SA 200

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

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Auditor's Opinion

- Audit done to enhance the degree of confidence of intended users in the financial statements
- Opinion whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework
- An audit conducted in accordance with SAs enables the auditor to form that opinion

Auditor’s Opinion

- To obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- High level of assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk
- Audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive

Auditor’s Opinion

- The concept of materiality is applied by the auditor both in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements on the Financial Statements

Overall Objectives of the Auditor

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- Whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework
- To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings

Scope of Audit

- The auditor’s opinion does not assure, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity
- In some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters

Management Responsibilities

- To prepare the Financial Statements in accordance with the selected Financial Framework.
- To provide the auditor with:
  - All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
  - Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
  - Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Management Responsibilities

➢ Under the Companies Act 2013, the Board of Directors are also specifically responsible for :

- Preparing the annual accounts, application of Accounting Standards therein and explaining the material departures therefrom;
- Selection of such accounting policies and their consistent application and making judgments and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- Taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and preventing and detecting frauds and other irregularities;
- Preparing annual accounts on going concern basis;
- Devising proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Financial Reporting Framework

- The financial statements may be prepared in accordance with a financial reporting framework designed to meet:

 The common financial information needs of a wide range of users (i.e. “general purpose financial statements”); or

 The financial information needs of specific users (i.e. “special purpose financial statements”)

- Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks.
- The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements.

Financial Reporting Framework

- SA 210 establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.
- SA 800 deals with special considerations when financial statements are prepared in accordance with a special purpose framework
- The auditor is required to obtain agreement from management that they acknowledge and understand their responsibilities as a precondition for accepting the audit engagement.
- The auditor is also required to obtain written representations about whether management has fulfilled those responsibilities

Form of the Auditor's Opinion and Ethical Requirements

- Most financial reporting frameworks include requirements relating to the presentation of the financial statements
- The Code of Ethics establishes the following as the fundamental principles of professional ethics relevant to the auditor and provides a conceptual framework for applying those principles;

  (a) Integrity;
  (b) Objectivity;
  (c) Professional competence and due care;
  (d) Confidentiality; and
  (e) Professional behavior.

Form of the Auditor's Opinion and Ethical Requirements

- Standard on Quality Control (SQC) 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.
- SA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements.

Professional Skepticism

- An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- Professional skepticism includes being alert to, for example:
  - Audit evidence that contradicts other audit evidence obtained.
  - Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
  - Conditions that may indicate possible fraud.
  - Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

Professional Skepticism

- Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:
  - Overlooking unusual circumstances.
  - Over generalising when drawing conclusions from audit observations.
  - Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

Reliability of Information

- The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.
- The auditor is required to consider the reliability of information to be used as audit evidence. In cases of doubt about the reliability of information or indications of possible fraud the SAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.
- A belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less-than persuasive audit evidence when obtaining reasonable assurance.

Professional Judgment

Professional judgment is necessary in particular regarding decisions about :

- Materiality and audit risk.
- The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit evidence.
- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor.
- The evaluation of management’s judgments in applying the entity’s applicable financial reporting framework.
- The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

Professional Judgment

- Audit Documentation
  - The auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit.

Sufficient Appropriate Audit Evidence

- Audit evidence is necessary to support the auditor’s opinion and report.
  - primarily obtained from audit procedures performed
  - include information obtained from other sources such as previous audits
  - other sources inside and outside the entity
  - entity’s accounting records
  - evidence prepared by an expert
  - absence of information is also an evidence

Sufficient Appropriate Audit Evidence

- Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.
- The sufficiency and appropriateness of audit evidence are interrelated
- Sufficiency is the measure of the quantity of audit evidence (higher the quality less may be required)
- Obtaining more audit evidence, however, may not compensate for its poor quality

Sufficient Appropriate Audit Evidence

- Appropriateness is the measure of the quality of audit evidence
- its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
- The reliability of evidence is influenced by its source and by its nature
- Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level is a matter of professional judgment

Audit Risk

- ➢ Audit risk is a function of the risks of material misstatement and detection risk
- The risks of material misstatement may exist at two levels:
  - □ The overall financial statement level; and
  - □ The assertion level for classes of transactions, account balances, and disclosures.
- ➢ Risks of material misstatement at the overall financial statement level is the risk of material mis-statement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- ➢ The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk

Audit Risk

- Internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of internal control
- The SAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed
- Detection risk relates to the nature, timing, and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level

Audit Risk

- Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor

- Matters such as:
  - adequate planning;
  - proper assignment of personnel to the engagement team;
  - the application of professional skepticism; and
  - supervision and review of the audit work performed,

  assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results

Audit Risk

- SA 300 and SA 330 establish requirements and provide guidance on planning an audit of financial statements and the auditor’s responses to assessed risks.
- Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist

Inherent Limitations of an Audit

- Many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made
- some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures

Inherent Limitations of an Audit

- The SAs require the auditor to –
  - Give specific consideration to whether accounting estimates are reasonable
  - To the qualitative aspects of the entity’s accounting practices
  - Indicators of possible bias in management’s judgments.

Inherent Limitations of an Audit

- The Nature of Audit Procedures -

  There are practical and legal limitations on the auditor's ability to obtain audit evidence

  - There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant
  - Fraud may involve sophisticated and carefully organised schemes designed to conceal. Audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement
  - An audit is not an official investigation into alleged wrong doing

Timeliness of Financial Reporting and the Balance between Benefit and Cost

- The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive

- A balance to be struck between the reliability of information and its cost

Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected.

However,the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence

SA 210

Agreeing the Terms of Audit Engagements

Objective

- The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

(a) Establishing whether the preconditions for an audit are present; and

(b) Confirming that there is a common understanding between the auditor and management of the terms of the audit engagement.

Preconditions for an Audit

- In order to establish whether the preconditions for an audit are present, the auditor shall:

(a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

> (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
>
> (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

Preconditions for an Audit

- In order to establish whether the preconditions for an audit are present, the auditor shall:

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

(iii) To provide the auditor with:

a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. Additional information that the auditor may request from management for the purpose of the audit; and

c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Additional Information

- Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with SA 720(Revised)

Agreement of the Responsibilities of Management

- SA 580 requires the auditor to request management to provide written representations that it has fulfilled certain of its responsibilities
- Where management will not acknowledge its responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence

Limitation on Scope Prior to Audit Engagement Acceptance

- If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Recurring Audits

- On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.
- The auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms.
  - Any indication that the entity misunderstands the objective and scope of the audit.
  - Any revised or special terms of the audit engagement.

Recurring Audits..Contd..

- The auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms.

  - A recent change of senior management.
  - A significant f existing terms:
  - change in ownership.
  - A significant change in nature or size of the entity’s business.
  - A change in legal or regulatory requirements.
  - A change in the financial reporting framework adopted in the preparation of the financial statements.
  - A change in other reporting requirements.

Request to Change the Terms of the Audit Engagement

- A request from the entity for the auditor to change the terms of the audit engagement may result from –
  - A change in circumstances affecting the need for the service
  - A misunderstanding as to the nature of an audit as originally requested or
  - A restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances.

Request to Change the Terms of the Audit Engagement

- In contrast, a change may not be considered reasonable if it appears that –
  - The change relates to information that is incorrect, incomplete or otherwise unsatisfactory.
  - i.e. where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.

Acceptance of a Change in the Terms of the Audit Engagement

- The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.
- If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.
- If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

Acceptance of a Change in the Terms of the Audit Engagement

- If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:

  (a) Withdraw from the audit engagement where possible under applicable law or regulation; and

  (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Auditor’s Report Prescribed by Law or Regulation

- In some cases, the law or regulation applicable to the entity prescribes the layout or wording of the auditor’s report in a form or in terms that are significantly different from the requirements of SAs. In these circumstances, the auditor shall evaluate:

  (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,

  (b) Whether additional explanation in the auditor’s report can mitigate possible misunderstanding.

Auditor's Report Prescribed by Law or Regulation

- If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with SAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SAs

Auditor’s Report Prescribed by Law or Regulation

- When law or regulation prescribes the layout or wording of the auditor’s report in a form or in terms that are significantly different from the requirements of SAs and the auditor concludes that additional explanation in the auditor’s report cannot mitigate possible misunderstanding, the auditor may consider including a statement in the auditor’s report that the audit is not conducted in accordance with SAs.

Agreement on Audit Engagement Terms

- The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

  (a) The objective and scope of the audit of the financial statements;
  (b) The responsibilities of the auditor;
  (c) The responsibilities of management;
  (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
  (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

Agreement on Audit Engagement Terms

- If law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

Form and Content of the Audit Engagement Letter

➢ The form and content of the audit engagement letter may vary for each entity. An audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, SAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- The requirement for the auditor to communicate key audit matters in the auditor’s report in accordance with SA 701.

Form and Content of the Audit Engagement Letter

- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the audit team.
- The expectation that management will provide written representations.

Form and Content of the Audit Engagement Letter

- The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time, to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.

Form and Content of the Audit Engagement Letter

- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.
- The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949.

Form and Content of the Audit Engagement Letter

- When relevant, the following points could also be made in the audit engagement letter:
  - Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
  - Arrangements concerning the involvement of internal auditors and other staff of the entity.
  - Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.

Form and Content of the Audit Engagement Letter

- When relevant, the following points could also be made in the audit engagement letter:
  - Any restriction of the auditor's liability when such possibility exists.
  - A reference to any further agreements between the auditor and the entity.
  - Any obligations to provide audit working papers to other parties.

Audits of Components

- When the auditor of a parent entity is also the auditor of a component, the factors that may influence the decision whether to send a separate audit engagement letter to the component include the following:
  - Who appoints the component auditor;
  - Whether a separate auditor's report is to be issued on the component;
  - Legal requirements in relation to audit appointments;
  - Degree of ownership by parent; and
  - Degree of independence of the component management from the parent entity.

Thank you