

# Chartered Professional Accountants of Saskatchewan

– CASE # 2301-06 –

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## REPORT OF THE PROFESSIONAL CONDUCT COMMITTEE TO THE DISCIPLINE COMMITTEE FOLLOWING THE INVESTIGATION OF A WRITTEN COMPLAINT

On June 21, 2023, the Professional Conduct Committee, pursuant to clause 28(2)(a) of *The Accounting Profession Act* (“the Act”) (Appendix A), recommended that the Discipline Committee hear and determine the formal complaint identified in this report against (“ ”).

Specifically, it is alleged that:

1. For the period beginning in or about November 21, 2021 through to about January 13, 2023, failed to uphold appropriate policies designed to ensure that in the conduct of the practice the members of the Institute and any other employees of the firm comply with the Rules of Professional Conduct and perform their professional services with integrity and due care and that they sustain their professional competence. Specifically, it is alleged that allowed ( ) CPA, CMA (“ ”) to:
  - (a) release audit engagement reports for the eight (8) clients identified in Appendix C without the prior authorization of an external licensed monitor; and
  - (b) issue two (2) audit engagement reports for the two (2) clients identified in Appendix D for which there was non-compliance with the CPA Canada Handbook accounting and assurance standards for material financial statement items as identified in Appendix E.

As a result, breached CPA Saskatchewan Bylaws 200.1(a) (previously in force) /200.1 (currently in force) and/or CPA Saskatchewan Standards of Professional Conduct Rule 260.1 and 261.1 (previously in force) /230.1 (currently in force) and 231.1.

Relevant extracts from the CPA Saskatchewan Bylaws and Standards of Professional Conduct and the CPA Canada Handbook as referenced above are appended.

Signed at Regina, Saskatchewan, this 28<sup>th</sup> day of September, 2023



Marc Franklin, CPA, CMA  
Chair, Professional Conduct Committee

### **Section 18: Professional accounting**

18(1) The practice of professional accounting comprises one or more of the following services:

- (a) performing an audit engagement and issuing an auditor's report in accordance with the standards of professional practice published by Chartered Professional Accountants of Canada, as amended from time to time, or an audit engagement or a report purporting to be performed or issued, as the case may be, in accordance with those standards;
- (b) performing any other assurance engagement and issuing an assurance report in accordance with the standards of professional practice published by Chartered Professional Accountants of Canada, as amended from time to time, or an assurance engagement or a report purporting to be performed or issued, as the case may be, in accordance with those standards;
- (c) issuing any form of certification, declaration or opinion with respect to information related to a financial statement or any part of a financial statement, on the application of:
  - (i) financial reporting standards published by Chartered Professional Accountants of Canada, as amended from time to time;
  - (ii) specified auditing procedures in accordance with standards published by Chartered Professional Accountants of Canada, as amended from time to time.

(2) No person who is neither a licensed member nor a licensed firm shall provide or perform services mentioned in subsection (1).

(3) Subsection (2) does not apply to:

- (a) a registrant under the direct supervision and control of a licensed member;
- (b) an employee in relation to services provided to his or her employer or in his or her capacity as an employee of an employer that is not a firm;
- (c) a person providing advice based directly on a declaration, certification or opinion of a licensed member;
- (d) a person providing a service for no gain and without hope of reward;
- (e) a person performing a service for academic research or teaching purposes and not for the purpose of providing advice to a particular person;
- (f) a person acting pursuant to the authority of any other Act.

### **Section 26: Professional Misconduct**

Professional misconduct is a question of fact, but any matter, conduct or things, whether or not disgraceful or dishonorable, is professional misconduct within the meaning of this Act if:

- (a) is harmful to the best interests of the public or the registrants;
- (b) it tends to harm the standing of the profession;
- (c) it is a breach of this Act or the bylaws; or

- (d) it is a failure to comply with an order of the professional conduct committee, the discipline committee or the board.

### **Section 28 (2)(a): Investigation**

On completion of its investigation, the professional conduct committee shall make a written report to the discipline committee recommending:

- (a) that the discipline committee hear and determine the formal complaint set out in the written report;...

### **Section 52: Compliance**

Every registrant and suspended registrant shall comply with this Act and the bylaws.

## APPENDIX B: RELEVANT BYLAWS AND RULES OF PROFESSIONAL CONDUCT<sup>1</sup>

### ***Bylaws (effective November 10, 2014 – December 17, 2021)***

200.1 Practice of the profession or services provided as a Chartered Professional Accountant shall be performed within the context of the following standards of conduct:

- (a) integrity

### ***Bylaws (effective December 17, 2021 to present)***

200.1 A registrant or suspended registrant shall comply with the principle of integrity, which requires that a registrant or suspended registrant be straightforward and honest in all professional and business relationships.

### ***Rules***

#### Firm's Maintenance of Policies and Procedures for Compliance with Professional Standards

260.1 A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that its services are performed in accordance with generally accepted standards of practice of:

- (a) the profession, including the Recommendations and Requirements, as appropriate, set out in the CICA Handbook, and
- (b) the particular business or practice, provided that such standards are not lower than or inconsistent with the generally accepted standards of practice of the profession in which case the generally accepted standards of the profession must be followed.

#### Firm's Maintenance of Policies and Procedures

261.1 A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, the members and students of the Institute who are associated with the firm and any other employees of the firm or other persons with whom the firm contracts to carry out its professional services comply with the rules of professional conduct, and in particular:

- (a) conduct themselves in a manner which will maintain the good reputation of the profession and its ability to serve the public interest;
- (b) perform their professional services with integrity and due care;
- (c) comply with the independence requirements of the Institute;

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<sup>1</sup> The Regulatory Bylaws were amended December 17, 2021. Since the time frame under investigation was March 2020 – December 31, 2022, the Regulatory Bylaws that were in effect during that period are provided.

- (d) comply with the conflict of interest requirements of the Institute;
- (e) sustain their professional competence and keep informed of and comply with developments in professional standards in all functions in which they practice or are relied on because of their calling;
- (f) ensure only authorized individuals have access to and can authorize the release of financial and confidential information relating to clients;
- (g) do not sign or associate themselves with any letters, reports, statements, representation or financial statements which they know or should know is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor make or associate themselves with any oral report, statement or representation which they know or should know is false or misleading;
- (h) ensure that partners or others who are not professional colleagues, such as head office personnel,
  - (i) cannot supersede decisions of members relating to the performance of client engagements within the definition of the practice of public accounting, and
  - (ii) are familiar with and comply with The Chartered Accountants Act, 1986, (Saskatchewan), regulations, bylaws and rules of professional conduct of the Institute; and
- (i) ensure that members of the firm who are members of other professional associations comply with those associations' bylaws and code of ethics.

***Rules in effect June 1, 2022 to present***

Firm's Maintenance of Policies and Procedures for Compliance with Professional Standards

230.1 A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that its services are performed in accordance with generally accepted standards of practice of the profession, and the standards of the particular business or practice, provided that the standards are not lower than or inconsistent with those of the profession in which case the generally accepted standards of the profession must be followed.

Firm's Maintenance of Policies and Procedures

231.1 A firm shall establish, maintain and uphold appropriate policies and procedures designed to ensure that, in the conduct of the practice, the registrants of the Institute who are associated with the firm and any other employees of the firm or other persons with whom the firm contracts to carry out its professional services comply with the RPC, and in particular:

- (a) conduct themselves in a manner which will maintain the good reputation of the profession and its ability to serve the public interest;
- (b) perform their professional services with integrity and due care;
- (c) comply with the independence requirements of the Institute;

- (d) comply with the conflict of interest requirements of the Institute;
- (e) sustain their professional competence and keep informed of and comply with developments in professional standards in all functions in which they practice or are relied on because of their calling;
- (f) ensure only authorized individuals have access to and can authorize the release of financial and confidential information relating to clients;
- (g) do not sign or associate themselves with any letters, reports, statements, representation or financial statements which they know or should know is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor make or associate themselves with any oral report, statement or representation which they know or should know is false or misleading;
- (h) ensure that partners or others who are not professional colleagues, such as head office personnel,
  - (i) cannot supersede decisions of members relating to the performance of client engagements within the definition of the practice of professional accounting or other regulated services, and
  - (ii) are familiar with and comply with and the Rules; and
  - (iii) ensure that members of the firm who are members of other professional associations comply with those associations' bylaws and code of ethics.

**APPENDIX C: LIST OF CLIENTS WHERE AUDIT ENGAGEMENT REPORTS WERE RELEASED PRIOR TO AUTHORIZATION BY AN EXTERNAL LICENSED MONITOR**

Client	Fiscal Period End	Date of Audit Report
(“ ”)	March 31, 2020	May 9, 2022
(“ ”) .	March 31, 2022	October 21, 2022
(“ ”) .	March 31, 2022	October 21, 2022
(“ ”)	September 20, 2021	February 8, 2022
(“ ”)	September 26, 2022	December 2, 2022
(“ ”)	December 31, 2021	April 1, 2022
(“ ”)	December 31, 2021	June 20, 2022
(“ ”)	December 31, 2021	June 20, 2022



APPENDIX D: LIST OF CLIENTS WHERE AUDIT ENGAGEMENT REPORTS WERE RELEASED WITH NON-COMPLIANCE WITH ACCOUNTING AND ASSURANCE STANDARDS FOR MATERIAL FINANCIAL STATEMENT ITEMS

Client	Fiscal Period End	Date of Audit Report
(“ ”)	March 31, 2020	May 9, 2022
(“ ”) .	March 31, 2022	October 21, 2022

## APPENDIX E: NON-COMPLIANCE WITH CPA CANADA HANDBOOK ACCOUNTING AND ASSURANCE STANDARDS

– YEAR ENDED MARCH 31, 2020

- 1) The following deficiencies indicate non-compliance with Canadian Accounting Standards as follows:

Canadian Accounting Standards	Description
PS 1200.005 <sup>2</sup>	The financial statements did not include or were not accompanied by an acknowledgement of the government's responsibility for their preparation.
PS 1200.122 <sup>5</sup>	The statements of operations and changes in net debt did not include a comparison of the actual and budgeted financial results
PS 2200.17	Disclosure of related parties transactions did not include the nature of the relationship with the related parties, the basis of measurement, the amount of outstanding balances and the terms and conditions attached to them. Materiality on the file is \$4,800. Note 6 discloses that there is an account payable of \$213,290 to the There is no note disclosure on how the amounts came to be owing. The notes disclose transactions carried out with another as per an agreement, with funding received of \$106,772 and some unspent funds returned.
PS 3450.085, .087	The government did not disclose the exposures to risk and how they arose. Note 7 discloses financial instruments risk for liquidity and interest rate risk, and describes risk relating to term loans and long term debt; however neither of those items are presented in the Statement of Financial Position
PS 1200.077	Revenues were recognized in the period with no corresponding note disclosure to support the nature of the revenues and its recognition. Materiality is \$4,800. Expense recoveries of \$56,591 were presented in the Statement of Consolidated Operations with a reference to Note 9, but there is no Note 9 in the Notes.

<sup>2</sup> PS 1200 was superseded by PS 1201 in 2011 for most government entities but is still applicable for certain entities which did not adopt Public Sector Accounting Standards by the transition date. There was no documentation in the audit engagement file to determine when the entity adopted Public Sector Accounting Standards. PS1200 was assumed to be applicable and the standards for PS 1201 are consistent.

2) The following deficiencies indicate non-compliance with Canadian Auditing Standards as follows:

Canadian Audit Standards	Description
CAS 220 para. 12, 24, CAS 300 para. 6	There was no documentation that the auditor had completed an assessment with respect to the acceptance and continuance of the client relationship and audit engagement. A-405 shows all conversations about the client were made with the entity's third party bookkeeper. There was no evidence of conversations with the client.
CAS 220 para. 19, 20, 25	The firm was required to have the engagement file undergo an EQCR by a monitor prior to the release of the report. There was no evidence on file that this was completed.
CAS 315 para. 14, 32	There was no documentation on file to support an understanding of the control environment.
CAS 315 para. 18 – 19, 32	There was no documentation of understanding whether there are any review procedures carried out by the entity. Working paper A-560 documents some of the processes to prepare financial statements.
CAS 315 para. 12- 13, 20-21, 32	Documentation of the understanding of internal control did not include evidence that the auditor determined whether the controls were effective or had been implemented. Working papers A-545, A550, A555 and A560 document some controls with referencing made to some evidence of implementation but the documentation in the referenced working papers do not support that the control is implemented.
CAS 315 para. 22, 32	Documentation of risk assessment procedures did not include major activities that the entity uses to monitor internal control.
CAS 240 para. 21, 22, 47, CAS 315 para. 6	As part of the risk assessment procedures, there was no documentation of discussion with those charged with governance regarding understanding how they exercise oversight of management processes and internal controls for identifying and responding to the risks of fraud, or knowledge of any actual, suspected or alleged fraud to corroborate those of management.  Working papers A-505, A-506 and A-436 documented discussions with the entity's bookkeeper only.
CAS 315 para. 25-26	The risk of material misstatement was not assessed at the assertion level for payroll, purchases/payables/payments and revenues/receivables/receipts. The income statement did not have an assessment of risk.
CAS 240 para. 27-28, CAS 315	In exercising judgement as to which risk of material misstatement are significant risks, the auditor did not consider significant risks with related parties. There was no

<b>Canadian Audit Standards</b>	<b>Description</b>
para. 25, 27-29, 32	documentation to consider the risks of transactions that were made between the First Nation and the Chief, including an account payable of \$213,290.
CAS 240 para. 27, 48	<p>When identifying and assessing the risk of material misstatement due to fraud, the auditor did not, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or asserts gave risk to such risks.</p> <p>Materiality is \$4,800. Fraud risks are documented in A506 and assessed as low based on agreements. There was no documentation to support an assessment of the risk of fraud in determining and allocating revenue within various funds including deferred revenues of \$144,992.</p>
CAS 240 para. 29-30, 45, CAS 300 para. 9, CAS 330 para. 5, 28	The auditor did not document the overall responses to address the assessed risks of material misstatement at the financial statement level including risk of material misstatement due to fraud.
CAS 240 para. 31, 45, CAS 300 para. 9, CAS 330 para. 6-7, 28	<p>The auditor did not document the audit procedures whose nature, timing and extent are responsible to the assessed risks of material misstatement at the assertion level, including those due to fraud.</p> <p>Working paper A-590-2 AL references copies of support provided by the bookkeeper. There is no documentation within the referenced working papers as to planned audit procedures or their results.</p>
CAS 240 para. 30	In determining overall responses to address the assessed risk of material misstatement due to fraud at the financial statement level, the auditor did not evaluate whether the selection and application of accounting policies may be indicative of fraudulent financial reporting or incorporate an element of unpredictability into the nature timing and extent of audit procedures.
CAS 240 para. 33, CAS 330 para. 20	The auditor did not test for unauthorized entries and management override and did not document the auditor's understanding of business rationale for significant transactions.
CAS 501 para. 9	The auditor did not design and perform audit procedures in order to identify litigation and claims involving the entity that might give risk to a risk of material misstatement, i.e. inquiry of management or reviewing legal expense accounts.



Canadian Audit Standards	Description
	support other than a general reference to the support for the financial statement balances provided by the bookkeeper.
CAS 700	An auditor's report was not provided to the inspector for inspection. An issued auditor's report was not included with the financial statements. The notes were provided as separate documents. A copy of the issued auditor's report was not located in the engagement working paper file.

## APPENDIX E: NON-COMPLIANCE WITH CPA CANADA HANDBOOK ACCOUNTING AND ASSURANCE STANDARDS

1) The following deficiencies indicate non-compliance with Canadian Accounting Standards as follows:

Canadian Accounting Standards	Description
Part II 3251.04	Materiality was \$49,000. An enterprise did not present separately changes in equity for the period arising from Other changes in Retained earnings. Materiality was \$49,000. Retained earnings had an amount directly reducing the balance by \$24,567 for Refundable Dividend Tax on Hand (RDTOH), which was the same amount in the prior year. There was no note disclosure to explain the transaction. The prior year ending retained earnings was noted as \$1,425,457 but the opening retained earnings were \$1,437, 248, leaving the financial statements unbalanced by \$11,791.
Part II 1540.12, 1540.23	Materiality was \$49,000. The cash flow statement included incorrect classification between operating and investing activities, and there were amounts not disclosed. The inspector was unable to reperform the cash flow statement.
Part II 3856.47(c)	Materiality was \$49,000. The balance sheet did not separately the shares and redemption values for preferred shares of \$764,257 and \$1,033,993. Note 12 discloses Share Capital; however there was no explanation within this disclosure to indicate that the transactions were part of a tax planning arrangement and that all of the conditions to present the shares as equity were met.

2) The following deficiencies indicate non-compliance with Canadian Auditing Standards as follows:

Canadian Audit Standards	Description
CAS 220 para. 20,25	Documentation of the engagement quality control review (EQCR) performed for an audit of an entity, other than a listed entity, that met the criterial for an EQCR did not include: <ul style="list-style-type: none"> <li>a) An evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the report is appropriate; and</li> <li>b) A review of selected audit documentation relating to significant judgements made and the conclusions reached by the engagement team.</li> </ul> The EQCR was documented as completed on the financial statements but not the audit file documentation.

Canadian Audit Standards	Description
CAS 315 para. 18 – 19, 32	There was no documentation of understanding whether there are any review procedures carried out by the entity. Working paper A-560 documents some of the processes to prepare financial statements.
CAS 315 para. 22, 32	Documentation of risk assessment procedures did not include major activities that the entity uses to monitor internal control.
CAS 240 para. 27, 48	<p>When identifying and assessing the risk of material misstatement due to fraud, the auditor did not, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or asserts gave risk to such risks.</p> <p>Materiality is \$49,000. Fraud risks are documented in A-506 and assessed as low with documentation indicating they were recognized when funds are received. Given there are different revenue streams with some accounts receivable it is not clear whether all risks of fraud in revenue recognition are rebutted. Further, some pages referring to a different entity are included in the file.</p>
CAS 240 para. 30	In determining overall responses to address the assessed risk of material misstatement due to fraud at the financial statement level, the auditor did not incorporate an element of unpredictability into the nature timing and extent of audit procedures.
CAS 240 para. 33, CAS 330 para. 20	The auditor did not test for unauthorized entries and management override. Working paper A-670 includes a list of adjusting journal entries with no further documentation whether these were prepared by the auditor or if any audit procedures were completed.
CAS 330 para. 18, CAS 500 para.6	<p>The substantive audit procedures performed on material classes of transactions and account balances were not sufficiently documented. Materiality \$49,000. Cash surrender value of \$34,7171 and investments in a publicly-traded company of \$23,949 had no supporting documentation to verify balances were held by the company. A recalculation of the market value of shares was made but there was no documentation to indicate verification of the number of shares. Accounts receivable of \$110,347 had a working paper containing support for \$43,170 deposits made during one month after year end. There were no audit procedures completed on the remaining \$67,177. Accounts payable of \$237,130 had no audit procedures documented on the listing. There were copies of invoices for payment but no audit procedures were documented.</p> <p>Revenues included a list of various invoices and a copy of the General Ledger \$1,639,318. There was no documentation of audit procedures. Payroll had a comparison of one payroll report to a payroll payment report for December 2021. The assertions being tested were not documented. Working paper A-735.3 documents a listing of expenses by financial statement line item. Another column indicates some amount tested for some line. There is no further documentation to support the audit</p>



Canadian Audit Standards	Description
	procedures completed on these balances. Redeemable shares were classified as equity. There was no documentation to support this on file.
CAS 530 para. 6,7,8,13	The audit used audit sampling in the performance of audit procedures but did not adequately utilize or document sampling. Materiality was \$49,000. Payroll expenses were \$1,057,973. Sampling was used to test two months of costs with no documentation as to why two months were selected. Other expenses of \$373,573 had indication that \$92,375 had some procedures carried out, but there was no documentation as to how the procedure was carried out.
CAS 230 para. 8	<p>The auditor did not prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:</p> <ul style="list-style-type: none"> <li>e) The nature, timing and extend of audit procedures required to comply with CAS and applicable legal and regulatory requirements.</li> <li>f) The results of the audit procedures performed and the evidence obtained.</li> <li>g) The significant findings or issues that arose and conclusions reached.</li> <li>h) The identifying characteristics of specific items or matters tested.</li> </ul> <p>There is support for the financial statement balances, including some that contain referencing. However, documentation of the audit procedures carried out by the auditor on the support including conclusions was not made.</p>
CAS 450 para. 5,15	<p>The auditor identified misstatements during the audit. The documentation did not include:</p> <ul style="list-style-type: none"> <li>a) All misstatements accumulated during the audit and whether they had been corrected;</li> <li>b) The amount below which misstatements would have been regarded as clearly trivial;</li> <li>c) and the auditors conclusions as to whether uncorrected misstatements were material individually or in aggregate.</li> </ul> <p>Materiality was \$49,000. The file contains adjusting entries totaling \$126,014. A summary of errors was not retained on file; therefor it was unclear whether any uncorrected misstatements remained.</p>
CAS 580 para. 9 – 14	The representation letter retained on file was unsigned by management
CAS 700 para. 49	There was no documentation to support the audit report date.

### PUBLIC SECTOR ACCOUNTING STANDARDS

#### PS1200 Financial statement presentation

- .005 *The financial statements of a government should be clearly identified and should include or be accompanied by an acknowledgment of the government's responsibility for their preparation. [APRIL 2005]*
- .077 *The statement of change in net debt should present a comparison of the items that comprise the change in net debt for the accounting period, as well as the change in net debt for the period, with the figures originally planned. Planned amounts should be presented for the same scope of activities and on a basis consistent with that used for actual amounts. [APRIL 2005]*
- .130 *The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results. [APRIL 2005]*

#### PS 2200 Related Party Disclosure

- .17 *An entity should disclose:*
    - (a) *adequate information about the nature of the relationship with related parties involved in related party transactions;*
    - (b) *the types of related party transactions that have been recognized;*
    - (c) *the amounts of the transactions recognized classified by financial statement category;*
    - (d) *the basis of measurement used;*
    - (e) *the amount of outstanding balances and the terms and conditions attached to them;*
    - (f) *contractual rights and contractual obligations with related parties, separate from other contractual rights and contractual obligations;*
    - (g) *contingent assets and contingent liabilities involving related parties, separate from other contingent assets and contingent liabilities; and*
    - (h) *the types of related party transactions that have occurred for which no amount has been recognized.*
- Items of a similar nature should be disclosed in aggregate. [APRIL 2017]*

#### PS 3450 Financial Instruments

##### **RISK DISCLOSURES**

##### **Nature and extent of risks arising from financial instruments**

- .085 *A government should disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which it is exposed at the financial statement date. [APRIL 1, 2019 :]*

**Qualitative disclosures**

- .087 For each type of risk arising from financial instruments, a government discloses:
- (a) the exposures to risk and how they arise;
  - (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
  - (c) any changes in (a) or (b) from the previous period.

**SECTION 1540****cash flow statement****CLASSIFICATION OF CASH FLOWS**

- .12 *The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.*

**CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES**

- .23 *An enterprise shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs [1540.25](#)-.26 are presented on a net basis.*

**SECTION 3251****equity****PRESENTATION**

- .04 *An enterprise shall present separately changes in equity for the period arising from each of the following:*
- (a) *net income, showing separately the total amounts attributable to owners of the parent and to non-controlling interests (see NON-CONTROLLING INTERESTS, Section [1602](#));*
  - (b) *other changes in retained earnings;*
  - (c) *changes in contributed surplus;*
  - (d) *changes in share capital (see SHARE CAPITAL, Section [3240](#));*
  - (e) *changes in reserves (see RESERVES, Section [3260](#)); and*
  - (f) *other changes in equity.*

**SECTION 3856****financial instruments**

- .47 *An enterprise that issues any of the following financial liabilities or equity instruments shall disclose information to enable users of the financial statements to understand the effects of features of the instrument, as follows:*

- (c) *For retractable or mandatorily redeemable shares issued in a tax planning arrangement that are classified as equity as specified in paragraph [3856.23](#), an enterprise shall disclose:*
  - (i) *on the face of the balance sheet, the total redemption amount for all classes of such shares outstanding;*
  - (ii) *the aggregate redemption amount for each class of such shares; and*
  - (iii) *a description of the arrangement that gave rise to the shares.*

**CAS 220****quality control for an audit of financial statements****Acceptance and Continuance of Client Relationships and Audit Engagements**

12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. [A8-A10](#))

**Engagement Quality Control Review**

19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
- (a) Determine that an engagement quality control reviewer has been appointed;
  - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
  - (c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. [A24-A26](#))
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
- (a) Discussion of significant matters with the engagement partner;
  - (b) Review of the financial statements and the proposed auditor's report;
  - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. [A27-A29](#), [A31-A33](#))

**Documentation**

24. The auditor shall include in the audit documentation: <sup>s</sup>
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
  - (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
  - (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
  - (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Ref: Para. [A37](#))
25. The engagement quality control reviewer shall document, for the audit engagement reviewed, that:
- (a) The procedures required by the firm's policies on engagement quality control review have been performed;

- (b) The engagement quality control review has been completed on or before the date of the auditor's report; and
- (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.

## **Documentation of the Audit Procedures Performed and Audit Evidence Obtained**

### *Form, Content and Extent of Audit Documentation*

8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)
  - (a) The nature, timing and extent of the audit procedures performed to comply with the CASs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)
  - (b) The results of the audit procedures performed, and the audit evidence obtained; and
  - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)

## **CAS 240**

## **the auditor's responsibilities relating to fraud in an audit of financial statements**

### *Those Charged with Governance*

21. Unless all of those charged with governance are involved in managing the entity, <sup>1</sup> the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to mitigate these risks. (Ref: Para. A20-A22) [Former paragraph 240.21 retained in Archived Pronouncements.]
22. Unless all of those charged with governance are involved in managing the entity, the auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

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

27. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 48 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A29-A31)
28. The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall identify the entity's controls that address such risks, and evaluate their design and determine whether they have been implemented. <sup>2</sup> (Ref: Para. A32-A33)

### **Responses to the Assessed Risks of Material Misstatement Due to Fraud**

#### *Overall Responses*

29. In accordance with CAS 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. <sup>10</sup> (Ref: Para. A34)
30. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

- (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement; (Ref: Para. A35-A36)
- (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and
- (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A37)

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

33. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:
- (a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:
    - (i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
    - (ii) Select journal entries and other adjustments made at the end of a reporting period; and
    - (iii) Consider the need to test journal entries and other adjustments throughout the period. (Ref: Para. A42-A45)
  - (b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall:
    - (i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole; and
    - (ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year. (Ref: Para. A46-A48)
  - (c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the 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. (Ref: Para. A49)

**Documentation**

45. The auditor shall include the following in the audit documentation <sup>12</sup> of the identification and the assessment of the risks of material misstatement required by CAS 315: <sup>13</sup>
- (a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud;

- (b) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level; and
- (c) Identified controls in the control activities component that address assessed risks of material misstatement due to fraud.

[Former paragraph 240.45 retained in Archived Pronouncements.]

- 47. The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others.
- 48. If the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall include in the audit documentation the reasons for that conclusion.

## CAS 300

### planning an audit of financial statements

#### SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

- 6. The auditor shall undertake the following activities at the beginning of the current audit engagement:
  - (a) Performing procedures required by CAS 220 regarding the continuance of the client relationship and the specific audit engagement; <sup>1</sup>
  - (b) Evaluating compliance with relevant ethical requirements, including independence, in accordance with CAS 220; <sup>2</sup> and
  - (c) Establishing an understanding of the terms of the engagement, as required by CAS 210. <sup>3</sup> (Ref: Para. A5-A7)
- 9. The auditor shall develop an audit plan that shall include a description of:
  - (a) The nature, timing and extent of planned risk assessment procedures, as determined under CAS 315. <sup>4</sup>
  - (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under CAS 330. <sup>5</sup>
  - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with CASs. (Ref: Para. A12-A14)

## CAS 315

### identifying and assessing the risks of material misstatement through understanding the entity and its environment

#### Requirements

##### Risk Assessment Procedures and Related Activities

- 6. The risk assessment procedures shall include the following:
  - (a) Inquiries of management, 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. (Ref: Para. A6-A13)
  - (b) Analytical procedures. (Ref: Para. A14-A17)
  - (c) Observation and inspection. (Ref: Para. A18)

*The Entity's Internal Control*



12. 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. (Ref: Para. [A50-A73](#))

#### Nature and Extent of the Understanding of Relevant Controls

13. When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref: Para. [A74-A76](#))

#### Components of Internal Control

##### Control environment

14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:
  - (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; and
  - (b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: Para. [A77-A87](#))

##### The information system, including the related business processes, relevant to financial reporting, and communication

18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. [A90-A92](#) and [A95-A96](#))
  - (a) The classes of transactions in the entity's operations that are significant to the financial statements;
  - (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
  - (c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;
  - (d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
  - (e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and
  - (f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. [A93-A94](#))

This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (Ref: Para. [A97-A98](#))
  - (a) Communications between management and those charged with governance; and
  - (b) External communications, such as those with regulatory authorities.

##### Control activities relevant to the audit

20. The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: Para. [A99-A106](#))
21. In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: Para. [A107-A109](#))

#### Monitoring of controls

22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. (Ref: Para. [A110-A112](#))

### Identifying and Assessing the Risks of Material Misstatement

25. The auditor shall identify and assess the risks of material misstatement at:
  - (a) the financial statement level; and (Ref: Para. [A122-A125](#))
  - (b) the assertion level for classes of transactions, account balances, and disclosures, (Ref: Para. [A126-A131](#))to provide a basis for designing and performing further audit procedures.
26. For this purpose, the auditor shall:
  - (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements; (Ref: Para. [A132-A136](#))
  - (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
  - (c) 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 (Ref: Para. [A137-A139](#))
  - (d) 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. (Ref: Para. [A140](#))

#### *Risks that Require Special Audit Consideration*

27. As part of the risk assessment as described in paragraph [25](#), 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.
29. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (Ref: Para. [A146-A148](#))

### Documentation

32. The auditor shall include in the audit documentation:
  - (a) The discussion among the engagement team where required by paragraph [10](#), and the significant decisions reached;
  - (b) Key elements of the understanding obtained regarding each of the aspects of the

entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; 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 as required by paragraph 25; and
- (d) The risks identified, and related controls about which the auditor has obtained understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A153-A156)

## **CAS 330**

### **the auditor's responses to assessed risks**

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

- 6. 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. (Ref: Para. A4-A8; A43-A53) [Former paragraph 330.6 retained in Archived Pronouncements.]
- 7. In designing the further audit procedures to be performed, the auditor shall:
  - (a) Consider the reasons for the assessment given to the risk of material misstatement the assertion level for each significant class of transactions, account balance, disclosure, including:
    - (i) The likelihood and magnitude of misstatement due to the particular characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and
    - (ii) Whether the risk assessment takes account of controls that address the risk of material misstatement (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and (Ref: Para. A9-A18)
  - (b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk. (Ref: Para. A19)

#### **Substantive Procedures**

- 18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A43-A49)

#### **Substantive Procedures Related to the Financial Statement Closing Process**

- 20. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:
  - (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
  - (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A54)

## **Documentation**

28. The auditor shall include in the audit documentation: <sup>2</sup>
- (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing, and extent of the further audit procedures performed;
  - (b) The linkage of those procedures with the assessed risks at the assertion level; and
  - (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. [A65](#))
30. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

## **CAS 450**

### **evaluation of misstatements identified during the audit**

#### **Requirements**

##### **Accumulation of Identified Misstatements**

5. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. [A2-A6](#))

#### **Documentation**

15. The auditor shall include in the audit documentation: <sup>5</sup> (Ref: Para. [A30](#))
- (a) The amount below which misstatements would be regarded as clearly trivial (paragraph [5](#));
  - (b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs [5](#), [8](#) and [12](#)); and
  - (c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph [11](#)).

## **CAS 500**

### **audit evidence**

#### **Requirements**

##### **Sufficient Appropriate Audit Evidence**

6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. [A5-A29](#))

## **CAS 501**

### **audit evidence — specific considerations for selected items**

#### **Litigation and Claims**

9. The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including: (Ref: Para. [A17-A19](#))
- (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;

- (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and
  - (c) Reviewing legal expense accounts. (Ref: Para. [A20](#))
10. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other CASs, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures. (Ref: Para. [A21-CA25C](#))

### **Segment Information**

13. The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by: (Ref: Para. [A26](#))
- (a) Obtaining an understanding of the methods used by management in determining segment information, and: (Ref: Para. [A27](#))
    - (i) Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and
    - (ii) Where appropriate, testing the application of such methods; and
  - (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

### *Communication with the Entity's External Legal Counsel (Ref: Para. [10-11](#))*

- A21. Direct communication with the entity's external legal counsel assists the auditor in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and management's estimates of the financial implications, including costs, are reasonable.
- A22. In some cases, the auditor may seek direct communication with the entity's external legal counsel through a letter of general inquiry. For this purpose, a letter of general inquiry requests the entity's external legal counsel to inform the auditor of any litigation and claims that the counsel is aware of, together with an assessment of the outcome of the litigation and claims, and an estimate of the financial implications, including costs involved.
- A23. If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry, for example, if the professional body to which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific inquiry. For this purpose, a letter of specific inquiry includes:
- (a) A list of litigation and claims;
  - (b) Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and
  - (c) A request that the entity's external legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.
- A24. In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:
- The auditor determines that the matter is a significant risk.
  - The matter is complex.

- There is disagreement between management and the entity's external legal counsel. Ordinarily, such meetings require management's permission and are held with a representative of management in attendance.

A25. In accordance with CAS 700, <sup>10</sup> the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. Audit evidence about the status of litigation and claims up to the date of the auditor's report may be obtained by inquiry of management, including in-house legal counsel, responsible for dealing with the relevant matters. In some instances, the auditor may need to obtain updated information from the entity's external legal counsel.

CA25A. In Canada, the method of communication with the entity's legal counsel in connection with claims and possible claims as part of the auditor's examination of financial statements, is guided by the "Joint Policy Statement Concerning Communications with Law Firms Regarding Claims and Possible Claims in Connection with the Preparation and Audit of Financial Statements." The terms "litigation" and "claims", taken together in CAS 501, have the same meaning as "claims" and "possible claims" in this Joint Policy Statement. This Joint Policy Statement is appended to this CAS. [This is a Canadian-only paragraph. There is no equivalent paragraph in corresponding ISA 501.]

CA25B. In some cases, the entity may use in-house legal counsel, in addition to or in place of external legal counsel, to represent or advise it with respect to litigation or claims. In Canada, the auditor may seek written communication with such in-house legal counsel, when the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist. In these circumstances, written communication with the entity's in-house legal counsel is also guided by the "Joint Policy Statement Concerning Communications with Law Firms Regarding Claims and Possible Claims in Connection with the Preparation and Audit of Financial Statements". [This is a Canadian-only paragraph. There is no equivalent paragraph in corresponding ISA 501.]

CA25C. When communication from legal counsel is to be used as audit evidence, the auditor considers the relevance and reliability of the information upon which it is based. CAS 500 establishes requirements and provides guidance in this regard. <sup>11</sup> [This is a Canadian-only paragraph. There is no equivalent paragraph in corresponding ISA 501.]

## **CAS 530**

### **audit sampling**

#### **Sample Design, Size and Selection of Items for Testing**

6. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)
7. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref: Para. A10-A11)
8. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13)

#### **Nature and Cause of Deviations and Misstatements**

13. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

# CAS 550

## related parties

### Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

#### *Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions*

21. 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.
22. 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; (Ref: Para. [A35](#))
  - (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 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; (Ref: Para. [A36](#))
  - (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. (Ref: Para. [A37](#))

#### *Identified Significant Related Party Transactions outside the Entity's Normal Course of Business*

23. 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; <sup>11</sup> (Ref: Para. [A38-A39](#))
    - (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. (Ref: Para. [A40-A41](#))

### Documentation

28. The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships. <sup>14</sup>



# CAS 560

## subsequent events

### Requirements

#### Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

6. 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. (Ref: Para. [A6](#))
7. The auditor shall perform the procedures required by paragraph [6](#) 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: (Ref: Para. [A7-A8](#))
  - (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. (Ref: Para. [A9](#))
  - (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. (Ref: Para. [A10](#))
  - (d) Reading the entity's latest subsequent interim financial statements, if any.
8. If, as a result of the procedures performed as required by paragraphs [6](#) and [7](#), the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

#### Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. [6-9](#))

- A6. Depending on the auditor's risk assessment, the audit procedures required by paragraph [6](#) may include procedures, necessary to obtain sufficient appropriate audit evidence, involving the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor's report. The audit procedures required by paragraphs [6](#) and [7](#) are in addition to procedures that the auditor may perform for other purposes that, nevertheless, may provide evidence about subsequent events (for example, to obtain audit evidence for account balances as at the date of the financial statements, such as cut-off procedures or procedures in relation to subsequent receipts of accounts receivable).
- A7. Paragraph [7](#) stipulates certain audit procedures in this context that the auditor is required to perform pursuant to paragraph [6](#). The subsequent events procedures that the auditor performs may, however, depend on the information that is available and, in particular, the extent to which the accounting records have been prepared since the date of the financial statements. Where the accounting records are not up-to-date, and accordingly no interim financial statements (whether for internal or external purposes) have been prepared, or minutes of meetings of management or those charged with governance have not been prepared, relevant audit procedures may take the form of inspection of available books and



records, including bank statements. Paragraph [A8](#) gives examples of some of the additional matters that the auditor may consider in the course of these inquiries.

- A8. In addition to the audit procedures required by paragraph [7](#), the auditor may consider it necessary and appropriate to:
- Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements;
  - Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims; or
  - Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence.

## **CAS 580**

### **written representations**

#### **Requirements**

##### **Management from whom Written Representations Requested**

9. The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: Para. [A2-A6](#))

##### **Written Representations about Management's Responsibilities**

###### *Preparation of the Financial Statements*

10. The auditor shall request management to provide a written representation that 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. <sup>2</sup> (Ref: Para. [A7-A9](#), [A14](#), [A22](#))

###### *Information Provided and Completeness of Transactions*

11. The auditor shall request management to provide a written representation that:
- (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement; <sup>3</sup> and
  - (b) All transactions have been recorded and are reflected in the financial statements. (Ref: Para. [A7-A9](#), [A14](#), [A22](#))

###### *Description of Management's Responsibilities in the Written Representations*

12. Management's responsibilities shall be described in the written representations required by paragraphs [10](#) and [11](#) in the manner in which these responsibilities are described in the terms of the audit engagement.

##### **Other Written Representations**

13. Other CASs 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. (Ref: Para. [A10-A13](#), [A14](#), [A22](#))

##### **Date of and Period(s) Covered by Written Representations**

14. 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. The written representations shall be

for all financial statements and period(s) referred to in the auditor's report. (Ref: Para. A15-A18)

## **CAS 700**

### **forming an opinion and reporting on financial statements**

#### **Objectives**

6. 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.

#### **Date of the Auditor's Report**

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A66-A69)
  - (a) All the statements and disclosures that comprise the financial statements have been prepared; and
  - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements

**CSQC 1****quality control for firms that perform audits and reviews of financial statements, and other assurance engagements****Objective**

11. The objective of the firm is 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 or engagement partners are appropriate in the circumstances.

**Monitoring***Monitoring the Firm's Quality Control Policies and Procedures*

48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:
- (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
  - (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
  - (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement. (Ref: Para. [A64-A68](#))

*Evaluating, Communicating and Remedying Identified Deficiencies*

49. The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:
- (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
  - (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.
51. Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:
- (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;
  - (b) The communication of the findings to those responsible for training and professional development;
  - (c) Changes to the quality control policies and procedures; and
  - (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.

### **Documentation of the System of Quality Control**

57. The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A73-A75)