

SA 200 - Overall Objectives of Independent Auditor & Conduct of Audit in accordance with SAs

Objectives of Audit

- To obtain **reasonable assurance**, whether **FS** are **free** from **MM**, whether due to fraud or error, to enable auditor to **express opinion**, whether FS are as per **Applicable Financial Reporting Framework (AFRF)**
- To **report** on FS as per **SAs**
- (Also to **enhance** degree of **confidence of users** in FS)

Inherent (Permanent) Limitations of Audit

Auditor **cannot obtain absolute assurance** that FS are free from MM, due to following limitations, but it is **not justification** for auditor to be satisfied with **less than persuasive (convincing)** audit **evidence**-

- **Nature of Financial Reporting (FR)** - Mgt Judgments, Limitations of Internal Control (IC)
- **Timeliness of FR & Balance between Benefit and Cost** - Matter of **difficulty, time or cost** is **not** in itself a **valid basis** for auditor to omit an audit procedure for which **there is no alternative** or to be satisfied with audit evidence that is **less than persuasive**
- **Nature of Audit procedures** - There are **practical & legal limitations** on ability of auditor to obtain SAAE

Professional Skepticism

Attitude that includes a **questioning mind**, being **alert to conditions** which may indicate **possible misstatement** due to error or fraud, and a **critical assessment** of audit **evidence**

Professional skepticism includes being alert to -

- Audit evidence that **contradicts other audit evidence** obtained
- **Info** that brings into **question reliability of docs** and responses to inquiries
- **Conditions** that may indicate **possible fraud**
- **Circumstances** that suggest need for **procedures in addition** to those required by **SAs**

Maintaining professional skepticism throughout audit is necessary if auditor is to reduce risks of

- **Overlooking unusual** circumstances
- **Over generalising** when drawing **conclusions** from audit observations
- Using **inappropriate assumptions** in determining NTE of audit procedures

Preconditions for audit

<p>To determine whether present? Auditor shall -</p> <ul style="list-style-type: none"> • Determine whether FRF is acceptable and • Obtain agreement of Mgt that it acknowledges and understands its responsibility - <ul style="list-style-type: none"> ○ For preparation of FS as per AFRF ○ For such IC as necessary to enable FS preparation free from MM ○ To provide auditor with - <ul style="list-style-type: none"> ▪ Access to all info of which mgt is aware that is relevant to preparation of FS ▪ Additional info that auditor may request from mgt for purpose of audit ▪ Unrestricted access to persons within entity to obtain audit evidence 	<p>Agreement on audit engagement terms</p> <p>Audit engagement letter is sent by auditor to his client to avoid misunderstanding. Such a letter includes -</p> <ul style="list-style-type: none"> • Responsibilities of Auditor • Responsibilities of Mgt • Objective and Scope of audit of FS • Identification of AFRF for FS preparation • Reference to expected form and content of report to be issued by auditor and a statement that there may be circumstances in which a report may differ from its expected form and content <p>If law or regulation prescribes in detail, terms of audit as above, auditor need not record them in written agreement, except for fact that such law or regulation applies and that Mgt acknowledges its responsibilities</p>
<p>If Preconditions for Audit are not present - Auditor shall discuss with mgt. Auditor shall not accept proposed audit unless required by law or regulation</p>	

Limitation on Scope - In **proposed audit**, such that limitation will result in **disclaiming opinion** on FS, auditor shall **not accept** such a limited engagement, unless required by law or regulation

Acceptance of Change in Terms of Audit Engagement

<p>If, before completing audit, auditor is requested to change to engagement that conveys lower level of assurance, auditor shall determine whether there is reasonable justification</p> <p>Before agreeing to change audit to review or related service, auditor may also need to assess any legal or contractual implications of change</p>	<p>If there is reasonable justification to change audit to review or related service, then to avoid confusion, report on related service would not include reference to -</p> <ul style="list-style-type: none"> • Original engagement • Any procedures that are performed in original audit (except agreed - upon procedures) 	<p>If there is non-agreement to change in terms and lack of permission from mgt to continue original engagement -</p> <ul style="list-style-type: none"> • Withdraw from audit if possible • Determine whether there is any obligation, to report circumstances to TCWG, owners or regulators
---	--	---

Terms of Engagement in Recurring Audits

Factors to consider to revise terms of engagement or to remind entity of existing terms -

- Any indication that **entity misunderstands objective and scope** of audit
- Any **revised or special terms** of engagement
- A recent **change of senior mgt**
- A significant **change in ownership**
- A significant **change in nature or size** of entity's **business**
- A **change in legal** or regulatory requirements
- A **change in FRF** adopted in preparation of FS
- A **change in other reporting** requirements

Audit **documentation** is **not substitute** for entity's **a/c records**. The auditor need **not include** in audit documentation **superseded** drafts of **working papers** and **FS**

Assembly of Final Audit File

It is **administrative process** that does **not** involve performance of **new audit procedures** or drawing of **new conclusions**

Changes may be **made if** they are **administrative** in nature. **Eg** of such changes -

- Documenting audit **evidence** that auditor has **obtained & discussed** with team members **before** date of **auditor's report**
- **Sorting**, collating and **cross-referencing** working papers
- **Signing off** on **completion checklists** relating to file assembly process
- **Deleting** or discarding **superseded documentation**

Completion Memorandum or Audit Documentation Summary

Auditor may find it helpful to prepare and retain, as part of audit documentation, a summary that describes -

- **Significant matters** identified during audit and
- **How** they were **addressed**

Such a summary may facilitate **effective and efficient review and inspection** of audit documentation, particularly for large and complex audits