

**Western India Regional Council of The Institute of
Chartered Accountants of India**

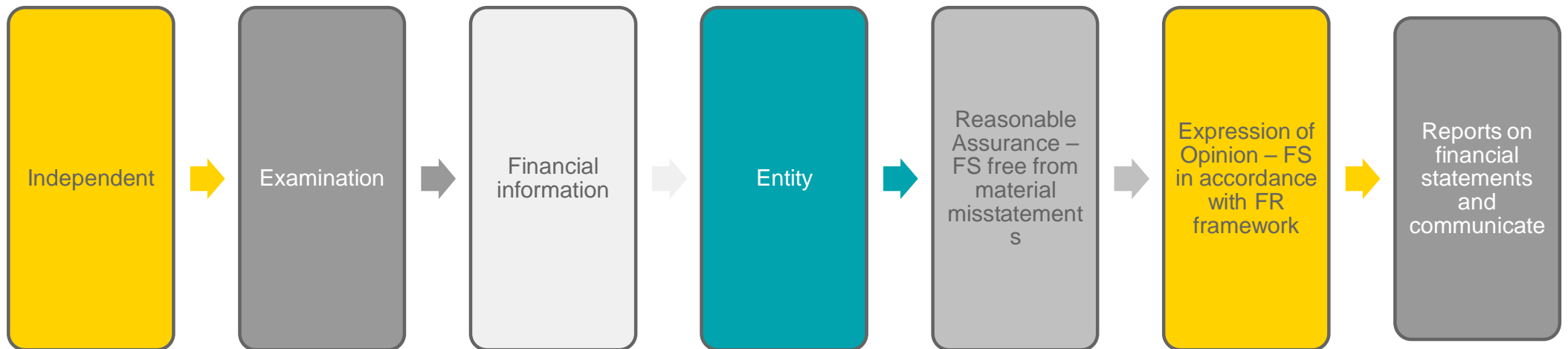
**“Refresher Course on Standards on Auditing”
August 2nd, 2021**

**Risk Assessment and Response to Assessed Risks
(SA 300-499)**

An aerial, top-down view of a modern office space. The office features a long, white, L-shaped desk. Several people are seated at the desks, working on laptops. The office has a clean, minimalist aesthetic with white walls and a light-colored floor. A person is also seen walking in the background, slightly blurred.

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Associate Partner – SRBC & CO LLP**

Overall Objective of Audit



Assurance Level- Standards

General Principals and Responsibilities

- 8 standards- SA 200, SA 210, SA 220, SA 230, SA 240, SA 250, SA 260, SA 265 , SA 299

Risk assessment and Response to assessed risks

- 6 Standards- SA 300, SA 315 , SA 320, SA 330, SA 402, SA 450

Audit Evidence

- 11 Standards- SA 500, 501 505, 510, 520, 530, 540, 550, 560, 570, 580

Using work of others

- 3 Standards- SA 600, SA 610, SA 620

Audit conclusion and reporting

- 5 Standards- SA 700 SA 705, SA 706, SA 710, SA 720

Specialised areas

- 3 Standards- SA 800, SA 805, SA 810

Risk Assessment and Response to Assessed Risks (SA 300-499)

SA 300

- Planning an Audit of Financial Statements

SA 315

- Identifying and assessing the risk of Material misstatement through understanding the entity and its environment

SA 320

- Materiality in Planning and Performing an Audit

SA 330

- The Auditor's Responses to Assessed Risks

SA 402

- Audit Considerations Relating to an Entity Using a Service Organisation

SA 450

- Evaluation of Misstatements Identified during the Audit



**SA 300 - Planning an Audit of
Financial Statements**

SA 300 - Planning an Audit of Financial Statements

1 Involvement of Key Engagement Team Members

2 Preliminary Engagement Activities

3 Establishing The Overall Audit Strategy

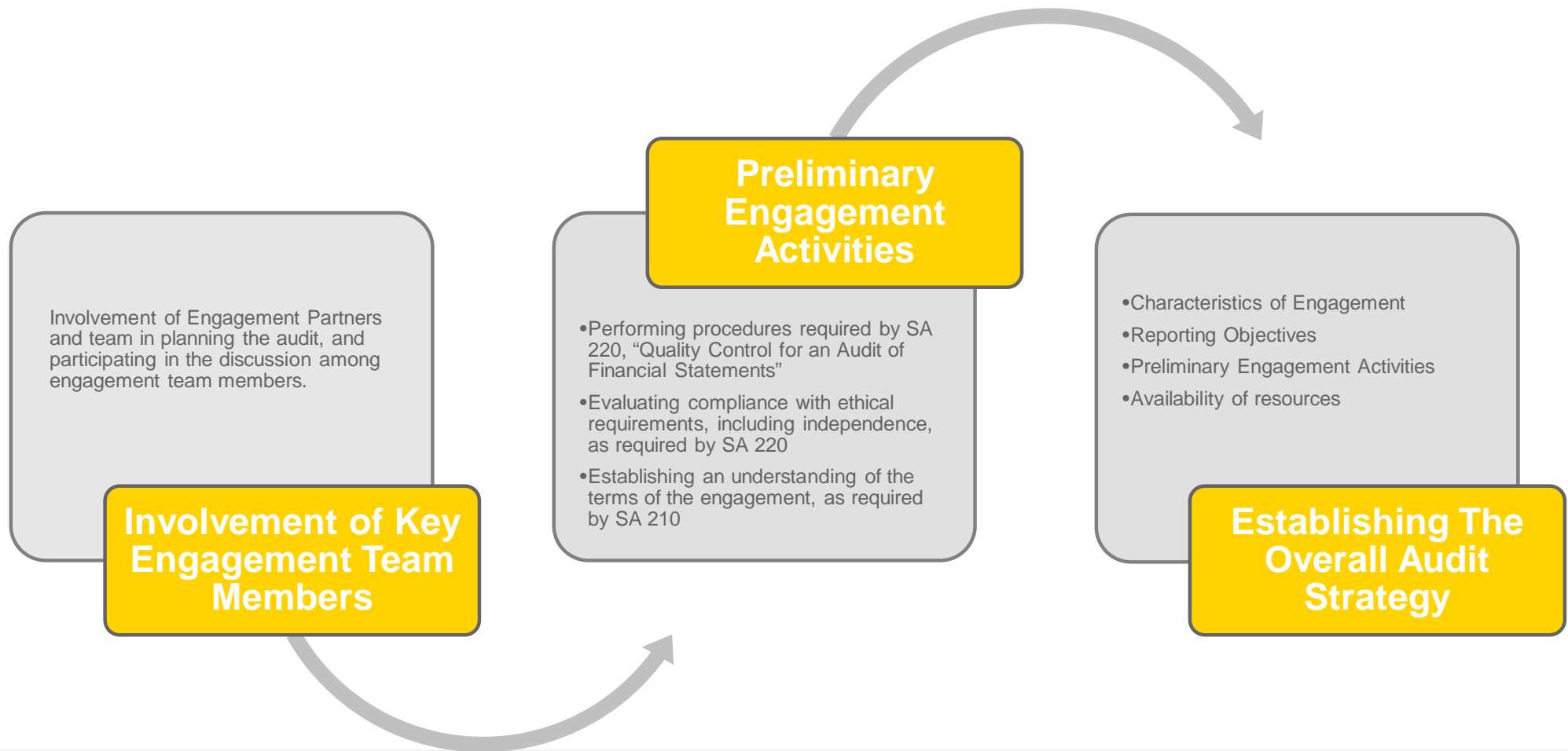
4 Development the overall plan

5 Development of audit plan

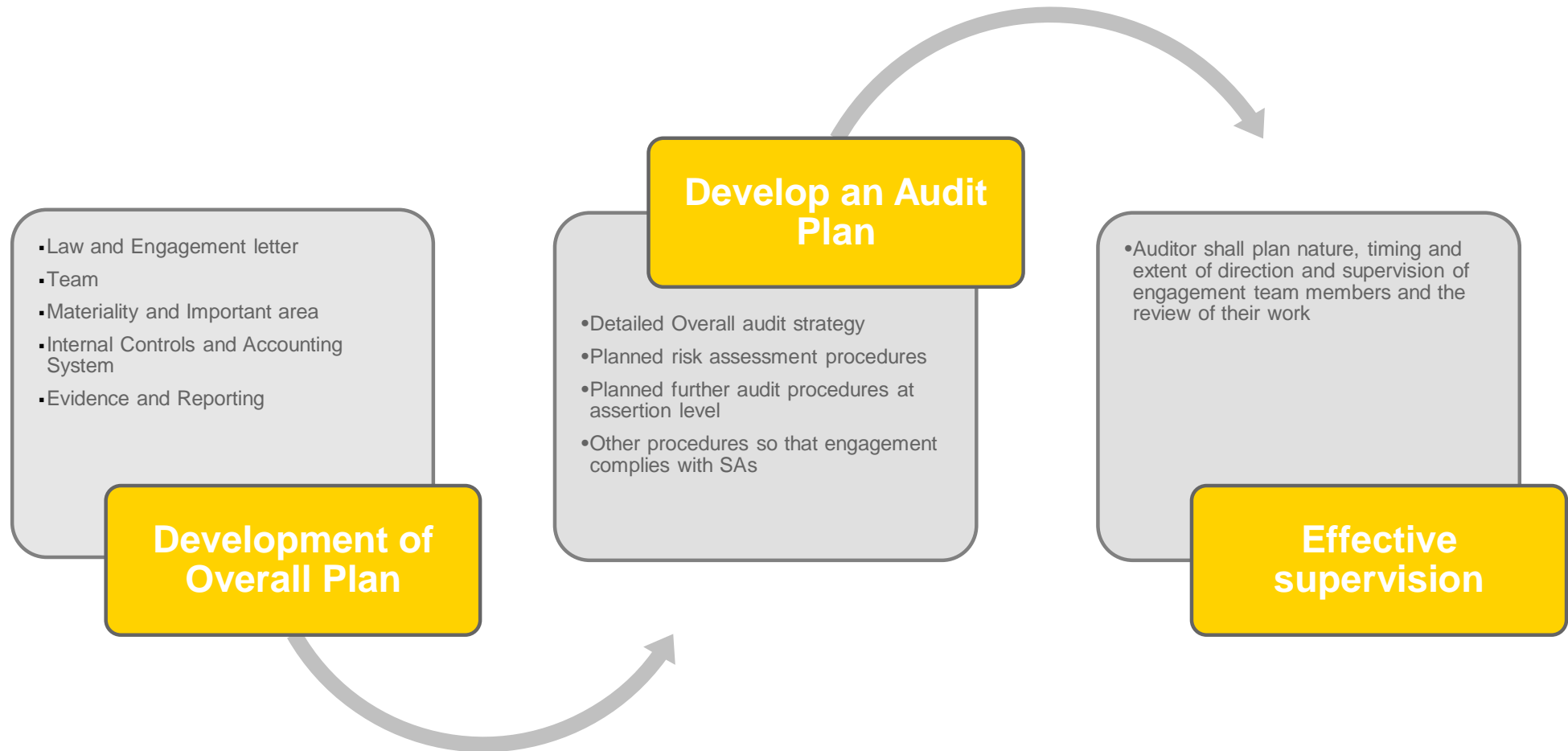
6 Audit Program



SA 300 - Planning an Audit of Financial Statements



SA 300 - Planning an Audit of Financial Statements



SA 300 - Planning an Audit of Financial Statements

Additional Considerations in Initial Audit Engagements

The auditor shall undertake the following activities prior to starting an initial audit:

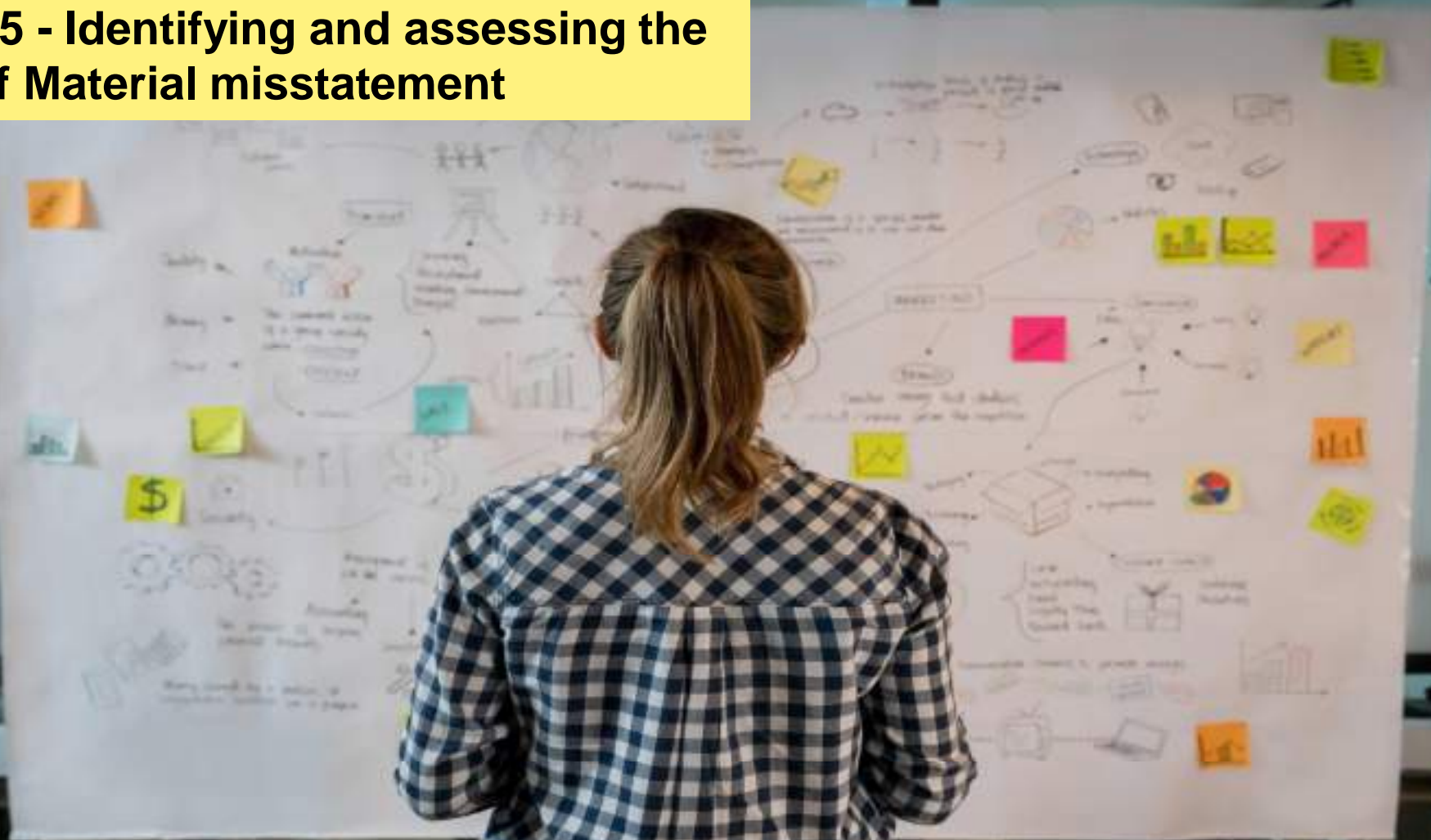
- Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement; and
- Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

Documentation - The auditor shall document:

- The overall audit strategy;
- The audit plan; and
- Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.



SA 315 - Identifying and assessing the risk of Material misstatement

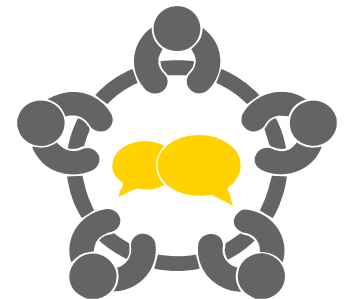


SA 315 - Identifying and assessing the risk of Material misstatement

SA 315 - Standard on Auditing (SA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.

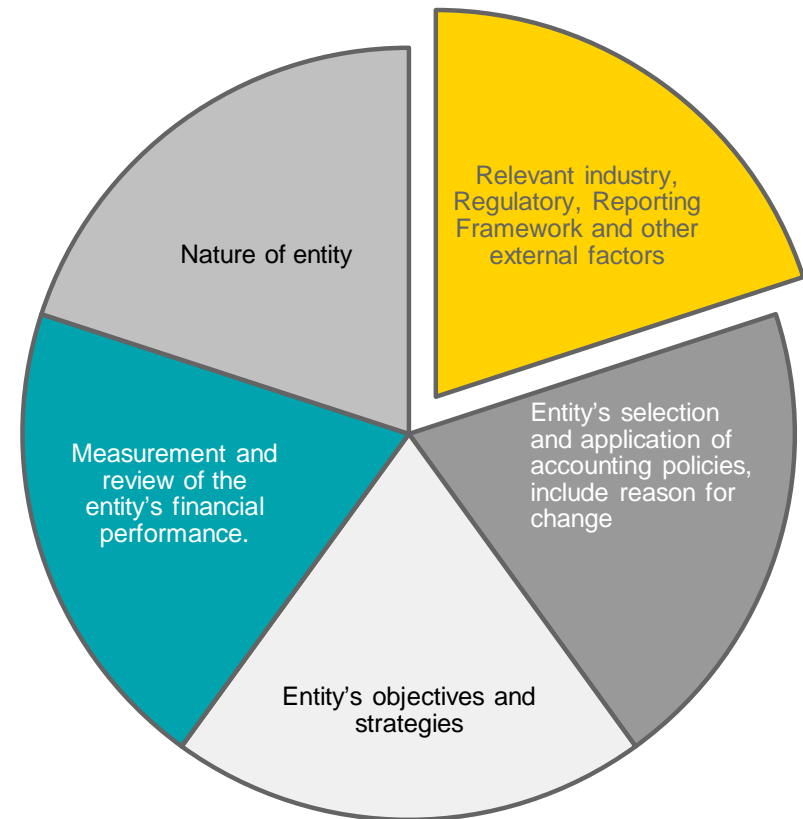
Objectives of SA 315 is to identify and Assess material risk misstatement due to fraud or error at

- Financial Statement Level
- Assertion Level



SA 315 - Identifying and assessing the risk of Material misstatement

Performing Risk Assessment Procedures



Understanding Entity and its Environment

SA 315 - Identifying and assessing the risk of Material misstatement

Internal Control: Auditor shall obtain understanding of internal control relevant to audit

Five Components of Internal Control

1 Control environment

2 Entity's risk assessment process

3 Information system, including related business processes, relevant to financial reporting and communication

4 Control activities relevant to audit

5 Monitoring of controls

SA 315 - Identifying and assessing the risk of Material misstatement

<i>The Auditor shall perform</i>	<i>The Auditor shall document</i>
<ul style="list-style-type: none">▶ Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks.▶ Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;▶ Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and▶ Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.▶ As part of risk assessment, determining whether any risk identified are a significant risk	<ul style="list-style-type: none">▶ The discussion among the engagement team▶ Key elements of the understanding obtained regarding each of the aspects of the entity and its environment▶ The identified and assessed risks of material misstatement at the financial statement level and at the assertion level▶ The risks identified, and related controls about which the auditor has obtained an understanding



SA 320 - Materiality in Planning and Performing an Audit

SA 320 - Materiality in Planning and Performing an Audit

Standard on Auditing (SA) deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Materiality and Audit Risk

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements.

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, if any, on the financial statements and in forming the opinion in the auditor's report.

Auditor shall make judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing and extent of further audit procedures.

SA 320 - Materiality in Planning and Performing an Audit

Determining Materiality and Performance Materiality when Planning the Audit

A. *Materiality for the financial statements as a whole.*

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark

1. Elements of the financial statements (e.g. Assets, Liability, Equity, Revenue and expenses)

2. Items on which the attention of the users of the particular entity's financial statements tends to be focused (e.g. Profit , revenue or net assets)

3. Nature of the entity, where the entity is at in its life cycle, and the industry and economic environment

4. Relative volatility of the benchmark

SA 320 - Materiality in Planning and Performing an Audit

Determining Materiality and Performance Materiality when Planning the Audit

B. Materiality at classes of transactions, account balances or disclosures level or levels

Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which materiality level or levels to be applied

- Whether law, regulations or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (e.g. Related parties transactions , remuneration of management)
- The key disclosures in relation to the industry in which the entity operates (e.g. Research Development cost in case of Pharmaceutical company)
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements. (e.g. Newly acquired business)

C. Performance materiality for purposes of assessing the risks

Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

SA 320 - Materiality in Planning and Performing an Audit

Revision as the Audit Progresses

- I. The auditor shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.
- II. If the auditor concludes that a lower materiality for the financial statements as a whole than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate

Documentation

The audit documentation shall include the following amounts and the factors considered in their determination:

Materiality for the financial statements as a whole;

If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;

Performance materiality; and

Any revision of (a)-(c) as the audit progressed



SA 330 The Auditor's Responses to Assessed Risks

SA 330 The Auditor's Responses to Assessed Risks

Standard on Auditing (SA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor.

The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

- Overall responses (Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the financial statement level)
- Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level
- Evaluating the Sufficiency and Appropriateness of Audit Evidence
- Audit Documentation

SA 330 The Auditor's Responses to Assessed Risks

Designing and Implementing appropriate responses to those risks

At Financial statement level

- To maintain professional skepticism.
- More experienced staff with special skills or experts
- Elements of unpredictability
- Providing more supervision
- General changes to the nature, timing and extent of audit procedures. (e.g. performing substantive procedures at period end)

At Assertion Level, auditor shall design and perform further audit procedures

- Performing tests of controls
- Performing substantive procedures only
- A combined approach using both tests of controls and substantive procedures

Evaluating the Sufficiency and Appropriateness of Audit Evidence

- Evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate
- Conclude whether sufficient appropriate audit evidence has been obtained.
- Express a qualified opinion or a disclaimer of opinion, if not able to obtain sufficient appropriate evidence

SA 330 The Auditor's Responses to Assessed Risks

Auditor shall 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 performed;



The linkage of those procedures with the assessed risks at the assertion level; and



The results of the audit procedures, including the conclusions where these are not otherwise clear.

Auditor plans to use audit evidences about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.

SA 402 Audit Considerations Relating to an Entity Using a Service Organisation



SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

This Standard on Auditing (SA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations.

Objectives of the Auditor

To obtain an understanding of the nature and significance of services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement

To design and perform audit procedures responsive to those risks

SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

Obtaining an Understanding of the Services Provided

- The nature of the services provided, significance of those services to the user entity
- The nature and materiality of the transactions processed
- The nature of the relationship between the user entity and the service organization
- The degree of interaction between the activities of the service organization and those of the user entity

If the user auditor is unable to obtain a sufficient understanding from user entity, the user auditor shall

- Obtaining a Type 1 or Type 2 report
- Contacting the service organization, through the user entity
- Visiting the service organization and performing procedures
- Using another auditor to perform procedures

Responding to the Assessed Risks of Material Misstatement

- Whether sufficient appropriate audit evidence assertions is available from records held at the user entity: if not
- Perform further audit procedures
- Use another auditor to perform those procedures at the service organization on the user auditor's behalf.

Fraud, non compliance in relation to activities at service organisation, auditor shall;

- Enquire of management of the user entity any fraud reported or user entity aware of
- Evaluate how such matters affect the nature, timing and extent of the user auditor's further audit procedures
- Evaluate the effect on the user auditor's conclusions and user auditor's report

SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

Reporting by the User Auditor

If the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization

Auditor shall modify the opinion in the user auditor's report

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion

If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion

User auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion

SA 450 Evaluation of Misstatements Identified during the Audit



SA 450 Evaluation of Misstatements Identified during the Audit

Objective of the auditor is to evaluate:

- i. The effect of identified misstatements on the audit; and
- ii. The effect of uncorrected misstatements, if any, on the financial statements.

Requirement under SA 450

Accumulation of Identified Misstatements, other than those that are clearly trivial.

Consideration of Identified Misstatements as the Audit Progresses

Evaluating the Effect of Uncorrected Misstatement

Communication with Those Charged with Governance

Written Representation

SA 450 Evaluation of Misstatements Identified during the Audit

Consideration of Identified Misstatement

- Overall audit strategy and audit plan need to be revised if:
 - Identified misstatement indicate other misstatements may exist, when aggregated with accumulated misstatements, could be material
 - Aggregate of misstatements accumulated approaches materiality

Evaluating the Effect of Uncorrected Misstatement

- Auditor shall reassess materiality to confirm whether it remains appropriate
- The size and nature of the misstatements, the particular circumstances of their occurrence
- The effect of uncorrected misstatements related to prior periods

Communication with Those Charged with Governance

- Uncorrected misstatements and the effect that they may have on the opinion in auditor's report
- Request correction of uncorrected misstatements.
- Effect of uncorrected misstatements related to prior periods

Written Representation

- The auditor shall request a written representation from management.
- Whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole

SA 450 Evaluation of Misstatements Identified during the Audit

Auditor shall document:



The amount below which misstatements would be regarded as clearly trivial;



All misstatements accumulated during the audit and whether they have been corrected;



The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.





Q&A





Thank you