

This Agenda Item presents an example of a Separate Standard for Audits of Small- and Medium-Sized Entities SMEs. This draft example was developed by an informal working group of the IAASB in 2017 with no further progression beyond this informal group.

The draft has been developed on the basis of similar principles that have been set out in paragraphs 51 – 72 of Agenda Item 4 and is intended to illustrate examples of how those overarching principles could be applied in the development of a separate standard.

This Supplement will not be discussed and is provided FOR REFERENCE ONLY.

ABOUT THE EXAMPLE STANDARD (EXAMPLE SME STANDARD)

This Example SME Standard is drafted based on the same framework as the full ISA's and follows many of the same principles and concepts. The standard is a principles-based, stand-alone audit standard, tailored specifically to audits of the financial statements of SME's. The development of this Example SME Standard was drafted taking into account the IAASB's description of a "smaller entity":

Smaller entity: An entity which typically possesses qualitative characteristics such as:

- (a) Concentration of ownership, and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
- (b) One or more of the following:
 - (i) Straightforward or uncomplicated transactions;
 - (ii) Simple record-keeping
 - (iii) Few lines of business and few products within business lines;
 - (iv) Few internal controls
 - (v) Few levels of management with responsibility for a broad range of controls; or
 - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

STANDARD FOR AUDITS OF SMALL ENTITIES (DRAFT)

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Appendix 1. Sample audit report

General Principles and Responsibilities

Overall Objectives

1. The overall objectives of the auditor when conducting an audit of financial statements are:
 - to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
 - to evaluate whether:
 - the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
 - the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements
 - to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained;
 - to express an opinion on the financial statements, through a written report; and
 - to communicate further as required by this standard.

Supervision and quality control

2. Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
 - (a) The Firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
 - (b) Reports issued by the firm and engagement partners are appropriate in the circumstances.¹
3. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.
4. Throughout the engagement, the engagement partner shall remain alert, through observation, inspection of audit documentation and making inquiries as necessary and for evidence of non-compliance with relevant ethical requirements by members of the engagement team.
5. The engagement partner shall take responsibility for:
 - determining that appropriate procedures regarding acceptance and continuance of the audit engagement have been followed and determining that conclusions reached in that regard are appropriate;
 - the direction, supervision and performance of the audit engagement in compliance with professional standards, relevant ethical requirements and applicable legal and regulatory requirements;

¹ ISQC 1, Quality Control for Firm's that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, paragraph 11

- reviews being performed in accordance with the firm's review policies and procedures;
- sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued;
- the auditor's report being appropriate in the circumstances;
- consultations being made in accordance with the firm's policies and procedures on difficult or contentious matters.
- following firm's policies and procedures when there are differences of opinions within the engagement team, with those consulted and with the engagement partner and the engagement quality control reviewer;
- considering the results of the firm's monitoring process as evidence in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement, and
- an engagement quality control review being performed in accordance with the firm's policies and procedures.

Performing the audit

6. Unless law or regulation precludes use of this standard the audit shall be conducted in accordance with this standard. When performing the audit of the financial statement the auditor shall;
- comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements;
 - plan and perform the audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated;
 - exercise professional judgment in planning and performing the audit of the financial statements; and
 - obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level at financial statement and assertion level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

Throughout the audit the auditor may consider additional guidance from the ISA on a specific issue to help exercise your judgement

Audit evidence

7. The objective of the auditor is to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. When obtaining information to be used as audit evidence, the auditor shall consider the relevance and reliability of the information. The source of the information, original vs. copy and written vs. oral information, influence the auditor's considerations of the reliability.
8. When using information produced by the entity, the auditor shall evaluate the accuracy and completeness of the information and whether the information is sufficiently precise and detailed for the auditor's purposes.

9. When using information prepared by management's expert or auditors experts, the auditor shall, to the extent necessary:
 - evaluate the competence, capabilities and objectivity of the expert who has prepared the information;
 - obtain an understanding of the work of the expert; and
 - evaluate whether the auditor can rely on the information as audit evidence.
10. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.
11. If the auditor during the audit identifies exceptions, differences or non-compliance, the auditor shall consider the impact to the audit and consider modifications or additions to the audit procedures.
12. The auditor shall determine what modifications or additions to audit procedures are necessary to resolve any inconsistencies and shall consider their effect on other aspects of the audit and document how the auditor addressed the inconsistency, if:
 - audit evidence obtained from one source is inconsistent with that obtained from another; and
 - the auditor has doubts over the reliability of information to be used as audit evidence.

Documenting the engagement

13. The auditor shall prepare documentation that provides:
 - a sufficient and appropriate record of the basis for the auditor's report; and
 - evidence that the audit was planned and performed in accordance with this standard and applicable legal and regulatory requirements.

Documentation Requirements

14. The auditor shall prepare audit documentation on a timely basis that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
 - the nature, timing and extent of the audit procedures planned and performed to comply with this standard and applicable legal and regulatory requirements, including significant changes made during the audit in relation to the timing and extent of procedures performance and work reviewed, including who performed the work;
 - the results of the audit procedures performed, and the audit evidence obtained, including the characteristics of the specific items or matters tested; and
 - significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
15. Where matters arise that are required by this standard to be communicated with management, and those charged with governance, the auditor shall include them, and when and to whom they were communicated, in the audit documentation. The auditor shall document 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.

Assembly of the Final Audit File

16. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. After the assembly of the final audit file, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. If the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document: the specific reasons for making them; and when and by whom they were made and reviewed.

Communication with management and those charged with governance

17. The auditor shall communicate with management, and those charged with governance, on a timely basis. Matters to be communicated include;
- significant findings from the audit;
 - the auditor's views about qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - difficulties, if any, encountered during the audit.
 - significant matters arising during the audit that were discussed with or were subject to correspondence with management.
 - identified control deficiencies
 - identified misstatements or potential misstatements.
 - Identified or suspected fraud or information that indicates that a fraud may exist
 - identified or suspect non-compliance with laws or regulations with relevance for the audit
 - circumstances, if any, that affect the form and content of the auditor's report;
 - written representations the auditor is requesting;
 - communication requirements under laws and regulation;
 - 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.
18. The auditor shall use professional judgment in determining the appropriate form of communicating with management and those charged with governance. When determining the form of communication, the auditor shall consider;
- legal requirements for communication; and
 - the significance of the matters to be communicated

Acceptance or continuance of an audit engagement

Objective

19. The objective of the auditor is to evaluate whether to accept or continue an audit engagement if the preconditions for an audit are present and there is a common understanding of the terms of engagement.

Preconditions for an Audit and terms of engagement

20. In order to establish whether the preconditions for an audit are present the auditor shall determine whether;
- the financial reporting framework to be applied in the preparation of the financial statements is acceptable;
 - management will provide the auditor with:
 - all information of which management is aware that is relevant
 - any additional information that the auditor may request from management
 - unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
 - management or those charged with governance impose a limitation on the scope of the auditor's work such that the auditor believes that the limitation will result in the auditor disclaiming the opinion on the financial statements and therefore the auditor shall not accept such a limited engagement, unless required by law or regulation to do so.;
 - there are any threats to compliance with relevant ethical requirements, including independence; and
 - there are other factors that may affect the acceptance or continuance of the engagement.
21. The auditor shall obtain from management or those charged with governance, as appropriate, an written agreement:
- of the terms of the audit engagement, including:
 - the objective and scope of the audit
 - the responsibilities of the auditor and the responsibilities of management
 - identification of the applicable financial reporting framework
 - 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.
 - that it acknowledges and understands its responsibility:
 - for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

- 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
 - to provide the auditor with:
 - 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;
 - additional information that the auditor may request from management for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
22. The auditor shall assess whether the terms of engagement are appropriate and specified in sufficient detail in an engagement letter or other suitable form of written confirmation, or in law or regulation. On recurring engagements, the auditor shall assess whether circumstances require the terms of engagements to be revised and whether there is a need to remind the engaging party of the existing terms of engagements.

Additional Documentation requirements

23. In addition to the general documentation requirements (13-16) for an audit engagement, the auditor shall include the following in the audit documentation:
- threats identified with respect to compliance with relevant ethical requirements, how they were resolved and the overall conclusion on compliance with those requirements, including applicable independence requirements;
 - conclusions reached regarding the acceptance and continuance of client relationships and audit engagements; and
 - the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

Planning

Objective

24. The objective of the auditor is to plan the audit so that it will be performed in an effective manner to include the application of the concept of materiality appropriately in planning and performing the audit.

Scope, timing and direction

25. The auditor shall set the scope, timing and direction of the audit that supports the development of the audit. In establishing the scope, timing and direction of the audit, the auditor shall:
- identify the characteristics of the engagement that define its scope;
 - ascertain the expected timing of the audit and the nature of the communications and reporting required;

- consider the factors that, in the auditor's professional judgment, are significant in determining the scope, timing and direction of the audit;
- consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for this entity is relevant; and
- ascertain the nature, timing and extent of resources necessary to perform the audit.

Determining Materiality

26. The auditor shall determine materiality for the financial statements as a whole.
27. 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.
28. The auditor shall determine performance materiality for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.
29. If the auditor becomes aware of information during the audit that would have caused the auditor to determine a different materiality level or levels for particular classes of transactions, account balances or disclosures, the materiality level shall be revised.

Additional Documentation requirements

30. In addition to the general documentation requirements (13-16) for an audit engagement, the auditor shall include the following in the audit documentation:
 - the scope, timing and direction of the audit, and significant changes made during the audit, together with the reasons for such changes.
 - the materiality, including any revisions, for the financial statements as a whole, and judgments made in determining materiality, to include:
 - materiality level or levels for particular classes of transactions, account balances or disclosures;
 - performance materiality

Risk assessment

Objective

31. 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 obtaining an understanding of the entity and its environment, including the entity's internal controls, and thereby providing a basis for designing responses to the assessed risks of material misstatement.

Risk Assessment Procedures and Related Activities

32. The auditor shall perform risk assessment procedures to obtain an understanding of the entity and its environment and to enable the auditor to identify and assess the risks of material misstatement at the financial statement and assertion levels. Throughout the audit, the auditor shall remain alert for evidence of events or changes of circumstances that may affect existing, or identify new, risks.
33. The risk assessment procedures shall include:
- inquiries with management and 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;
 - analytical procedures to identify unusual or unexpected trends and relationships that may indicate risks of material misstatement; and
 - observation and inspection.
34. The auditor shall consider information obtained from the acceptance and continuance and other engagements performed by the engagement partner for the entity.
35. In addition, the risk assessment procedures shall include those procedures determined necessary to be able to;
- identify potential fraud risk, including assessing potential incentives or pressure to commit fraud, perceived opportunities to do so and rationalization of the act
 - assess whether the entity may have entered into agreements or relationships that may result in unrecognized liabilities, future commitments or changes to current asset valuations;
 - assess whether transactions, events or conditions exist that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements. When an estimate is assessed to be significant for an item in the financial statements, the auditor shall obtain an understanding of the assumptions and methods used in determining the estimate;
 - assess the entity's ability to continue as a going concern;
 - identify risks related to non-compliance with laws and regulations that may have a material effect on the financial statements; and
 - identify the entity's related parties, and if applicable:
 - understand the nature of the relationships between the entity and the related parties; and
 - identify and understand the nature and purpose of any transactions with the related parties.

Understanding of the entity and its environment

36. To be able to identify and assess the risks of material misstatement at the financial statement and assertion levels the auditor shall obtain an understanding of;
- relevant industry, legal and regulatory and other external factors, including the applicable financial reporting framework affecting the entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

- the nature of the entity, including operations, ownership and governance structures, investment plans, structure and financing, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- 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.
- the entity's control environment relevant to financial reporting, including consideration related to;
 - the governance and management functions;
 - the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity;
 - the owner-managements active involvement influencing the risks arising from lack of segregation of duties and management override of controls;
 - that the control environment in itself does not prevent, or detect and correct, a material misstatement.
- the information system relevant to financial reporting, including;
 - For significant classes of transactions, the auditor shall obtain an understanding on how those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements
 - How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
 - The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.
- relevant control activities, evaluate the design and determine whether the controls have been implemented, if the auditor plan to rely on identified control activities.

Identifying and Assessing the Risk of Material Misstatement

Risk assessment

37. The auditor shall identify and assess the risks of material misstatement at:

- the financial statement level; and
- the assertion level for classes of transactions, account balances, and disclosures,

to provide a basis for designing and performing further audit procedures.

38. For this purpose, the auditor shall:

- identify risks, whether due to fraud or error, throughout the process of obtaining an understanding of the entity and its environment, including the control environment and

information system, and by considering the classes of transactions, account balances, and disclosures in the financial statements;

- assess the identified risks, and evaluate whether they relate pervasively to the financial statements as a whole and potentially affect many assertions;
- relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

Risks that require special consideration

39. As part of the risk assessment the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.
40. In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:
- whether the risk is a risk of fraud. The auditor shall treat identified fraud risks as significant risks;
 - whether the risk involves significant transactions with related parties. The auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks;
 - whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
 - the complexity of transactions;
 - the degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
 - whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Reassessment of risk

41. The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

Additional Documentation requirements

42. In addition to the general documentation requirements (13-16) for an audit engagement, the auditor shall include the following in the audit documentation of the auditor's understanding of the entity and its environment and the assessment of the risks of material misstatement:

- key elements of the understanding obtained regarding each of the aspects of the entity and its environment and of the control environment, information system and the sources of information;
- the names of the identified related parties and the nature of the related party relationships;
- the identified and assessed risks of material misstatement, including risk due to fraud, at the financial statement level and at the assertion level;
- the controls related to identified risks of which the auditor has obtained an understanding; and
- identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and parties outside the entity.

The Auditor's Response to Assessed Risks

Objective

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

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

44. 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. Further audit procedures are test of controls, substantive procedures or a combination. When performing further audit procedures at an interim date, the auditor shall consider additional procedures for the remaining period.
45. In designing the further audit procedures, 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 characteristics of the relevant class of transactions, account balance, or disclosure (that is, the inherent risk); and
 - whether the risk assessment takes account of relevant controls (that is, 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);
 - consider whether some risks require the auditor to test controls in addition to performing substantive testing to obtain sufficient appropriate audit evidence
 - specifically design procedures in response to identified significant risks, including tests of details procedures;
 - obtain more persuasive audit evidence the higher the auditor's assessment of risk; and
 - irrespective of identified risk, perform substantive procedures for each material class of transactions, account balance, and disclosure.

46. For assessed risk related to the list below, the auditor shall, when designing further audit procedures include:
- Fraud risk
 - assessing the nature, timing and extent of the audit procedures;
 - recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.
 - 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;
 - whether any additional facts or information have become available since the date on which management made its assessment; and
 - when material uncertainty exists, the effect this may have on fraud risk, including managements involvement in the preparation of accounting estimates and in applying accounting policies.
 - Laws and regulations
 - non-compliance with applicable laws and regulations.
 - Accounting estimates
 - the method used and consistency in the method used by management in preparing the accounting estimate, input and assumptions on which it is based, including estimation uncertainty;
 - historical accuracy in estimates made by management in prior periods;
 - potential biases in the estimates and an evaluation whether the circumstances producing the bias, if any, represents a risk of material misstatement due to fraud; and
 - whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
 - 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.

Tests of Controls

47. If the auditor is planning to place reliance on the effectiveness of 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.
48. 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.

49. When performing test of controls the auditor shall evaluate:

- nature and extent of the controls
- timing of the test of controls
- the operating effectiveness of controls

Substantive procedures

50. 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.

51. 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.

52. Further audit procedures 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;

- testing the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements;
- considerations of whether there is a need to test journal entries in the general ledger and other adjustments made throughout the period;
- evaluation of the business rationale for significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- substantive procedures 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
 - evaluating management's plans for future actions in relation to its going concern assessment;
 - evaluate managements 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;
- a retrospective review of management judgments and assumptions in relation to significant accounting estimates reflected in prior years financial statements; and
- substantive procedures in relation to the financial statement closing process for
 - agreeing or reconciling the financial statements with the underlying accounting records;

- evaluating whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

Substantive analytical procedures

53. When designing and performing substantive analytical procedures to address assessed risks at assertion level the auditor shall:
- evaluate the reliability of data used in the analyses;
 - develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify misstatements;
 - determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required; and
 - for identified differences exceeding acceptable levels, use professional judgment when investigating such differences and performing additional audit procedures as necessary in the circumstances

Test of details

54. When performing test 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.
55. 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.
56. 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.
57. 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.
58. 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 on the confirming party when applicable.

Evaluation

59. When the auditor has performed the audit procedures designed to respond to the assessed risks of material misstatement at the assertion level, evaluations shall be made as to the whether sufficient appropriate audit evidence is obtained for relevant assertions, including evaluation of identified misstatements.

Evaluation of misstatements identified during the audit

60. 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 strategy.
61. 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, 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.
62. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:
 - 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;
 - the potential reaction of the misstatements from the users of the financial statement; and
 - 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.
63. 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.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

64. 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.
65. 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.
66. 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.
67. 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.

Additional Documentation requirements

68. In addition to the general documentation requirements (13-16) for an audit engagement, the auditor shall include the following in the audit documentation of the auditor's responses to the assessed risks of material misstatement:

- the connection between the procedures performed and the assessed risks at the assertion level; and the results of the audit procedures, including the conclusions where these are not otherwise clear;
- all misstatements accumulated during the audit and whether they have been corrected;
- the basis for the auditor's conclusions about:
 - whether uncorrected misstatements are material, individually or in aggregate;
 - the reasonableness of accounting estimates and their disclosure that give rise to significant risks and indicators of possible management bias, if any;
 - the going concern assumption;
 - the compliance with laws and regulations;
 - the fraud risk;
- the related party transactions and their disclosure that give rise to significant risks, if any; and
- evidence that the financial statements agree or reconcile with the underlying accounting records.

Concluding and Reporting

Objectives

69. The objective of the auditor is to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to express clearly that opinion through a written report.

Subsequent events

70. 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.

71. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if the auditor becomes aware of facts or events that may have an impact on the auditor's report:

- after the date of the auditor's report but before the financial statements are issued, or
- after the financial statements have been issued,

the auditor shall perform additional procedures and evaluate the impact on the auditor's report.

Analytical Procedures that Assist When Forming an Overall Conclusion

72. 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.

Written representation

73. The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of matters concerning that:
- it has fulfilled its responsibility for the preparation of the financial statement in accordance with the applicable financial reporting framework;
 - it has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, documentation and personnel that may be relevant to the audit; and
 - all transactions are recorded and are reflected in the financial statements.
74. If managements responsibilities are clearly defined in law and regulation, the auditor can determine not to obtain written representation.
75. The auditor may determine appropriate to include other items in the written representation, such as:
- the extent of uncorrected misstatements;
 - the extent of audit evidence obtained by oral representation;
 - existence of material uncertainty for going concern;
 - estimates with high degree of estimation uncertainty; and
 - existence of related parties and related party transactions.
76. If management does not provide one or more of the requested written representations, the auditor shall:
- Discuss the matter with management.
 - Reevaluate the integrity of management and evaluate the effect this may have on the reliability of oral and written representations and audit evidence in general; and
 - Take appropriate actions, including determining the possible effect on the opinion in the auditor's report.
77. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.

Forming an opinion on the Financial Statements

78. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
79. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
80. The conclusion shall take into account:

- whether sufficient appropriate audit evidence has been obtained,
- whether uncorrected misstatements are material, individually or in aggregate,
- whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.
- if the financial statements are prepared in accordance with a fair presentation framework, whether the financial statements are fairly presented,
- whether the financial statements adequately refer to or describe the applicable financial reporting framework.

Form of opinion

81. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
82. If the financial statements are prepared in accordance with the requirements of a fair presentation framework, the auditor shall express an opinion whether the financial statement are fairly presented in accordance with the applicable financial reporting framework.
83. If the auditor considers it necessary to draw users attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to the users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasized.
84. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.
85. If adequate disclosure about a material uncertainty related to going concern 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 Relating to Going Concern" to:
 - draw the users' attention to a matter presented or disclosed in the financial statements, include an Emphasis of Matter paragraph in the auditor's report.
 - communicate a matter other than those that are presented or disclosed in the financial statements, include an Other Matter paragraph in the auditor's report.

Modified opinion

86. The auditor shall modify the opinion in the auditor's report when the auditor:
 - concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or, where applicable, the financial statements do not achieve fair presentation; or
 - is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

87. When modifying the opinion, the auditor provides:

- a qualified opinion when the auditor:
 - having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements;
 - is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. or
 - in the auditor's judgment management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances but a material uncertainty exists that is not adequately disclosed in the financial statement.
- an adverse opinion when the auditor concludes that:
 - misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - In the auditor's judgment managements use of the going concern basis of accounting in the preparation of the financial statement is inappropriate.
- a disclaimer of opinion when the auditor:
 - is unable to obtain sufficient appropriate audit evidence on which to form an audit opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

88.

Auditor's Report

89. The auditor's report shall be in writing and shall²:

- have a title that clearly indicates that it is the report of an independent auditor.
- identify the entity whose financial statements have been audited; identify each financial statement, notes and significant accounting policies and the date and period covered; and identify the financial reporting framework that has been applied in the preparation;
- include a description of the scope of the audit which shall identify the audit was conducted in accordance with this standard.

² Depending on regulatory requirements there might be additional reporting requirements, such as;

- , express an opinion on:
 - whether the management report is consistent with the financial statements, and
 - whether the management report has been prepared in accordance with the applicable legal requirements;
- if applicable, state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements.

- include a statement that the auditor is independent of the entity in accordance with relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- include a section describing managements responsibilities for preparing the financial statements in accordance with the applicable financial reporting framework, and assessing the entity's ability to continue as a going concern and use of the going concern basis of accounting;
- include a section describing the auditor's responsibilities for the audit of the financial statements;
- state 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.
- express an opinion, which shall be either unqualified, qualified or an adverse opinion and shall state clearly the opinion as to:
 - whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework, or
 - whether the annual financial statement are prepared, in all material respects, in accordance with the applicable financial reporting framework; and,
 - where appropriate, whether the annual financial statements comply with statutory requirements.
 - If the auditor is unable to express an audit opinion, the report shall contain a disclaimer of opinion;
- refer to any other matters or emphasis of matter paragraphs to which the auditor draw attention without qualifying the audit opinion;
- provide a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern;
- be signed and dated, the date of the audit report shall be no earlier than the date on which the auditor obtained sufficient appropriate audit evidence; and
- identify the place of establishment of the statutory auditor(s) or the audit firm(s).

Content of the Auditor's Report When the Opinion Is Modified

90. When the auditor modifies the audit opinion, qualified opinion, adverse opinion or disclaimer of opinion, the auditor shall:
- amend the heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
 - within the basis of opinion section, include a description of the matter giving rise to the modification.
 - include a section in the auditor's report with the heading for the Opinion section "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate. In this section, the auditor
 - Qualified Opinion

When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

- When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

○ Adverse Opinion

When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

- When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
- When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

○ Disclaimer of Opinion

When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- State that the auditor does not express an opinion on the accompanying financial statements;
- State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- Amend the statement which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.