evidence obtained as a **direct written response** to the auditor from a third party, in paper form, or by electronic or other medium

Positive confirmation request request Non-response

Negative confirmation

A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered
Exception

A response that indicates a difference between information requested or contained in the entity's records, and information provided by the confirming party

TYPE OF INFORMATION SUBJECTED

AUDITOR TO MAINTAIN CONTROL OVER INFORMATION TO BE CONFIRMED OR REQUESTED

- Definitely relevant when addressing assertion associated with account balances and their elements
 - NEED NOT BE RESTRICTED TO THESE ITEMS
- May be used to confirm existence of:
 - terms of agreements
 - contracts or transactions
- Or used to confirm non-existence of say 'side agreements'

DESIGN AND EXECUTION



AUDITOR TO MAINTAIN CONTROL OVER:

- I. Selecting the appropriate confirming party
- II. Designing the confirmation requests
 - Assertions and risks
 - Layout and presentation
 - Method of communication
 - Management authorisation
- III. Sending the requests, including follow-up requests
 - Testing the validity of some or all of the addresses on confirmation requests

NEGATIVE CONFIRMATION

NEGATIVE CONFIRMATION CAN NOT BE USED AS THE SOLE SUBSTANTIVE AUDIT PROCEDURE UNLESS

- RoMM has been assessed as LOW AND evidence regarding operating effectiveness of related controls obtained
- Population comprises a large number of small, homogeneous items
- very low exception rate is expected
- auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests

MANAGEMENT REQUESTS NOT TO CONFIRM

I. Inquire management of reasons for refusal

Validate the reasonableness of refusal

II. Consider modifying the original risk assessment

Refusal may result in enhancement of RoMM. May also indicate a Fraud Risk factor

III. Perform alternative procedures

IV. Communicate with TCWG

V. Consider affects on opinion

ASSESSING RELIABILITY OF RESPONSE

Doubts about reliability of a response must be resolved

Confirmation:

- Not received directly
- Appears not to come from the originally intended confirming party
- Appears to be tampered with, specifically the electronic ones

If doubts about reliability can not be resolved

May result in enhancement of RoMM. May also indicate a Fraud Risk factor

ASSESSING EXCEPTIONS

Exceptions to be investigated to determine whether they are indicative of misstatement

Misstatement may indicate:

- Quality of response from similar sources
- Deficiency in internal control

Where ANY of above exists

May result in enhancement of RoMM. May also indicate a Fraud Risk factor

ISA 620

USING THE WORK OF AN AUDITOR'S EXPERT

AUDITOR'S OBJECTIVES



- I. To determine whether to use the work of an auditor's expert

- II. If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes

DEFINITIONS

Auditor's expert

An individual or organisation possessing **expertise** in a **field other than accounting or auditing** whose work in that field is used by the auditor

Examples of 'other than auditing or accounting'

- Valuation of complex financial instruments
- Valuation of land and building, plant and machinery, etc.
- Valuation of intangibles
- Impairment analysis
- Actuarial calculations of employee benefit plans
- Estimation of oil, gas and mineral reserves
- Valuing environmental liabilities
- Interpretation of laws, regulations, contracts

DEFINITIONS

Types of Auditor's expert

Auditor's internal expert

Partners or staff (including temporary staff) possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist in obtaining sufficient appropriate audit evidence.

Auditor's external expert

An individual or organisation external to Auditor's firm, with expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist in obtaining sufficient appropriate audit evidence.

DEFINITIONS

Management's expert

An individual or organisation possessing expertise in a **field other than accounting or auditing**, whose work in that field is used by the entity to assist the entity in preparing the financial statements

Examples of 'other than auditing or accounting'

- Valuation of complex financial instruments
- Valuation of land and building, plant and machinery, etc.
- Valuation of intangibles
- Impairment analysis
- Actuarial calculations of employee benefit plans
- Estimation of oil, gas and mineral reserves
- Valuing environmental liabilities
- Interpretation of laws, regulations, contracts

STAGES OF INVOLVEMENT

Almost all stages.....

- Obtaining an understanding of the entity and its environment, including its internal control
- Identifying and assessing the risks of material misstatement
- Determining and implementing overall responses to assessed risks at the financial statement level
- Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements

RoMM generally increases when expertise in a field other than accounting is needed for management to prepare the financial statements

CONSIDERATION IN DECIDING WHETHER TO USE AN AUDITOR'S

EXPERT

Auditor is required to be satisfied that the engagement team, and any auditor's experts have the appropriate competence and capabilities to perform the audit engagement

- Whether management has used a management's expert in preparing the financial statements
- Nature and significance of the matter, including its complexity
- Risks of material misstatement in the matter
- expected nature of procedures
- to respond to identified risks
- the auditor's knowledge of and experience with the work of experts in relation to such matters
- availability of alternative sources of audit evidence

CONSIDERATION IN DECIDING WHETHER TO USE AN AUDITOR'S

EXPERT

WHEN MANAGEMENT'S EXPERT HAS BEEN USED, DECISION TO USE AUDITOR'S EXPERT MAY BE INFLUENCED BY.....

- The nature, scope and objectives of the management's expert's work
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services
- The extent to which management can exercise control or influence over the work of the management's expert
- The management's expert's competence and capabilities
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work

WHEN AUDITOR'S EXTERNAL EXPERT IS TO BE USED

I - Evaluate competence and capabilities

- Personal experience with previous work
- Discussions with the expert
- Discussions with others who are familiar with that expert's work
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition
- Published papers or books written by that expert
- Ethical standards and other membership requirements of a professional body or industry association
- Accreditation standards of a licensing body
- Requirements imposed by law or regulation

WHEN AUDITOR'S EXTERNAL EXPERT IS TO BE USED

II - Evaluate objectivity

- self-interest threats
- advocacy threats
- familiarity threats
- self-review threats
- intimidation threats
- Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity
- Discuss with that expert any applicable safeguards
- Inquire about:
 - Financial interest
 - Business and personal relationships
 - Provision of other services etc.

AUDITOR'S EXPERT DECIDED

Agreement with auditor's expert AT LEAST on the following matters
(may be in writing when considered appropriate)

- I. Nature, scope and objectives of that expert's work
 - Expected standards to be used
 - Working methodology, if relevant

- II. Roles and responsibilities of the auditor and that expert
 - Whether the auditor or the auditor's expert will perform detailed testing of source data
 - Consent for the auditor to discuss the auditor's expert's findings or conclusions with the entity
 - Any agreement to inform the auditor's expert of the auditor's conclusions concerning that expert's work
 - Access to working papers

AUDITOR'S EXPERT DECIDED

Agreement with auditor's expert AT LEAST on the following matters
(may be in writing when considered appropriate) Con't.....

III. Reporting requirements

- Form of expert's report
- Timing of the report
- Should there be progressive reports or one conclusive report, etc

IV. Confidentiality requirements

- At least same requirement as on the Auditor itself
- Further requirements imposed by law or regulation
- Further requirements imposed by the client

EVALUATING ADEQUACY OF WORK

I. Evaluating findings and conclusions

ADEQUACY

- Inquiring of expert
- Reviewing expert's working papers and reports
- Consistency check with other corroborative evidences
- Discussing with other expert, if needed
- Discussing with management

RELEVANCE

- Presented in a manner consistent with any standards of profession or industry
- Clearly expressed referring to the objectives agreed
- Based on an appropriate period taking account of subsequent events
- Subject to any reservation, limitation or restriction on

EVALUATING ADEQUACY OF WORK

II. Evaluating assumptions and methods

- Generally accepted within the auditor's expert's field
- Consistent with the requirements of the applicable financial reporting framework
- Consistent with those of management, and if not, the reason for, and effects of, the differences

III. Evaluating source data used by expert

- Verifying the origin of the data
- Obtaining an understanding of, and where applicable testing, the internal controls over the data and, where relevant, its transmission to the expert
- Reviewing the data for completeness and internal consistency

REFERENCING TO THE AUDITOR'S EXPERT IN THE AUDITOR'S REPORT

RESPONSIBILITY OF THE OPINION COMPLETELY
RESTS WITH THE AUDITOR

UNMODIFIED OPINION

No reference, unless
required by law or
regulation

MODIFIED OPINION

Only if such reference is
relevant to an
understanding of a
modification

IN BOTH CASES, INDICATE IN THE AUDITOR'S
REPORT THAT SUCH REFERENCE DOES NOT
REDUCE THE AUDITOR'S RESPONSIBILITY FOR
THAT OPINION

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THANK YOU

Mohammad Zulfikar Akhtar