# Exposure Draft

# Standard for Audit of Smaller and Less Complex Entities (SA-SLCE)

**(Last date for comment: March 31, 2021)**

Issued by
Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
*(Set up by an Act of Parliament)*
New Delhi

# Exposure Draft

# Standard for Audit of Smaller and Less Complex Entities (SA-SLCE)

Your comments on this Exposure Draft should reach us by **March 31, 2021** Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:

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The Institute of Chartered Accountants of India
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Comments can also be e-mailed at: **aasb@icai.in**

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# Chapter 1
# Applicability of SA-SLCE

## Definition

Smaller and Less Complex Entity (SLCE) means an unlisted entity which satisfies all the following conditions -

1. Entity which is not a company.

2. Entity whose turnover/ gross receipts is not exceeding rupees 50 crore in the last audited annual financial statements.

3. Entity whose turnover/ gross receipts is not exceeding rupees 50 crore in the accounting year under audit.

4. Entity whose investment in plant and machinery or equipment is not exceeding rupees 10 crore as on the first day of the accounting year under audit.

5. Entity which is not into the business of Banking/Insurance/NBFC at any time during the year.

# Chapter 2

# General Principles and Responsibilities

## Section 2.00 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SA-SLCE

### Scope

1. This Section of SA-SLCE establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SA-SLCE. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of SA-SLCE, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits of smaller and less complex entities, including the obligation to comply with SA-SLCE. The independent auditor is referred to as "the auditor" hereafter.

### Overall Objectives of the Auditor

2. In conducting an audit of financial statements, the overall objectives of the auditor are:

(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

(b) To report on the financial statements, and communicate as required by SA-SLCE, in accordance with the auditor's findings.

In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, SA-SLCE requires that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.

### Requirements

3. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the Institute of Chartered Accountants of India. The auditor shall use professional skepticism and

professional judgment in planning and performing an audit of financial statements and obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion.

**Conduct of an Audit in Accordance with SA-SLCE**

4. The auditor shall comply with all sections of SA-SLCE relevant to the audit. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant sections of SA-SLCE in planning and performing the audit, having regard to the interrelationships among the sections of SA-SLCE, to:

(a) Determine whether any audit procedures in addition to those required by the sections of SA-SLCE are necessary in pursuance of the objectives stated in the sections of SA-SLCE; and

(b) Evaluate whether sufficient appropriate audit evidence has been obtained.

***Complying with Relevant Requirements***

5. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in a section of SA-SLCE. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

***Scope of the Audit***

6. The auditor's opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements of smaller and less complex entities. The auditor's opinion therefore does not assure, for example, 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. The auditor would be required to undertake further work if the auditor has additional responsibilities to provide such opinions.

7. Auditor shall:

- Plan the audit so that it will be performed in an effective manner;
- Direct audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with correspondingly less effort directed at other areas; and
- Use testing and other means of examining populations for misstatements.

***Objectives Stated in Various Sections of SA-SLCE***

8. Each section of SA-SLCE contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual sections of SA-SLCE serve to focus the auditor on the desired outcome of the section of SA-SLCE, while being specific enough to assist the auditor in:

- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
- Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.

## Section 2.10 - Agreeing the Terms of Audit Engagements

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. Section 2.20 deals with those aspects of engagement acceptance that are within the control of the auditor.

## Objective

2. 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 and, where appropriate, those charged with governance of the terms of the audit engagement.

## Requirements

### Preconditions for an Audit

3. 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;

B. Obtain management's agreement that it acknowledges and understands its responsibility:

a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

b) 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

c) To provide the auditor with:

   i) 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;

   ii) Additional information that the auditor may request from management for the purpose of the audit; and

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

**Agreement on Audit Engagement Terms**

4. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

**Contents of Audit Engagement Letter**

5. 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.

**If Law or Regulation prescribes Terms of Audit Engagement**

6. 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 as set out in the paragraph – Preconditions for an Audit.

**Limitation on Scope Prior to Audit Engagement Acceptance**

7. 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.

**Other Factors Affecting Audit Engagement Acceptance**

8. If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

(a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable, or

(b) If the agreement of management that it acknowledges and understands its responsibility has not been obtained.

**Recurring Audits**

9. 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.

**10. Acceptance of a Change in the Terms of the Audit Engagement**

(a) The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.

(b) 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.

(c) 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.

(d) 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:

  i. Withdraw from the audit engagement where possible under applicable law or regulation; and

  ii. 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.

## Section 2.20 - Quality Control for an Audit of Financial Statements

### Scope

1. This Section of SA-SLCE deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This section is to be read in conjunction with relevant ethical requirements.

### Objective

2. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

(a) The audit complies with professional standards and regulatory and legal requirements; and

(b) The auditor's report issued is appropriate in the circumstances.

### Requirements

3. The engagement partner shall take responsibility for the overall quality on each audit engagement including direction, supervision and performance of the audit engagement to which that partner is assigned and ensure following:

- Compliance with the relevant ethical and independence requirements
- To ensure the competence and capabilities of the engagement team and auditor's external expert, if any
- To ensure that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements including conclusions have been carried out
- Satisfying that consultations being made by the members of the engagement team on difference of opinions, difficult or contentious matters and the resulting conclusions being implemented as agreed with the party consulted;
- Reviews being performed in accordance with the firm's review policies and procedures;
- Satisfying that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued;
- To ensure the documentation for issues identified with respect to compliance with relevant ethical requirements and how they were resolved, conclusions on compliance with independence requirements and conclusions reached regarding the acceptance and continuance of client relationships and audit engagements including nature and scope of the engagement.

## Section 2.30 - Audit Documentation

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The specific documentation requirements of other sections of SA-SLCE do not limit the application of this section. Laws or regulations may establish additional documentation requirements.

## Objective

2. The objective of the auditor is to prepare documentation that provides:

(a) A sufficient and appropriate record of the basis for the auditor's report; and

(b) Evidence that the audit was planned and performed in accordance with SA-SLCE and applicable legal and regulatory requirements.

## Requirements

3. The auditor shall document (on paper or on electronic or other media) all the procedures carried out at each stage of audit i.e. planning, execution and completion of the engagement on a timely basis.

4. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Auditor shall document in respect of following:

(a) The nature, timing, and extent of the audit procedures performed to comply with SA-SLCE and applicable legal and regulatory requirements including identifying characteristics of the specific items or matters tested;

(b) The results of the audit procedures performed, and the audit evidence obtained;

(c) Significant matters arising during the audit including discussions with management, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

(d) The auditor shall assemble the audit documentation in an audit file and assemble the final audit file on a timely basis i.e. within 60 days after the date of the auditor's report and shall not delete or discard audit documentation of any nature after its assembly and before the end of its retention period. However, if 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 shall, regardless of the nature of the modifications or additions, document the specific reasons and when and by whom they were made and reviewed.

(e) The form, content and extent of audit documentation depend on factors such as:

- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

(f) Examples of audit documentation include:

- Audit programmes.
- Analyses.
- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.
- Information concerning the legal and organizational structure of the entity
- Extracts or copies of important legal documents, agreements and minutes
- Information concerning the industry, economic environment and legislative environment within which the entity operates.
- Evidence of the planning process including audit programs and any changes thereto.
- Evidence of the auditor's understanding of the accounting and internal control system.
- Evidence of inherent and control risk assessments and any revisions thereof
- Evidence of the auditor's consideration of the work of internal auditors and conclusions reached.

- Analyses of transactions and balances.
- Analyses of significant ratios and trends.
- A record of the nature, timing and extent of audit procedures performed and the results of such procedures.
- Evidence that the work performed by assistants was supervised and reviewed.
- An indication as to who performed the audit procedures and when they were performed.
- Details of procedures applied regarding components whose financial statements are audited by another auditor.
- Copies of communications with other auditors, experts and other third parties.
- Details of discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- Copies of letters or notes concerning audit matters communicated to or discussed with the entity, including the terms of the engagement and material weaknesses in internal control.
- Conclusions reached by the auditor concerning significant aspects of the audit, including how exceptions and unusual matters, if any, disclosed by the auditor's procedures were resolved or treated.
- Copies of the financial statements and auditor's report.

## Section 2.40 - The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

## Scope

1. This Section of SA-SLCE deals with the auditor’s responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how section 3.15, “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” and section 3.30, “The Auditor’s Responses to Assessed Risks,” are to be applied in relation to risks of material misstatement due to fraud.

### Introduction

2. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

3. The auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

## Objectives

4. The objectives of the auditor are as follows:

(a) To identify and assess the risks of material misstatement in the financial statements due to fraud;

(b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and

(c) To respond appropriately to identified or suspected fraud.

### Responsibility for the Prevention and Detection of Fraud

5. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. The auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

## Requirements

6. The Auditor shall carry out the following procedures:

*(a) Professional skepticism*

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

*(b) Discussion Among the Engagement Team*

The auditor shall have a discussion among the engagement team members placing a particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur.

(c) Auditor shall obtain an understanding of the entity and its environment, including the entity's internal control.

***Management and Others within the Entity***

7. Auditor shall inquire of management and others within the entity as appropriate.

### *Unusual or Unexpected Relationships Identified*

8. Auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, that may indicate risks of material misstatement due to fraud.

### *Evaluation of Fraud Risk Factors*

9. Auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.

### *Identification and Assessment of the Risks of Material Misstatement Due to Fraud*

10. Auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures, particularly based on a presumption that there are risks of fraud in revenue recognition. Auditor shall evaluate which types of revenue, revenue transactions or assertions give rise to such risks along with the required documentation where the auditor concludes that the presumption is not applicable in the circumstances of the engagement.

### *Overall Responses*

11. Auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level and if there are any material misstatements, express a qualified, an adverse or disclaim an opinion on the financial statements as appropriate.

12. In many of the small entities, all of those charged with governance are involved in managing the entity. This may be the case in a small entity where a single owner manages the entity and no one else has a governance role.

13. In the case of a small entity, some or all of these considerations may be inapplicable or less relevant. For example, a small entity may not have a written code of conduct however, instead, may have developed a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example. Domination of management by a single individual in a small entity does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. However, domination of management by a single individual can be a potential deficiency in internal control since there is an opportunity for management override of controls.

## Section 2.50 - Consideration of Laws and Regulations in an Audit of Financial Statements

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements. This section does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

### Objectives

2. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;

(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and

(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

3. When planning and performing audit procedures and in evaluating and reporting the results thereof, the auditor shall recognize that non–compliance by the entity with laws and regulations may materially affect the financial statements. However, the auditor is not responsible for preventing non- compliance and cannot be expected to detect non-compliance with all laws and regulations.

4. For this purpose, non-compliance means acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

5. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

6. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

## Requirements

### The Auditor's Consideration of Compliance with Laws and Regulations

7. The auditor shall:

- Obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and how the entity is complying with that framework;
- Obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- Perform the audit procedures (i.e. inquiring of management and where appropriate those charged with governance as to whether the entity is in compliance with such laws and regulations and inspecting correspondence, if any, with the relevant licensing or regulatory authorities) to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements;
- Remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention;
- Request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor.

### Audit Procedures When Non-Compliance is Identified or Suspected

8. In case of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain an understanding of the nature of the act with circumstances of its occurrence and further information to evaluate the possible effect on the financial statements.

9. If management or as appropriate those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

10. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor’s opinion.

11. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor’s risk assessment and the reliability of written representations, and take appropriate action.

**Reporting Non-Compliance with Laws and Regulations**

12. When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:

- Investigations by regulatory organisations and 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' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual payments towards legal and retainership fees.
- 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.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment.

13. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor, the auditor shall communicate with those charged with governance, matters involving non-compliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when the matters are clearly inconsequential.

14. If there are any material misstatements, the auditor shall express a qualified, an adverse or disclaim an opinion on the financial statements as appropriate.

15. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

16. The auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

## Section 2.60 and 2.65 - Communication with Management and Those Charged with Governance

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this section applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity. This section does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

### Objectives

2. The objectives of the auditor are:

(a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

(b) To obtain from those charged with governance information relevant to the audit;

(c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

(d) To promote effective two-way communication between the auditor and those charged with governance.

### Requirements

3. The auditor shall communicate the matters relating to the audit with management and those charged with governance on a timely basis which include:

(a) Responsibilities of the auditor;

i. The 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; and

ii. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities;

(b) Significant findings from the audit;

(c) Modifications to the auditor's report, inclusion of emphasis of matter and other matter paragraphs in the auditor's report;

(d) Communication requirements in laws and regulations;

(e) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the financial statements and the financial reporting process.

4. The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more significant deficiencies in internal control and communicate those significant deficiencies to the management and those charged with governance.

5. The auditor shall use professional judgment in determining the appropriate form of communication with management and those charged with governance. Communication is preferred to be done in writing and if oral, it needs to be documented.

# Chapter 3

# Risk Assessment and Response to Assessed Risks

## Section 3.00 - Planning an Audit of Financial Statements

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to plan an audit of financial statements. This section is framed in the context of recurring audits. Additional considerations in initial audit engagements are separately identified.

## Objective

2. The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

## Requirements

3. The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.

**Preliminary Engagement Activities**

**Planning the Work**

4. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, for example:

(a) Helping the auditor to devote appropriate attention to important areas of the audit.

(b) Helping the auditor identify and resolve potential problems on a timely basis.

(c) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

(d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

(e) Facilitating the direction and supervision of engagement team members and the review of their work.

(f) Assisting, where applicable, in coordination of work done by auditors of components and experts.

**Developing an Audit Plan**

5. While developing audit plan, the work is focused at the assertion level and specific audit procedures required to be performed are determined on an assertion-by-assertion basis.

6. The auditor shall develop an audit plan that shall include a description of:

(a) The nature, timing and extent of planned risk assessment procedures; and

(b) The nature, timing and extent of planned further audit procedures at the assertion level.

**Documentation**

7. The auditor shall include in the audit documentation:

(a) The audit plan; and

(b) Any significant changes made during the audit engagement to the audit plan, and the reasons for such changes.

## Section 3.15 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

### Scope

1. This Section of SA-SLCE 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.

### Objective

2. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level.

### Requirements

**Risk Assessment Procedures and Related Activities**

3. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

4. The risk assessment procedures shall include the following:

(a) Inquiries of management, and of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.

(b) Analytical procedures.

(c) Observation and inspection.

**The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control**

***The Entity and Its Environment***

5. The auditor shall obtain an understanding of the following:

(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.

(b) The nature of the entity, including:

   (i) its operations;

   (ii) its ownership and governance structures;

   (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and

   (iv) the way that the entity is structured and how it is financed,

   to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

(e) The measurement and review of the entity's financial performance.

***The Entity's Internal Control***

6. The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.

7. Certain characteristics of a small entity - such as the concentration of decision - making power, limited segregation of duties and management override of controls - may lead to an increased risk of misstatement in the financial statements due to fraud. On the other hand, management may be able to exercise more effective oversight than in a larger entity, thereby compensating for the generally more limited opportunities for segregation of duties. The auditor would need to evaluate the approach and attitude of management on a case-by-case basis in identifying the risks of material misstatement due to fraud. If, for example, management insists on authorizing key transactions, this may compensate for otherwise weak controls and reduce the risk of employee fraud.

8. Since small entities tend to take a less formal approach to internal controls than large organizations, it may be difficult to distinguish components of internal controls in a small entity. The requirement to obtain an understanding of internal controls, however, still applies, so the auditor shall take all possible steps to identify and understand internal controls.

9. The control environment represents the collective effect of such factors as management philosophy and operating style, organizational structure, personnel policies and practices on establishing, enhancing or reducing the effectiveness of specific policies and procedures. The control environment reflects management's overall attitude, awareness, commitment and actions concerning the importance of internal control and its emphasis in the entity.

10. Factors affecting the control environment that have particular relevance to audits of small entity and require particular attention, are:

- the entity's organizational structure;
- the competence of personnel; and
- the control consciousness of management.

11. The control activities are the policies and procedures that help ensure that management directives are carried out. The auditor shall obtain an understanding of these activities to the extent considered necessary to assess the risk of material misstatement at the assertion level. The auditor does not have to obtain an understanding of all control activities, nor even all those carried out in important areas, but rather controls in areas that have the highest risk of material misstatement. The purpose of obtaining this understanding is to help in designing tests of controls where there is an expectation that the controls are effective.

12. In many cases in small entities, division of duties is often impractical, because of the limited numbers of people available. In these situations, however, the control objectives may sometimes be met through management oversight, which the auditor can assess as to its effectiveness. This is often the case for not-for-profit organizations.

**Documentation**

13. The auditor shall include in the audit documentation:

(a) The discussion among the engagement team, and the significant decisions reached;

(b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment and of each of the internal control components; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;

(c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level;

(d) The significant risks identified, and related controls about which the auditor has obtained an understanding.

## Section 3.20 - Materiality in Planning and Performing an Audit

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. Section 4.50, explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

### Objective

2. The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

### Requirements

3. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

4. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

5. The calculation of materiality is needed at an early stage in audit planning so that effective substantive tests can be designed.

6. Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit, total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenue.

**Examples:**

| | |
|---|---|
| Revenue | 0.50% – 1% |
| Net Assets | 1% – 2% |
| Assets | 0.50% – 1% |
| Profit before tax: | 5% - 10% |

*Source: from the Industry practices*

7. If the auditor becomes aware of information during the audit that would have caused the auditor to determine a different materiality level, the materiality level shall be revised.

**Documentation**

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

(a) Materiality for the financial statements as a whole;

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

(c) Performance materiality; and

(d) Any revision of (a)–(c) as the audit progressed.

## Section 3.30 - The Auditor's Responses to Assessed Risks

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with Section 3.15, "Identifying and Assessing the Risks of

Material Misstatement Through Understanding the Entity and Its Environment” in a financial statement audit.

## Objective

2. 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.

## Requirements

### Overall Responses to Address the Assessed Risks of Material Misstatements at the Financial Statement Level

3. The auditor shall design and implement overall responses to address the assessed risks of material misstatements at the financial statement level which may include:

- Emphasizing to the engagement team the need to maintain professional skepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Providing more supervision.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.

4. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:

- Conducting more audit procedures as of the period end rather than at an interim date.
- Obtaining more extensive audit evidence from substantive procedures.
- Increasing the number of locations to be included in the audit scope.

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

5. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. This forms the basis for designing further audit procedures. When performing further audit procedures at an interim date, the auditor shall consider additional procedures for the remaining period.

6. In designing the further audit procedures to be performed, the auditor shall:

- Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including:
    - the likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and
    - whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures).
- Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

**Tests of Controls**

7. When the auditor plans to rely on controls, the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls that the auditor intends to rely on.

8. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

9. Considerations when performing test of controls:

- Nature and extent of the controls:
    - the period covered and how often the control has been performed.
    - significant changes in the controls in the period.
    - determine whether the controls to be tested depend upon other controls (indirect controls).
- Timing of the test of controls:

    - test controls for a selected period, or throughout the whole period.
    - if only testing for a selected period, determine additional procedures for the period that are not tested.
- Evaluating the operating effectiveness of controls:
    - the cause and potential consequences of any deviations detected.
    - whether misstatements detected while performing substantive procedures indicate that controls are not operating effectively.
    - the need for additional test of controls or other procedures to obtain appropriate audit evidence.
    - whether the tests of controls that have been performed provide an appropriate basis for reliance on the controls.

10. There may not be many control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. In some rare cases, however, the absence of control activities or of other components of controls may make it impossible to obtain sufficient appropriate audit evidence.

11. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;

(b) Additional tests of controls are necessary; or

(c) The potential risks of material misstatement need to be addressed using substantive procedures.

**Substantive procedures**

12. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level. Based on the auditor's judgment, substantive procedures are performed by testing the details of the transaction, disclosure or account balance, substantive analytical procedures or a combination of those.

13. Substantive procedures are designed and performed in response to assessed risks in order to obtain sufficient and appropriate audit evidence at the assertion level. Irrespective of the assessed risks, substantive procedures shall be performed for each material class of transactions, account balance, and disclosure.

14. Substantive procedures in response to identified significant risks shall be specifically designed to respond to that risk and those procedures shall include tests of details. Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.

15. Further audit procedures in response to assessed risks shall always include substantive procedures:

- To obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements;
- To address the risks of management override of controls;
- To address the risk caused by any identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including:
  - evaluate management's plans for future actions in relation to its going concern assessment;
  - evaluate management’s cash flow forecast, and analyze significant factors affecting management's plans for future action;
  - consider whether any additional facts or information have become available since the date on which management made its assessment; and
  - request written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans;
- As a retrospective review of management judgments and assumptions in relation to significant accounting estimates reflected in prior years financial statements; and
- In relation to the financial statement closing process for:
  - agreeing or reconciling the financial statements with the underlying accounting records;
  - examining material journal entries and other adjustments made during the course of preparing the financial statements; and
  - evaluating whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

16. Considerations when designing substantive procedures to address risks identified:

- Fraud risk;
    - the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements;
    - whether there is a need to test journal entries in the general ledger and other adjustments made throughout the period; and
    - the business rationale for significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.
- Going concern;
    - management's assessment as to the entity's ability to continue as a going concern;
    - covenants or other circumstances that may affect management in their assessment; or whether any additional facts or information have become available since the date on which management made its assessment; and
    - when material uncertainty exist, the effect this may have on fraud risk, including management’s involvement in the preparation of accounting estimates and in applying accounting policies.
- Accounting estimates;
    - the method used and consistency in the method used by management in preparing the accounting estimates, inputs and assumptions on which accounting estimates are based, including estimation uncertainty;
    - historical accuracy in accounting estimates made by management in prior periods;
    - potential biases in the accounting estimates and an evaluation whether the circumstances producing the bias, if any, represents a risk of material misstatement due to fraud;
    - whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimates; and
    - the auditor may focus on inquiries and discussion with the owner-manager early in the audit process about the nature of any accounting estimates, the completeness of the required accounting estimates, and the adequacy of the estimating process that may assist the owner-manager in determining the need to use an expert.
- Related parties;
    - arrangements or information suggesting the existence of related party

relationships or transactions that management has not previously identified or disclosed to the auditor;

- the business rationale for significant transactions involving related parties; and
- the terms of transactions.

**Substantive Analytical Procedures**

17. When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures, the auditor shall:

(a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;

(b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;

(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and

(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.

**Analytical Procedures that Assist When Forming an Overall Conclusion**

18. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

**Investigating Results of Analytical Procedures**

19. If analytical procedures performed in accordance with Section 5.20 - Analytical Procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

(a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and

(b) Performing other audit procedures as necessary in the circumstances.

20. There are a number of possible techniques that can be used to perform the analytical procedures. The objective is to select the most appropriate technique to provide the intended levels of assurance and precision. Techniques include: Ratio

analysis, Trend analysis, Break-even analysis, Pattern analysis and Regression analysis.

**Tests of details**

21. When performing tests of details to address assessed risks at assertion level, the auditor shall, using professional judgment, design the nature, timing and the extent of the procedure to identify the misstatements and reduce the audit risk to an acceptable level. A test of details can be performed by inspections, recalculation or external confirmations. When selecting items for a test of details the auditor can either select all items, specific items or base the selection of items on audit sampling techniques.

22. When performing audit sampling, the auditor shall determine the sample size sufficient to reduce the risk to an acceptably low level and select items in a way that each sampling unit in the population has a chance of selection. Identified misstatements in the sample shall be investigated as to their nature and cause, and their effect on the audit. Misstatements in the sample, excluding misstatements that do not affect the remaining population, shall be projected to the population.

23. When performing external confirmations, the auditor shall determine the extent of confirmations, select the confirming parties, send the requests and receive the responses directly from the confirming party. The auditor shall maintain control over the external confirmations and follow up with the confirming party when applicable.

**Evaluation**

24. When the auditor has performed the audit procedures designed to respond to the assessed risks of material misstatement at the assertion level, evaluation shall be made as to whether sufficient appropriate audit evidence has been obtained to be able to draw reasonable conclusions on which to base the auditor's opinion for relevant assertions, including evaluation of identified misstatements.

25. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

## Section 4.02 - Audit Considerations Relating to an Entity Using a Service Organisation

## Scope

1. This Section of SA-SLCE 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. Specifically, it expands on how the user auditor applies section 3.15 and section 3.30 in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material

misstatement and in designing and performing further audit procedures responsive to those risks.

## Objectives

2. The objectives of the user auditor, when the user entity uses the services of a service organisation, are:

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

(b) To design and perform audit procedures responsive to those risks.

## Requirements

3. When obtaining an understanding of the user entity in accordance with Section 3.15, the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations. The user auditor shall consider:

(a) Nature of services and the significance of those services to the user entity;

(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;

(c) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation.

4. The user auditor shall obtain a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit to identify and assesses the risk of material misstatement. For this purpose, the auditor may:

(a) Obtain a sufficient understanding from the user entity,

(b) Obtain a Type 1 or Type 2 report, if available;

(c) Contact the service organisation, through the user entity, to obtain specific information;

(d) Visit the service organisation and perform procedures that will provide the necessary information about the relevant controls at the service organisation; or

(e) Use other auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

## Section 4.50 - Evaluation of Misstatements Identified during the Audit

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. Section 7.00 deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. The auditor's conclusion required by Section 7.00 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this section of SA-SLCE. Section 3.20 deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of financial statements.

### Objective

2. The objective of the auditor is to evaluate:

(a) The effect of identified misstatements on the audit; and

(b) The effect of uncorrected misstatements, if any, on the financial statements.

### Requirements

3. Throughout the audit, the auditor shall accumulate misstatements identified, other than those that are clearly trivial. The auditor shall determine the nature and cause of each identified misstatement, including whether the misstatements may indicate fraud, and their potential effect on the risk assessment and the audit plan.

4. The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, and where appropriate, those charged with governance unless prohibited by law or regulation, and request those misstatements to be corrected. If some or all of the misstatements are not corrected, the auditor shall obtain an understanding of the reasons for not making the corrections and shall consider that understanding when evaluating whether the financial statements as a whole are free from material misstatement.

5. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence;

(b) 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.

6. The auditor shall communicate with management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole.

# Chapter 4
# Audit Evidence

## Section 5.00 - Audit Evidence

### Scope

1. This Section of SA-SLCE explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

### Objective

2. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

### Requirements

3. While conducting an audit, auditor shall obtain sufficient appropriate audit evidence.

4. Sometimes, the entity may to the extent necessary, use management's expert for instance, for actuarial valuation, fair valuation, litigation, etc. While forming an opinion, auditor shall use the information submitted by these experts as audit evidence.

5. When auditor is relying on the information submitted by management's expert, auditor shall evaluate the capability, competence and appropriateness of such experts' work.

6. All information, accounting records, work sheets, spread sheets to be used as audit evidence should be tested appropriately either by performing tests of controls or substantive testing.

7. Auditor shall evaluate the reliability of these audit evidence and in case of any contradiction, auditor needs to revise the audit plan and apply the alternate audit procedures to conclude on the same.

8. Auditor shall put reference number to each audit evidence so obtained regarding each account balances and accounting assertions.

**Evaluating the Sufficiency and Appropriateness of Audit Evidence**

9. Based on the audit procedures performed and the audit evidence obtained, the

auditor shall evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate.

10. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. When evaluating the sufficiency of the audit evidence the auditor shall consider if the nature and cause of identified misstatements indicate that other misstatements may exist that when aggregated could be material.

11. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.

12. If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain additional audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or issue a disclaimer on the financial statements.

# Section 5.01 - Audit Evidence - Specific Considerations for Selected Items

## Scope

1. This Section of SA-SLCE deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with section 3.30, section 5.00 and other relevant Sections of SA-SLCE, with respect to certain aspects of inventory, and litigation and claims involving the entity in an audit of financial statements.

## Objective

2. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:

(a) Existence and condition of inventory; and

(b) Completeness of litigation and claims involving the entity;

## Requirements

### (a) Inventory

3. The auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attendance at physical inventory counting preferably at the year-end unless it is impracticable to do so. If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, auditor shall make or observe physical inventory counts at an alternate date and perform role back/role forward procedures.

4. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory e.g. inventory lying with third parties, foreign branch, etc. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with section 7.05.

5. When inventory under the custody and control of a third party is material to the financial statements, the auditor shall request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity and perform inspection or other audit procedures appropriate in the circumstances.

**(b) Litigation and Claims**

6. The auditor shall obtain list of all the litigations and cases filed by third parties and review those litigations which can lead to risk of material misstatements in the financial statements.

7. Auditor shall obtain letter of representation from client for completeness of list of above legal cases.

8. Auditor shall also review the legal expenses accounts, minutes of meetings, enquiry with the in-house legal counsel and confirmation from external legal counsel.

9. In case, auditor is precluded by the management to carry out the above procedures or auditor is unable to obtain sufficient and appropriate audit evidence then the auditor shall modify the opinion in the auditor's report in accordance with section 7.05.

## Section 5.05 - External Confirmations

### Scope

1. This Section of SA-SLCE deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of section 3.30 and section 5.00. It does not address inquiries regarding litigation and claims. Section 5.01 deals with obtaining sufficient appropriate audit evidence from such inquiries.

### Objective

2. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence. This will ensure that balances which are outstanding in the account balances like sundry debtors, sundry creditors are correctly stated and corresponding class of transactions like purchases, sales etc. are appropriately accounted for.

## Requirements

3. External confirmation is audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

4. Auditor shall obtain the list of sundry debtors, sundry creditors, banks, loans and advances, etc. from the client and select an appropriate sample from the list so obtained using audit sampling.

5. The auditor shall choose either at interim date or at year-end date as considered appropriate by him. In case party does not respond, auditor shall carry out the alternate procedures like reviewing subsequent receipts/subsequent payments as the case may be. Auditor shall trace the accounting entries with original invoices /Purchase order etc. to ensure that accounting entries are appropriate.

6. The auditor shall design the confirmation in consultation with client and this confirmation should be received directly by the auditor at his address.

## Section 5.10 - Initial Audit Engagements – Opening Balances

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial statements include comparative financial information, the requirements and guidance in section 7.10 also apply. Section 3.00 includes additional requirements and guidance regarding activities prior to starting an initial audit.

## Objective

2. In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

(a) Opening balances contain misstatements that materially affect the current period's financial statements; and

(b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

## Requirements

### Audit Procedures on Opening Balances

3. Although auditor is appointed for the current year's audit, the opening balances may contain misstatements that materially affect the current period's financial statements and thus may have an impact on auditor's opinion.

4. Auditor shall, therefore, review the composition of prior period's closing balances and enquire with the management and obtain the audit evidence regarding the opening balances and in doing so, auditor may consider additional audit procedures to conclude that no material misstatements exist in current year.

5. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with Section 7.05.

6. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with Section 7.05.

7. Auditor shall also ensure that opening balances are accounted for consistently and they are adhering to the same accounting policy as that of current year.

# Section 5.20 - Analytical Procedures

## Scope

1. This Section of SA-SLCE deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"), and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. The use of analytical procedures as risk assessment procedures is dealt with in Section 3.15. Section 3.30 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

## Objectives

2. The objectives of the auditor are:

(a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and

(b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

## Requirements

3. Analytical procedures shall form part of the substantive audit procedures. Auditor shall develop an independent expectation of the recorded amounts and evaluate the same taking into account the various accounting balances recorded, information available and explanation for variation, if any observed by auditor in his expected amount and account recorded in the books of account.

4. If there are significant variations in expectation of recorded amounts and amount recorded in the books of account, the auditor shall obtain necessary audit evidence and explanation for such variations and determine whether such variation is acceptable or further investigation is required.

5. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

6. If analytical procedures performed in accordance with this section identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and

b) Performing other audit procedures as necessary in the circumstances.

# Section 5.30 - Audit Sampling

## Scope

1. This Section of SA-SLCE applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.

## Objective

2. The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

## Requirements

3. The importance of audit sampling is that it may not be practical for the auditor to check 100% items of the population and hence the auditor may select samples which

are of audit relevance and from those sampling units having equal chance of selection in order that auditor gets a reasonable basis to draw conclusion about the entire population. Population here means the entire set of data from which the sample is selected and auditor draws his conclusions. Sampling unit here means the individual items of account balances or class of items constituting a population.

4. For small practicing unit it is recommended that statistical sampling is used and if not found practical they should use techniques such as haphazard sampling, systematic sampling and random sampling. Auditor shall ensure that sampling should not be biased.

**Methods of Audit Sampling**

5. There are many methods of selecting samples. The principal methods are as follows:

(a) Random selection (applied through random number generators, for example, random number tables).

(b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

(c) Monetary Unit Sampling is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.

(d) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.

## Section 5.40 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures

in an audit of financial statements. Specifically, it expands on how section 3.15 and section 3.30 and other relevant sections of SA-SLCE are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

## Objective

2. The objective of the auditor is to obtain sufficient appropriate audit evidence whether in the context of the applicable financial reporting framework:

(a) Accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable; and

(b) Related disclosures in the financial statements are adequate.

## Requirements

3. The auditor shall plan the risk assessment procedures and related activities, identification and assessing the risk of material misstatement and responses to the assessed risk of material misstatement as per section 3.15, section 3.30 and all other sections of SA-SLCE required for risk assessment, planning and obtaining evidences etc. Accordingly, the reporting and conclusion will also be governed by section 7.00 and other applicable sections of SA-SLCE.

4. Auditor shall perform substantive procedures in respect of accounting estimates that give rise to significant risk in addition to other substantive procedures performed to meet the requirements of section 3.30.

5. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of section 3.30, the auditor shall evaluate the following:

(a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.

(b) Whether the significant assumptions used by management are reasonable.

(c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management’s intent to carry out specific courses of action and its ability to do so.

6. If, in the auditor’s judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate.

7. For accounting estimates that give rise to significant risks, the auditor shall obtain

sufficient appropriate audit evidence whether the following are in accordance with the requirements of the applicable financial reporting framework:

(a) Management's decision to recognize, or to not recognize, the accounting estimates in the financial statements; and

(b) The selected measurement basis for the accounting estimates.

8. Auditor shall evaluate whether the accounting estimates in the financial statements are either reasonable in the context of the applicable financial reporting framework, or misstated. The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

9. Auditor shall also evaluate the adequacy of the disclosure of their estimation uncertainty in the financial statements in the context of the applicable financial reporting framework.

10. The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias.

## Section 5.50 - Related Parties

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements. Specifically, it expands on how section 3.15, section 3.30 and section 2.40 are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

### Objectives

2. The objectives of the auditor are:

(a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

   (i) To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and

   (ii) To conclude whether the financial statements, insofar as they are affected by those relationships and transactions:

      a. Achieve a true and fair presentation (for fair presentation frameworks); or

b. Are not misleading (for compliance frameworks); and

(b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework.

## Requirements

3. The auditor shall plan the risk assessment procedures and related activities, identification and assessing the risk of material misstatement and responses to the assessed risk of material misstatement as per section 3.15, section 3.30, section 2.40 and all other sections of SA-SLCE required for risk assessment, planning and obtaining evidence etc. Accordingly, the reporting and conclusion will also be governed by section 7.00 and other applicable sections of SA-SLCE.

4. The auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

(a) Bank, legal and third party confirmations obtained as part of the auditor's procedures;

(b) Minutes of meetings of shareholders and of those charged with governance; and

(c) Such other records or documents as the auditor considers necessary in the circumstances of the entity.

5. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

6. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

(a) Promptly communicate the relevant information to the other members of the engagement team;

(b) Where the applicable financial reporting framework establishes related party requirements:

  (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and

  (ii) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;

(c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;

(d) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and

(e) If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.

7. For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

(a) Inspect the underlying contracts or agreements, if any, and evaluate whether:

  (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;

  (ii) The terms of the transactions are consistent with management's explanations; and

  (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

(b) Obtain audit evidence that the transactions have been appropriately authorized and approved.

8. The auditor shall obtain sufficient and appropriate audit evidence about the management assertions to the effect that a related party transaction was conducted at arm's length price.

9. In forming an opinion on the financial statements in accordance with section 7.00, the auditor shall evaluate:

(a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

(b) Whether the effects of the related party relationships and transactions:

  (i) Prevent the financial statements from achieving true and fair presentation (for fair presentation frameworks); or

  (ii) Cause the financial statements to be misleading (for compliance frameworks).

10. Auditor shall obtain written representations from management and, where appropriate, those charged with governance regarding list of related parties and related party transactions.

## Section 5.60 - Subsequent Events

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements.

### Objectives

2. The objectives of the auditor are to:

(a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and

(b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

### Requirements

3. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

4. The auditor shall perform the procedures required by paragraph 3 above so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

(c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's latest subsequent interim financial statements, if any.

5. The auditor shall request written representation from the management specifying that for all events occurring subsequent to the date of financial statements and for which applicable financial reporting framework requires adjustment/disclosure have been adjusted/disclosed.

6. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

(a) Discuss the matter with management and, where appropriate, those charged with governance.

(b) Determine whether the financial statements need amendment and, if so,

(c) Inquire how management intends to address the matter in the financial statements.

(d) If management amends the financial statements, the auditor shall:

  a. Carry out the audit procedures necessary in the circumstances on the amendment.

  b. Extend the audit procedures referred to in above paragraphs to the date of the new auditor's report.

(e) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

## Section 5.70 - Going Concern

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

### Objectives

2. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;

(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) To report in accordance with this Section.

## Requirements

3. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities but may lack reserves to sustain operations.

4. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

5. Auditor shall remain alert throughout the audit for audit evidence of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

6. The auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. It may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. The auditor shall discuss, inquire and inspect supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

7. Continued support by owner-manager is often important to small entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

8. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue

as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

9. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that 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.

10. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

11. If the auditor based on sufficient and appropriate audit evidence and on his judgement is of the view that management's use of the going concern basis of accounting in the preparation of financial statements is inappropriate, the auditor shall express an adverse opinion.

12. If management's use of the going concern basis of accounting in the preparation of financial statements is appropriate but a material uncertainty exists and adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph above; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter.

13. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with Section 7.05; and

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor’s report, state that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

# Section 5.80 - Written Representations

## Scope

1. This Section of SA-SLCE deals with the auditor’s responsibility to obtain written representations from management and, where appropriate, those charged with governance.

## Objectives

2. The objectives of the auditor are:

(a) To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;

(b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other sections of SA-SLCE; and

(c) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor.

## Requirements

### Preparation of the financial statements, Information provided and Completeness of Transactions

3. The auditor shall request management to provide a written representation which shall be for all financial statements and period(s) referred in the auditor’s report that:

(a) It has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.

(b) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and

(c) All transactions have been recorded and are reflected in the financial statements.

4. Other sections of SA-SLCE require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations.

5. If management does not provide one or more of the requested written representations, the auditor shall:

(a) Discuss the matter with management;

(b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor’s report in accordance with section 7.05, having regard to the requirement in paragraph 6 below.

6. The auditor shall disclaim an opinion on the financial statements in accordance with section 7.05 if:

(a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraph 3 above is not reliable; or

(b) Management does not provide the written representations required by paragraph 3 above.

# Chapter 5

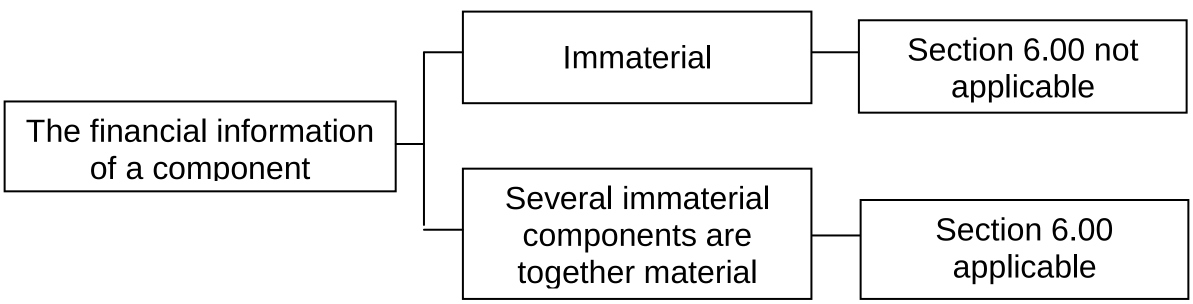
# Using Work of Other

## Section 6.00 - Using the Work of Another Auditor

### Introduction

1. This Section of SA-SLCE deals with the responsibility of the principal auditor in relation to the use of work of other auditors.

**2. Application of Section 6.00:** Where a principal auditor, reporting on the financial information of an entity, uses the work of other auditor with respect to the financial information of one or more components included in the financial information of the entity.




3. 'Financial information' encompasses 'financial statements'.

4. When the principal auditor uses the work of another auditor, the principal auditor shall determine how the work of another auditor will affect the audit.

**Exclusion:** Section 6.00 does not cover instances where two or more auditors are appointed as joint auditor and relationship with predecessor auditor.

**Acceptance as Principal Auditor**

5. Auditor shall decide whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose, the auditor shall consider:

i. The materiality of the portion of the financial information which the principal auditor audits.

ii. Principal auditor's degree of knowledge regarding the business of the components

iii. Risk of material misstatements in the financial information of the components audited by the other auditor.

iv. Performance of additional procedures regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

**6. Principal Auditor's Procedures**

I. In certain situations, statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.

II. Consider the professional competence of the other auditor who is not a member of ICAI in the context of the specific assignment.

III. Perform procedures to obtain sufficient appropriate audit evidence that the other auditor's work is adequate for the principal auditor's purpose. Principal auditor to follow the below-mentioned procedures:

    a. Advise the other auditor of the use that is to be made of the other auditor's work

    b. Co-ordinate efforts at the planning stage

    c. Inform the other auditor of areas requiring special consideration such as:

        i. Procedure for identification of inter-component transactions which may require disclosure.

        ii. Time-table of audit completion.

    d. Advise on the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

IV. Discuss audit procedures applied by the other auditor or review a written summary of the findings which may be in the form of questionnaire or checklist;

V. The principal auditor may also wish to visit the other auditor.

VI. Nature, timing, and extent of procedures depend upon the engagement and principal auditor's understanding of the other auditor's professional competence.

VII. Consider the significant findings of the other auditor.

VIII. Discuss the audit findings or other matters with the other auditor and the management;

IX. Decide if supplemental test of the records or financial statements of the component are necessary.

X. The principal auditor shall document in his working papers, the components whose financial information was audited by other auditors; their significance to the financial information of the entity as a whole; the names of the other auditors; and any conclusions reached that individual components are not material. The principal auditor shall also document the procedures performed and the conclusions reached.

XI. Where the other auditor's report is other than unmodified, the principal auditor shall also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

## 7. Co-ordination between the Auditors

I. There shall be sufficient liaison (through written communication) between the principal auditor and other auditors.

II. The other auditor, knowing the context in which his work is to be used by the principal auditor, shall co-ordinate with the principal auditor.

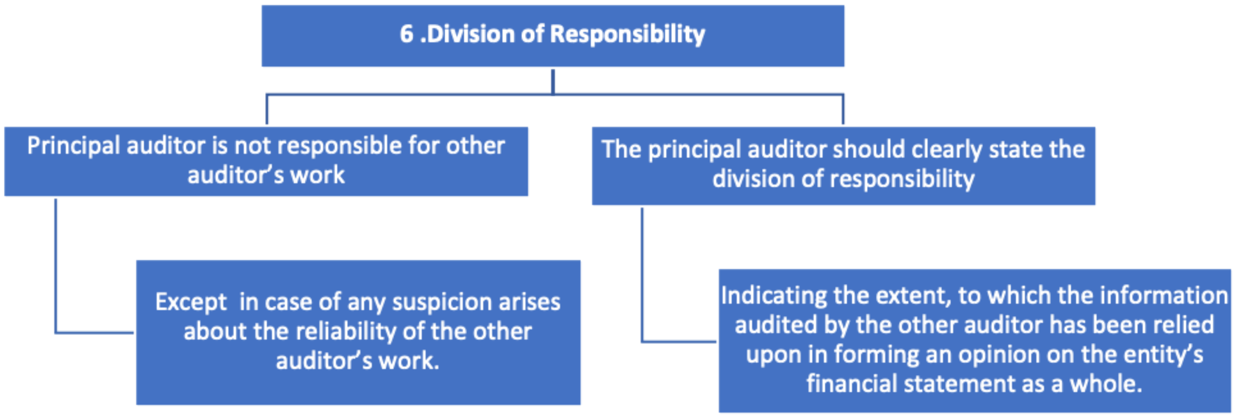
III. Principal auditor shall advise the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.

IV. The principal auditor may require the other auditor to answer detailed questionnaire required for discharging duties. Other auditor should respond to such questionnaire on a timely basis**.**

## 8. Reporting Considerations

I. Based on audit procedures, if principal auditor concludes that the work of the other auditor cannot be used and he has not been able to perform sufficient additional procedures regarding components audited by the other auditor, principal auditor shall express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

II. If the other auditor issues or intends to issue a modified auditor's report, then the principal auditor should consider if it requires modification to the principal auditor's report based on the nature & significance of the subject of modification.




## Section 6.10 - Using the Work of Internal Auditors

### Scope

1. This Section of SA-SLCE deals with the external auditor's responsibilities if using the work of internal auditors.

This includes –

(a) Using the work of the internal audit function in obtaining audit evidence and

(b) Using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

2. This section is not applicable if -

A. Entity does not have an internal audit function.

B. The entity has an internal audit function.

   a. The responsibilities and activities of the function are not relevant to the audit; or

   b. Based on the auditor's preliminary understanding of the function obtained as a result of procedures performed under section 3.15, the external auditor does not expect to use the work of the function in obtaining audit evidence.

3. The requirements in this section relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.

4. In some cases, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. SA-SLCE does not override laws or regulations that govern an audit of financial statements.

**The External Auditor's Responsibility for the Audit**

5. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with Section 2.00.

6. This section, defines –

a) Conditions that are necessary for the external auditor to be able to use the work of internal auditors.

b) Necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit.

7. The requirements are designed to provide a framework for the external auditor's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

**8. The relationship between Internal Auditor and External Auditor:**

| **Particulars** | **Internal Audit Function/ Internal Auditor** | **External Auditor** |
|---|---|---|
| Role and Scope | Determined by the management | Statutory and defined by the applicable law and regulation |
| Objective/ Functions | Set by the management and different from the external auditor | Different objectives but some functions performed to achieve objective may be similar |
| Independence & Responsibility | Not independent of the entity irrespective of the degree of autonomy and objectivity | Independent of the entity. Sole responsibility for the audit opinion expressed and that responsibility is not reduced by the use of internal auditor's work |

## Objectives

9. Where the entity has an internal audit function and the external auditor expects to use:

A. The work of the internal audit function (i.e. without direct assistance) to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor:

- Determine areas and extent to which same can be used and
- Whether that work is adequate for purposes of the audit.

B. Internal auditors to provide direct assistance:

- Determine areas and extent to which same can be used and
- To appropriately direct, supervise and review their work.

## Requirements

**Areas and Extent of work of internal audit function to be used -**

10. The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:

(a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;

(b) The level of competence of the internal audit function; and

(c) Whether the internal audit function applies a systematic and disciplined approach, including quality control.

11. The external auditor shall, in communicating with those charged with governance, an overview of the planned scope and timing of the audit in accordance with section 2.60, communicate how the external auditor has planned to use the work of the internal audit function so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement.

**12. Examples of the internal auditor's work:**

(a) Examining of financial and operating information.

(b) Monitoring and reviewing of internal controls.

(c) Risk management.

(d) Review of compliance with laws and regulation etc.

**Using the work of Internal Audit Function**

13. If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities.

14. To use the work of the internal auditors, external auditor shall evaluate and perform audit procedures on that work to determine its adequacy as to whether:

i. Work performed exhibits adequate technical training and proficiency.

ii. Work had been properly planned, performed, supervised, reviewed and documented.

iii. Sufficient appropriate audit evidence has been obtained to draw reasonable conclusions.

iv. Conclusions reached are appropriate in the circumstances.

v. Reports are consistent with the working papers.

vi. Exceptions or unusual matters, if any are properly resolved.

15. The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:

(a) Amount of judgment involved;

(b) Assessed risk of material misstatement;

(c) Extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and

(d) The level of competence of the function.

**Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance**

16. If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. The external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity shall include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity.

**17. Prior to using internal auditors to provide direct assistance** for purposes of the audit, the external auditor shall:

(a) <u>Obtain written agreement from an authorized representative of the entity</u> that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and

(b) <u>Obtain written agreement from the internal auditors</u> that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

18. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with section 2.20 that shall be sufficient for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work.

19. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that**:**

(a) Involve making significant judgments in the audit.

(b) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited.

(c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or

(d) Relate to decisions the external auditor makes in accordance with this section regarding the internal audit function and the use of its work or direct assistance.

**Documentation**

20. The external auditor shall document audit procedures performed for evaluation of the internal audit function, for nature, extent and adequacy of work used, evaluation of the existence and significance of threats to the objectivity of the internal auditors, who reviewed the work performed and the date and extent of that review in accordance with section 2.30; the written agreements obtained from an authorized representative of the entity and the internal auditors; and the working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

## Section 6.20 - Using the Work of an Auditor's Expert

## Scope

1. This Section of SA-SLCE deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

2. This section does not deal with:

(a) Situations where the engagement team includes a member with expertise in specialized area of accounting or auditing, which is dealt with in section 2.20; or

(b) The auditor's use of the work of an individual or organization 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 (a management's expert), dealt with in section 5.00.

**3. The Auditor's Responsibility for the Audit Opinion**

(a) Auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.

(b) Auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence if auditor concludes that the work of that expert is adequate for the auditor's purposes.

## Objectives

4. The objectives of the auditor are:

(a) To determine whether to use the work of an auditor's expert; and

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

## Requirements

A. **Determining the Need for an Auditor's Expert**

5. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.

An auditor's expert may be needed to assist the auditor in one or more of the following:

(a) Obtaining an understanding of the entity and its environment, including its internal control.

(b) Identifying and assessing the risks of material misstatement.

(c) Determining and implementing overall responses to assessed risks at the financial statement level.

(d) Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.

(e) Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

B. **Nature, Timing and Extent of Audit Procedures**

6. The nature, timing and extent of the auditor's procedures with respect to the requirements given in this Section will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including:

(a) Nature of the matter to which that expert's work relates;

(b) Risks of material misstatement in the matter to which that expert's work relates;

(c) Significance of that expert's work in the context of the audit;

(d) Auditor's knowledge of and experience with previous work performed by that expert; and

(e) Whether that expert is subject to the auditor's firm's quality control policies and procedures.

The following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

(a) The work of the auditor's expert relates to a significant matter that involves subjective and complex judgments.

(b) The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.

(c) The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.

(d) The expert is an auditor's external expert and is not, therefore, subject to the firm's quality control policies and procedures.

C. **Competence, Capabilities and Objectivity of the Auditor's Expert**

7. The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.

Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

(a) Personal experience with previous work of that expert.

(b) Discussions with that expert.

(c) Discussions with other auditors or others who are familiar with that expert's work.

(d) Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.

(e) Published papers or books written by that expert.

(f) The auditor's firm's quality control policies and procedures.

D. **Obtaining understanding of the Field of Expertise of the Auditor's Expert**

8. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:

(a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and

(b) Evaluate the adequacy of that work for the auditor's purposes.

E. **Agreement with the Auditor's Expert**

9. The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:

(a) Nature, scope and objectives of that expert's work;

(b) Respective roles and responsibilities of the auditor and that expert;

(c) Nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and

(d) Need for the auditor's expert to observe confidentiality requirements.

F. **Evaluating adequacy of the Auditor's Expert's Work**

10. The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:

(a) Relevance and reasonableness of –

1) The expert's findings or conclusions, and its consistency with other audit evidence;

2) Significant assumptions and methods used in the circumstances; and

(b) Relevance, completeness and accuracy of source data that is used and is significant to that expert's work.

Specific procedures to evaluate adequacy of the auditor's expert's work for the auditor's purposes may include:

(a) Inquiries of the auditor's expert.

(b) Reviewing the auditor's expert's working papers and reports.

(c) Corroborative procedures, such as:

a. Observing the auditor’s expert’s work;

b. Examining published data, such as statistical reports from reputable, authoritative sources;

c. Confirming relevant matters with third parties;

d. Performing detailed analytical procedures; and

e. Re-performing calculations.

(d) Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the auditor’s expert are not consistent with other audit evidence

(e) Discussing the auditor’s expert’s report with management.

If the auditor determines that the work of the auditor’s expert is not adequate for the auditor’s purposes, the auditor shall:

(a) Agree with that expert on the nature and extent of further work to be performed by that expert; or

(b) Perform further audit procedures appropriate to the circumstances.

G. **Reference to the Auditor’s Expert in the Auditor’s Report**

11. The auditor shall not refer to the work of an auditor’s expert in an auditor’s report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor’s report that the reference does not reduce the auditor’s responsibility for the audit opinion.

12. If the auditor makes reference to the work of an auditor’s expert in the auditor’s report because such reference is relevant to an understanding of a modification to the auditor’s opinion, the auditor shall indicate in the auditor’s report that such reference does not reduce the auditor’s responsibility for that opinion.

# Chapter 6

# Audit Conclusions and Reporting

## Section 7.00, 7.05, 7.06 and 7.10 - Forming an Opinion and Reporting on Financial Statements including Modified opinion, Emphasis of matter paragraph, Other matter paragraph and Comparative information

## Section 7.00 - Forming an Opinion and Reporting on Financial Statements

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

### Objectives

2. The objectives of the auditor are:

(a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) To express clearly that opinion through a written report.

### Requirements

#### Basic Elements of the Auditor's Report

3. The Auditor's report shall be in writing.

i. Title - The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.

ii. Addressee - The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.

iii. Basis for Opinion - The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

  a. States that the audit was conducted in accordance with SA-SLCE.

  b. Refers to the section of the auditor's report that describes the auditor's responsibilities under the SA-SLCE.

c. Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.

d. States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

iv. Auditor's opinion - The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion". The Opinion section of the auditor's report shall also:

a. Identify the entity whose financial statements have been audited;

b. State that the financial statements have been audited;

c. Identify the title of each statement comprising the financial statements;

d. Refer to the notes, including the summary of significant accounting policies; and

e. Specify the date of, or period covered by, each financial statement comprising the financial statements.

f. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

i. In our opinion, the accompanying financial statements present fairly, in all material respects, […] in accordance with [the applicable financial reporting framework]; or

ii. In our opinion, the accompanying financial statements give a true and fair view of […] in accordance with [the applicable financial reporting framework].

g. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

**Auditor's Responsibilities and the management's Responsibilities for the Financial Statements**

The management is responsible for preparing and presenting these financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility is to express an opinion on these financial statements, based on the Audit. **(for detailed responsibilities, refer paragraph on "Auditor's Responsibilities for**

**the Audit of the Financial Statements" given in the illustrations as per Appendix 1)**

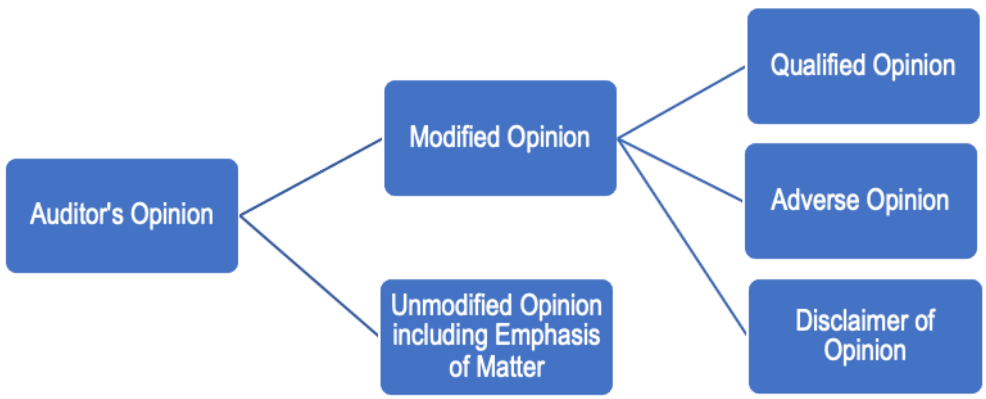
v. Report on Other Legal and Regulatory Requirements (If applicable)

vi. Signature of the Auditor

vii. Place of Signature

viii. Date of the Auditor's Report

**4. Auditor's Opinion**




## Section 7.05 - Modifications to the Opinion in the Independent Auditor's Report

### Scope

1. This Section of SA-SLCE deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with Section 7.00, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This Section also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in Section 7.00 apply, and are not repeated in this Section unless they are explicitly addressed or amended by the requirements of this Section.

### Objective

2. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

(a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

## Requirements

### Modified Opinion

3. The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

| Nature of Matter Giving Rise to the Modification | Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements | |
|---|---|---|
| | Material but Not Pervasive | Material and Pervasive |
| Financial statements are materially Misstated | Qualified opinion | Adverse opinion |
| Inability to obtain sufficient appropriate audit evidence | Qualified opinion | Disclaimer of opinion |

## Section 7.06 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

## Scope

1. This Section of SA-SLCE deals with additional communication in the auditor's report when the auditor considers it necessary to:

(a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or

(b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## Objective

2. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or

(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

3. **Emphasis of Matter or other matter paragraph**

(a) Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

(b) Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## Requirements

*Including an Emphasis of Matter Paragraph in the Auditor's Report*

(4) The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

i. A modified opinion when required by the circumstances of a specific audit engagement;

ii. Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or

iii. Reporting when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

*Including an Other Matter Paragraph in the Auditor's Report*

(5) The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

## Section 7.10 - Comparative Information—Corresponding Figures and Comparative Financial Statements

### Scope

1. This Section of SA-SLCE deals with the auditor’s responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in Section 5.10 regarding opening balances also apply.

### Objectives

2. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and

(b) To report in accordance with the auditor’s reporting responsibilities.

### Requirements

3. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor’s report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor’s report:

(a) That the financial statements of the prior period were audited by the predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report.

4. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor’s report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements.

## Section 8.00 - Special Considerations – Audits of Financial Statements prepared in accordance with Special Purpose Framework

### Scope

1. The Sections of SA-SLCE from 2.00 to 7.10 apply to an audit of financial statements. This section deals with special considerations in the application of those sections of SA-SLCE to an audit of financial statements prepared in accordance with a special purpose framework.

### Objective

2. The objective of the auditor, when applying SA-SLCE in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

a) The acceptance of the engagement;

b) The planning and performance of that engagement; and

c) Forming an opinion and reporting on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

### Requirements

3. Special purpose financial statements are prepared in accordance with special purpose framework. Example - financial reporting provisions established by regulator to meet regulator/user requirement.

4. The auditor shall plan the audit and apply Section 3.15, Section 3.30 and all other Sections of SA-SLCE required for risk assessment, planning and obtaining evidence etc. Accordingly, the reporting and conclusion will also be governed by Section 7.00 and other applicable Sections.

5. Auditor shall examine the purpose for which these financial statements are prepared, and the intended users. The auditor shall also examine the steps taken by the management to determine that the specified framework for preparation of the financial statements is appropriate.

6. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a

result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.

## Section 8.05 - Specific Considerations – Audits of Single Financial Statements and Specific elements, accounts or items of a Financial Statement

### Scope

1. The Sections of SA-SLCE from 2.00 to 7.10 apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This Section deals with special considerations in the application of those Sections of SA-SLCE to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, Section 8.00 also applies to the audit.

### Objective

2. The objective of the auditor, when applying SA-SLCE in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

a) The acceptance of the engagement;

b) The planning and performance of that engagement; and

c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

### Requirements

3. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SA-SLCE is practicable.

4. As required by Section 2.10, the auditor shall have audit engagement letter in writing describing the expected form of any reports to be issued by the auditor. The report for specific element under this Section shall be separate, in case auditor is also issuing a report on the complete set of financial statements.

5. The auditor shall plan the audit and apply Section 3.15, Section 3.30 and all other Sections of SA-SLCE required for risk assessment, planning and obtaining evidence

etc. Accordingly, the reporting and conclusion will also be governed by Section 7.00 and other applicable Sections.

6. If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report, accordingly.

7. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole then the SA-SLCE does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole.

8. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

(a) The auditor is not prohibited by law or regulation from doing so;

(b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and

(c) The specific element does not constitute a major portion of the entity's complete set of financial statements.

9. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

## Appendix 1

### Illustrations of Independent Auditor's Reports on Financial Statements

- Illustration 1: An Auditor's report on financial statements of a non-corporate entity prepared in accordance with a fair presentation framework
- Illustration 2: An Auditor's report on financial statements of a non-corporate entity prepared in accordance with a general purpose compliance framework

### Illustration of Auditor's Report with Modifications to the Opinion

- Illustration 3: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements

**Illustration 1 – Auditor's Report on Financial Statements of a Non-Corporate Entity Prepared in Accordance with a Fair Presentation Framework**

| |
|---|
| For purposes of this illustrative auditor's report, the following circumstances are assumed:<br>• Audit of a complete set of financial statements of a non-corporate entity using a fair presentation framework.<br>• The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.<br>• The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Section 2.10.<br>• The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.<br>• The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI[1].<br>• Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with Section 5.70.<br>• Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.<br>• The auditor has no other reporting responsibilities required under local law. |

**INDEPENDENT AUDITOR'S REPORT**

To the Partners of ABC & Associates [or Other Appropriate Addressee]

**Opinion**

We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31st 20XX, and the profit and loss account, *(and statement of cash flows)*[2] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the entity as at March 31, 20XX, and of its financial performance *(and its cash flows)*[3] for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

[1] Specify any applicable ethical requirements under the relevant laws or regulations applicable to the entity.
[2] Where applicable.
[3] Where applicable

### Basis for Opinion

We conducted our audit in accordance with the SA-SLCE. Our responsibilities under SA-SLCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the Code of Ethics issued by ICAI and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements[4]

Management is responsible for the preparation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the entity in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SA-SLCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SA-SLCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

[4] Or other terms that are appropriate in the context of the legal framework of the particular entity.

- Obtain an understanding of internal control relevant to the audit 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation[5])
(Membership No.)
UDIN

Place of Signature:

Date:

[5] Partner or Proprietor, as the case may be

**Illustration 2 – Auditor's Report on Financial Statements of a Non-Corporate Entity Prepared in Accordance with a General Purpose Compliance Framework**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity, required by law or regulation.
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Laws) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Section 2.10.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Code of Ethics issued by ICAI[6].
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with Section 5.70.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the financial statements of ABC & Associates (the entity), which comprise the balance sheet as at March 31, 20X1, and the Profit and Loss Account *(and the cash flow statement)*[7] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the entity are prepared, in all material respects, in accordance with XYZ Laws.

---

[6] Specify any applicable ethical requirements under the relevant laws or regulations applicable to the entity.

[7] Where applicable.

**Basis for Opinion**

We conducted our audit in accordance with the SA-SLCE. Our responsibilities under SA-SLCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the Code of Ethics issued by ICAI and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[8]

Management is responsible for the preparation of the financial statements in accordance with XYZ Laws and 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SA-SLCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SA-SLCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

[8] Or other terms that are appropriate in the context of the legal framework of the particular entity.

an opinion on the effectiveness of the entity's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation[9])
(Membership No.)
UDIN

Place of Signature:

Date:

[9] Partner or Proprietor, as the case may be.

**Illustration 3 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a non-corporate entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Section 2.10.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are ICAI's Code of Ethics and applicable law and regulation.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- A more limited description of the auditor's responsibilities section is required.
- The auditor has no other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

To the Partners of ABC & Associates

**Disclaimer of Opinion**

We were engaged to audit the financial statements of ABC & Associates ("the entity"), which comprise the balance sheet as at March 31, 20X1, the statement of Profit and Loss, and (statement of cash flows)[10] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

[10] Where Applicable.

**Basis for Disclaimer of Opinion**

We were not appointed as auditors of the entity until after March 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and 20X1, which are stated in the Balance Sheets at Rs XXX and Rs XXX, respectively. In addition, the introduction of a new computerized accounts receivable system in November 20X0 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs xxx as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss (*and statement of cash flows)*[11].

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[12]

[*Reporting in accordance with Illustration 1*]

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to conduct an audit of the entity's financial statements in accordance with SA-SLCE and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the entity in accordance with the ethical requirements in accordance with the requirements of the Code of Ethics issued by ICAI and the ethical requirements as prescribed under the laws and regulations applicable to the entity.

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation[13])
(Membership No.)

UDIN

Place of Signature:

Date:

[11] Where applicable.
[12] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.
[13] Partner or Proprietor, as the case may be.

# Appendix 2

## Definitions of Terms

**For purposes of SA-SLCE, the following terms have the meanings attributed below**

**Section 2.00 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SA-SLCE**

(a) *Professional judgment* – The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

(b) *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.

(c) *Reasonable assurance* – In the context of an audit of financial statements, a high, but not absolute, level of assurance.

(d) *Risk of material misstatement* – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

i. *Inherent risk* – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

ii. *Control risk* – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

**Section 2.20 - Quality Control for an Audit of Financial Statements**

(a) *Engagement partner* – the partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

(b) *Engagement team* – all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement. The term "engagement team" excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of Section 6.10.

(c) *Firm* – a sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.

(d) *Monitoring* – a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.

(e) *Partner* – any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(f) *Personnel* – partners and staff.

(g) *Professional Standards* – Engagement Standards, as defined in the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", issued by the Institute of Chartered Accountants of India and relevant ethical requirements as contained in the Code of Ethics issued by the Institute.

(h) *Relevant ethical requirements* – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise the Code of Ethics of the Institute of Chartered Accountants of India related to an audit of financial statements.

(i) *Staff* – professionals, other than partners, including any experts which the firm employs.

(j) *Suitably qualified external person* – an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

**Section 2.30 - Audit Documentation**

(a) *Audit documentation* – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).

(b) *Audit file* – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

(c) *Experienced auditor* – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

i. Audit processes;

ii. SA-SLCE and applicable legal and regulatory requirements;

iii. The business environment in which the entity operates; and

iv. Auditing and financial reporting issues relevant to the entity's industry.

**Section 3.15 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment**

(a) *Assertions* – Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

(b) *Business risk* – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

(c) *Internal control* – The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

(d) *Risk assessment procedures* – The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

(e) *Significant risk* – An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

**Section 3.30 - The Auditor's Responses to Assessed Risks**

(a) *Substantive procedure* – An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

 (i) Tests of details (of classes of transactions, account balances, and disclosures), and

 (ii) Substantive analytical procedures.

(b) *Test of controls* – An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

**Section 4.02 - Audit Considerations Relating to an Entity Using a Service Organisation**

(a) *Complementary user entity controls*:- Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.

(b) *Report on the description and design of controls at a service organisation (referred to in this Section as a Type 1 report)* – A report that comprises:

(i) A description , prepared by management of the service organisation , of the service organisation's system, control objectives and related controls that have been designed and implemented as at a specified date; and

(ii) A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

(c) *Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in this Section as a Type 2 report)* – A report that comprises:

(i) A description prepared by management of the service organisation, of the service organisation's system, control objectives and related controls , their design and implementation as at a specified date or throughout a specified period and , in some cases , their operating effectiveness throughout a specified period; and

(ii) A report by the service auditor with the objective of conveying reasonable assurance that includes:

a. The service auditor's opinion on the description of the service organisation's system, control objectives and related controls ,the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls"; and

b. A description of the service auditor's tests of the controls and the result thereof.

(d) *Service auditor* – An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

(e) *Service organisation* – A third-party organisation (or segment of a third party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.

f) *Service organisation's system* – The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report.

(g) *Subservice organisation* – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

(h) *User auditor* – An auditor who audits and reports on the financial statements of a user entity.

(i) *User entity* – An entity that uses a service organisation and whose financial statements are being audited.

**Section 4.50 - Evaluation of Misstatements Identified during the Audit**

(a) *Misstatement* – A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.

(b) *Uncorrected misstatements* – Misstatements that the auditor has accumulated during the audit and that have not been corrected.

**Section 5.00 - Audit Evidence**

(a) *Accounting records* – The records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

(b) *Appropriateness (of audit evidence)* – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

(c) *Audit evidence* – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

(d) *Management's expert* – An individual or organization 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.

(e) *Sufficiency (of audit evidence)* – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

**Section 5.30 - Audit Sampling**

(a) *Statistical sampling* – An approach to sampling that has the following characteristics:

   i. Random selection of the sample items; and

   ii. The use of probability theory to evaluate sample results, including measurement of sampling risk.

(b) *Non Statistical sampling* – An approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.

**Section 5.40 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

(a) *Accounting estimate* – An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this Section addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used.

(b) *Auditor’s point estimate or auditor’s range* – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate.

(c) *Estimation uncertainty* – The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

(d) *Management bias* – A lack of neutrality by management in the preparation and presentation of information.

(e) *Management’s point estimate* – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.

(f) *Outcome of an accounting estimate* –The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.

**Section 5.50 - Related Parties**

(a) *Arm’s length transaction* – A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

(b) *Related party* – A party that is either:

   (i) A related party as defined in the applicable financial reporting framework; or

   (ii) Where the applicable financial reporting framework establishes minimal or no related party requirements:

a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;

b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or

c. Another entity that is under common control with the reporting entity through having:

    i. Common controlling ownership;

    ii. Owners who are close family members; or

    iii. Common key management.

However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

**Section 5.60 - Subsequent Events**

(a) *Date of the financial statements* – The date of the end of the latest period covered by the financial statements.

(b) *Date of approval of the financial statements* – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

(c) *Date of the auditor's report* – The date the auditor dates the report on the financial statements in accordance with Section 7.00.

(d) *Date the financial statements are issued* – The date that the auditor's report and audited financial statements are made available to third parties.

(e) *Subsequent events* – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

**Section 5.80 - Written Representations**

(a) *Written representations* – A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

For purposes of this Section, references to "management" should be read as "management and, where appropriate, those charged with governance." Furthermore, in the case of a fair presentation framework, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the applicable financial reporting framework.

**Section 6.00 - Using the Work of Another Auditor**

(a) *Principal Auditor* – Auditor with the responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.

(b) *Other Auditor* – An auditor other than the principal auditor, with the responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

(c) *Component* – A division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

**Section 6.20** - **Using the Work of an Auditor's Expert**

(a) *Auditor's expert* – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

Expertise in a field other than accounting or auditing may include expertise in relation to such matters as **-**

i. The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and impairment of assets.

ii. The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.

iii. The estimation of oil and gas reserves.

iv. The valuation of environmental liabilities, and site clean-up costs.

v. The interpretation of contracts, laws and regulations.

vi. The analysis of complex or unusual tax compliance issues.

(b) *Management's expert* – An individual or organization 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.

**Section 8.05 - Specific Considerations – Audits of Single Financial Statements and Specific elements, accounts or items of a Financial Statement**

For purposes of this Section, reference to:

a) *"Element of a financial statement" or "element"* means an "element, account or item of a financial statement";

b) *“Financial Reporting Standards”* means the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) or the Accounting Standards, notified by the Central Government under Section 133 of the Companies Act, 2013 or the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India, as may be applicable; and

c) A single financial statement (for example, a cash flow statement) or a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.