

CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER SINGAPORE STANDARDS

Note: The following are conforming amendments to other Singapore Standards as a result of the approval of SSA 315 (Revised 2021). These amendments will become effective at the same time as SSA 315 (Revised 2021), and are shown with marked changes from the latest approved versions of the Singapore Standards that are amended. The footnote numbers within these amendments do not align with the Singapore Standards that are amended, and reference should be made to those Singapore Standards.

SSA 200, *Overall objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing*

An Audit of Financial Statements

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7. The SSAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The SSAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things:
- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control.
 - Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
 - Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

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Definitions

13. For purposes of the SSAs, the following terms have the meanings attributed below:

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- (n) Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (Ref: Para. A15a)
- (i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal controls.

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Application and Other Explanatory Material

An Audit of Financial Statements

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Risk of Material Misstatement (Ref: Para. 13(n))

A15a. For the purposes of the SSAs, a risk of material misstatement exists when there is a reasonable possibility of:

- (a) A misstatement occurring (i.e., its likelihood); and
- (b) Being material if it were to occur (i.e., its magnitude).

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Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

A30. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

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Risks of Material Misstatement

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A40. Inherent risk is influenced by inherent risk factors, higher for some assertions and related classes of transactions, account balances, and disclosures than for others. Depending on the degree to which the inherent risk factors affect the susceptibility to misstatement of an assertion, the level of inherent risk varies on a scale that is referred to as the spectrum of inherent risk. The auditor determines significant classes of transactions, account balances and disclosures, and their relevant assertions, as part of the process of identifying and assessing the risks of material misstatement. For example, it may be higher for complex calculations or for accounts balances consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty may be identified as significant account balances, and the auditor's assessment of inherent risk for the related risks at the assertion level may be higher because of the high estimation uncertainty.

¹ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 169

A40a. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures.

A41. Control risk is a function of the effectiveness of the design, implementation and maintenance of ~~internal controls~~ by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of ~~internal controls~~. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The SSAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.²

A42. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The SSAs ~~typically do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement;" rather than to inherent risk and control risk separately.~~ However, SSA 540315 (Revised 2021)³ requires ~~a separate assessment of inherent risk to be assessed separately from and control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement at the assertion level, including significant risks, for accounting estimates at the assertion level in accordance with SSA 330.~~⁴ ~~In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations.~~

A43a. Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.⁵

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Timeliness of Financial Reporting and the Balance between Benefit and Cost

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A52. In light of the approaches described in paragraph A51, the SSAs contain requirements for the planning and performance of the audit and require the auditor, among other things, to:

² SSA 330, *The Auditor's Responses to Assessed Risks*, paragraphs 7–17

³ SSA 540315 (Revised 2021), *Auditing Accounting Estimates and Disclosures*, paragraph 15 *Identifying and Assessing the Risks of Material Misstatement*

⁴ SSA 330, paragraph 7(b)

⁵ SSA 330, paragraph 6

- Have a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels by performing risk assessment procedures and related activities;⁶ and

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Conduct of an Audit in Accordance with SSAs

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Contents of the SSAs (Ref: Para. 19)

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A61. Where necessary, the application and other explanatory material provides further explanation of the requirements of an SSA and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover, including in some SSAs such as SSA 315 (Revised 2021), why a procedure is required.
- Include examples of procedures that may be appropriate in the circumstances. In some SSAs, such as SSA 315 (Revised 2021), examples are presented in boxes.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an SSA. The application and other explanatory material may also provide background information on matters addressed in an SSA.

~~Considerations Specific to Smaller Entities~~ Scalability Considerations

A65a Scalability considerations have been included in some SSAs (e.g., SSA 315 (Revised 2021)), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the characteristics in paragraph A66 may apply.

A65b. The “considerations specific to smaller entities” included in some ~~the~~ SSAs have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.

A66. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to 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) Simpler systems of ~~Few~~ internal controls;

⁶ SSA 315 (Revised 2021), paragraphs ~~135–184~~0

- (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.

A67 [*Moved – now A65b*]

Considerations Specific to Automated Tools and Techniques

A67a. The considerations specific to “automated tools and techniques” included in some SSAs (for example, SSA 315 (Revised 2021)) have been developed to explain how the auditor may apply certain requirements when using automated tools and techniques in performing audit procedures.

SSA 210, *Agreeing the Terms of Audit Engagements*

Application and Other Explanatory Material

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Internal Control (Ref: Para. 6(b)(ii))

A16. Internal Control Management maintains such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives due to the inherent limitations of internal control.⁷

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A18. It is for management to determine what internal control is necessary to enable the preparation of the financial statements. The term "internal control" encompasses a wide range of activities within components of the system of internal control that may be described as the control environment; the entity's risk assessment process; the entity's process to monitor the system of internal control, the information system, ~~including the related business processes relevant to financial reporting~~, and communication; and control activities; ~~and monitoring of controls~~. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component.⁸ An entity's internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.

⁷ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, Appendix 3 paragraph 22A54.

⁸ SSA 315 (Revised 2021), paragraph A9159 and Appendix 34

SSA 230, Audit Documentation

Application and Other Explanatory Material

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Documentation of Compliance with SSAs (Ref: Para. 8(a))

A7. Audit documentation provides evidence that the audit complies with the SSAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

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- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

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- Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the SSAs may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner's timely involvement in aspects of the audit, such as participation in the team discussions required by SSA 315 (Revised 2021)⁹.

Documentation of Significant Matters and Related Significant Professional Judgements (Ref: Para. 8(c))

A8. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters that give rise to significant risks (as defined in SSA 315 (Revised 2021))¹⁰.

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Considerations Specific to Smaller Entities (Ref. Para 8)

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A17. When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, the overall audit strategy and audit plan, materiality determined in accordance with SSA 320,¹¹ assessed risks, significant matters noted during the audit, and conclusions reached.

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⁹ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*, paragraph 17.40.

¹⁰ SSA 315 (Revised 2021), paragraph 12(l)4(e).

¹¹ SSA 320, *Materiality in Planning and Performing an Audit*

Specific Audit Documentation Requirements and Guidance in Other SSAs

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- SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* – paragraph 3832

SSA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

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Responsibilities of the Auditor

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7. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override controls ~~procedures~~ designed to prevent similar frauds by other employees.

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Discussion among the Engagement Team

15. SSA 315 (Revised 2021) requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion.¹² This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity. (Ref: Para. A10–A11)

Risk Assessment Procedures and Related Activities

16. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control, required by SSA 315 (Revised 2021),⁴³ the auditor shall perform the procedures in paragraphs ~~2347–4324~~ to obtain information for use in identifying the risks of material misstatement due to fraud.

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Those Charged with Governance

20. Unless all of those charged with governance are involved in managing the entity,¹⁴ 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 ~~internal controls~~ that management has established to mitigate these risks. (Ref: Para. A19–A21)

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¹² SSA 315 (Revised 2021), paragraph 17–18.40

⁴³ ~~SSA 315 (Revised), paragraphs 5–24~~

¹⁴ SSA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

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

25. In accordance with SSA 315 (Revised 2021), the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.¹⁵

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27. 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 ~~obtain an understanding of the entity's related~~ identify the entity's controls, including control activities, relevant to that address such risks, and evaluate their design and determine whether they have been implemented.¹⁶ (Ref: Para. A31–A32)

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Documentation

44. The auditor shall include the following in the audit documentation¹⁷ ~~of the auditor's understanding of the entity and its environment and of the identification and~~ the assessment of the risks of material misstatement required by SSA 315 (Revised 2021):¹⁸

- (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; ~~and~~
- (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.

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Application and Other Explanatory Material

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Professional Skepticism (Ref: Para. 12–14)

A7. Maintaining professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and ~~the identified controls in the control activities component, if any,~~ over its preparation and maintenance, ~~where relevant~~. Due to the characteristics of fraud, the auditor's professional skepticism is particularly important when considering the risks of material misstatement due to fraud.

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¹⁵ SSA 315 (Revised 2021), paragraph ~~28~~5

¹⁶ SSA 315 (Revised 2021), paragraph 26(a)(i) and 26(d)

¹⁷ SSA 230, *Audit Documentation*, paragraphs 8–11, and paragraph A6

¹⁸ SSA 315 (Revised 2021), paragraph ~~38~~32

Inquiry of Internal Audit (Ref: Para. 19)

A18. SSA 315 (Revised 2021) and SSA 610 (Revised 2013) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.¹⁹ In carrying out the requirements of those SSAs in the context of fraud, the auditor may inquire about specific activities of the function including, for example:

- The procedures performed, if any, by the internal auditor function during the year to detect fraud.
- Whether management has satisfactorily responded to any findings resulting from those procedures.

Obtaining an Understanding of Oversight Exercised by Those Charged with Governance (Ref: Para. 20)

A19. Those charged with governance of an entity oversee the entity's systems for monitoring risk, financial control and compliance with the law. In many countries, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of the risks of fraud and ~~of the relevant internal control~~ the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by country, it is important that the auditor understands their respective responsibilities to enable the auditor to obtain an understanding of the oversight exercised by the appropriate individuals.²⁰

A20. An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to management fraud, the adequacy of ~~internal controls~~ that address ~~over~~ risks of fraud, and the competency and integrity of management. The auditor may obtain this understanding in a number of ways, such as by attending meetings where such discussions take place, reading the minutes from such meetings or making inquiries of those charged with governance.

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Consideration of Other Information (Ref: Para. 23)

A22. In addition to information obtained from applying analytical procedures, other information obtained about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control may be helpful in identifying the risks of material misstatement due to fraud. The discussion among team members may provide information that is helpful in identifying such risks. In addition, information obtained from the auditor's client acceptance and retention processes, and experience gained on other engagements performed for the entity, for example, engagements to review interim financial information, may be relevant in the identification of the risks of material misstatement due to fraud.

¹⁹ SSA 315 (Revised 2021), paragraphs 14(a) and 24(a)(ii) ~~6 and 23~~, and SSA 610 (Revised 2013), *Using the Work of Internal Auditors*

²⁰ SSA 260 (Revised), paragraphs A1–A8, discuss with whom the auditor communicates when the entity's governance structure is not well defined.

Evaluation of Fraud Risk Factors (Ref: Para. 24)

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A25. Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative risk factors are classified based on the three conditions that are generally present when fraud exists:

- An incentive or pressure to commit fraud;
- A perceived opportunity to commit fraud; and
- An ability to rationalize the fraudulent action.

Fraud risk factors may relate to incentives, pressures or opportunities that arise from conditions that create susceptibility to misstatement, before consideration of controls. Fraud risk factors, which include intentional management bias, are, insofar as they affect inherent risk, inherent risk factors.²¹ Fraud risk factors may also relate to conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to rationalize fraudulent actions. Fraud rRisk factors reflective of an attitude that permits rationalization of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information through, for example, the required understanding of the entity's control environment.²² Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other risk factors may exist.

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Identifying and Assessing the Risks of Material Misstatement Due to Fraud and Understanding the Entity's Related Controls (Ref: Para. 27)

A31. Management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume²³. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud. As part of this consideration, management may conclude that it is not cost effective to implement and maintain a particular control in relation to the reduction in the risks of material misstatement due to fraud to be achieved.

A32. It is therefore important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud. ~~In doing so, In identifying the controls that address the risks of material misstatement due to fraud,~~ the auditor may learn, for example, that management has consciously chosen to accept the risks associated with a lack of segregation of duties. Information from ~~obtaining this understanding~~ identifying these controls, and evaluating their design and determining whether they have been implemented, may also be useful in identifying fraud risks factors that may affect the auditor's assessment of the risks that the financial statements may contain material misstatement due to fraud.

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²¹ SSA 315 (Revised 2021), paragraph 12(f)

²² SSA 315 (Revised 2021), paragraph 21

²³ SSA 315 (Revised 2021), paragraph A49A75

Audit Procedures Responsive to Risks Related to Management Override of Controls

Journal Entries and Other Adjustments (Ref: Para. 32(a))

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A42. Further, the auditor's consideration of the risks of material misstatement associated with inappropriate override of controls over journal entries²⁴ is important since automated processes and controls may reduce the risk of inadvertent error but do not overcome the risk that individuals may inappropriately override such automated processes, for example, by changing the amounts being automatically passed to the general ledger or to the financial reporting system. Furthermore, where IT is used to transfer information automatically, there may be little or no visible evidence of such intervention in the information systems.

A43. When identifying and selecting journal entries and other adjustments for testing and determining the appropriate method of examining the underlying support for the items selected, the following matters are of relevance:

- *The identification and assessment of the risks of material misstatement due to fraud – the presence of fraud risk factors and other information obtained during the auditor's identification and assessment of the risks of material misstatement due to fraud may assist the auditor to identify specific classes of journal entries and other adjustments for testing.*
- *Controls that have been implemented over journal entries and other adjustments – effective controls over the preparation and posting of journal entries and other adjustments may reduce the extent of substantive testing necessary, provided that the auditor has tested the operating effectiveness of the controls.*
- *The entity's financial reporting process and the nature of evidence that can be obtained – for many entities routine processing of transactions involves a combination of manual and automated ~~steps and procedures~~ controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated ~~procedures and~~ controls. Where information technology is used in the financial reporting process, journal entries and other adjustments may exist only in electronic form.*
- *The characteristics of fraudulent journal entries or other adjustments – inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries (a) made to unrelated, unusual, or seldom-used accounts, (b) made by individuals who typically do not make journal entries, (c) recorded at the end of the period or as post-closing entries that have little or no explanation or description, (d) made either before or during the preparation of the financial statements that do not have account numbers, or (e) containing round numbers or consistent ending numbers.*
- *The nature and complexity of the accounts – inappropriate journal entries or adjustments may be applied to accounts that (a) contain transactions that are complex or unusual in nature, (b) contain significant estimates and period-end adjustments, (c) have been prone to misstatements in the past, (d) have not been reconciled on a timely basis or contain unreconciled differences, (e) contain inter-company transactions, or (f) are otherwise associated with an identified risk of material misstatement due to fraud. In audits of entities that have several locations or components, consideration is given to the need to select journal entries from multiple locations.*

²⁴ SSA 315 (Revised 2021), paragraph 26(a)(ii)

- *Journal entries or other adjustments processed outside the normal course of business* – non standard journal entries may not be subject to the same ~~level of internal~~ nature and extent of controls as those journal entries used on a recurring basis to record transactions such as monthly sales, purchases and cash disbursements.

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Appendix 1

(Ref: Para. A25)

Examples of Fraud Risk Factors

The fraud risk factors identified in this Appendix are examples of such factors that may be faced by auditors in a broad range of situations. Separately presented are examples relating to the two types of fraud relevant to the auditor's consideration – that is, fraudulent financial reporting and misappropriation of assets. For each of these types of fraud, the risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. Also, the order of the examples of risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Fraud risk factors may relate to incentives or pressures, or opportunities, that arise from conditions that create susceptibility to misstatement before consideration of controls (i.e., the inherent risk). Such factors are inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. Fraud risk factors related to opportunities may also arise from other identified inherent risk factors (for example, complexity or uncertainty may create opportunities that result in susceptibility to misstatement due to fraud). Fraud risk factors related to opportunities may also relate to conditions within the entity's system of internal control, such as limitations or deficiencies in the entity's internal control that create such opportunities. Fraud risk factors related to attitudes or rationalizations may arise, in particular, from limitations or deficiencies in the entity's control environment.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

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Incentives/Pressures

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Opportunities

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

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The monitoring of management is not effective as a result of the following:

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There is a complex or unstable organizational structure, as evidenced by the following:

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~~Internal control components are deficient~~ Deficiencies in internal control as a result of the following:

- ~~Inadequate monitoring of controls~~ process to monitor the entity's system of internal control, including automated controls and controls over interim financial reporting (where external reporting is required).
- High turnover rates or employment of staff in accounting, information technology, or the internal audit function that are not effective.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

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Attitudes/Rationalizations

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Risk Factors Arising from Misstatements Arising from Misappropriation of Assets

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Incentives/Pressures

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Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

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~~Inadequate internal controls~~ over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

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Attitudes/Rationalizations

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- ~~Disregard for internal controls~~ over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.

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Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

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Consideration at the Assertion Level

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The following are specific examples of responses:

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- If the work of an expert becomes particularly significant with respect to a financial statement item for which the assessed risk of material misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods or findings to determine that the findings are not unreasonable, or engaging another expert for that purpose.

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SSA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

The Auditor's Consideration of Compliance with Laws and Regulations

13. As part of obtaining an understanding of the entity and its environment in accordance with SSA 315 (Revised 2021),²⁵ the auditor shall obtain a general understanding of:
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework. (Ref: Para. A11)

Application and Other Explanatory Material

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Audit Procedures When Non-Compliance is Identified or Suspected

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Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

A23. As required by paragraph 22, the auditor evaluates the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular identified or suspected non-compliance will depend on the relationship of the perpetration and concealment, if any, of the act to specific controls ~~activities~~ and the level of management or individuals working for, or under the direction of, the entity involved, especially implications arising from the involvement of the highest authority within the entity. As noted in paragraph 9, the auditor's compliance with law, regulation or relevant ethical requirements may provide further information that is relevant to the auditor's responsibilities in accordance with paragraph 22.

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²⁵ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 1914.

SSA 260 (Revised), *Communication with Those Charged with Governance*

Application and Other Explanatory Material

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Planned Scope and Timing of the Audit (Ref: Para. 15)

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A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they were determined to be significant risks ~~require special audit consideration~~. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13. Matters communicated may include: ...

- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed risks of material misstatement.
- The auditor's approach to the entity's system of internal control, ~~relevant to the audit~~.
- The application of the concept of materiality in the context of an audit.
- ...

Adequacy of the Communication Process (Ref: Para. 22)

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A52. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, SSA 315 (Revised 2021) identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.²⁶ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

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Appendix 2 (Ref: Para. 16(a), A19–A20)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

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Accounting Estimates

- For items for which estimates are significant, issues discussed in SSA 540, including, for example:

²⁶ SSA 315 (Revised 2021), Appendix 3 paragraph A78

- How management identifies those transactions, events ~~and~~ or conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements.

...

SSA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance*

Introduction

Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. This SSA does not impose additional responsibilities on the auditor regarding obtaining an understanding of the entity's system of internal control and designing and performing tests of controls over and above the requirements of SSA 315 (Revised 2021)²⁷ and SSA 330. SSA 260 (Revised) establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.
2. The auditor is required to obtain an understanding of the entity's system of internal control ~~relevant to the audit~~ when identifying and assessing the risks of material misstatement.²⁸ In making those risk assessments, the auditor considers the entity's system of internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The auditor may identify control deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit. This SSA specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management.

...

Application and Other Explanatory Material

Determination of Whether Deficiencies in Internal Control Have Been Identified (Ref: Para 7)

...

Considerations Specific to Smaller Entities

- A3. While the concepts underlying controls in the control activities component in smaller entities are likely to be similar to those in larger entities, the formality with which they operate will vary. Further, smaller entities may find that certain types of controls activities are not necessary because of controls applied by management. For example, management's sole authority for granting credit to customers and approving significant purchases can provide effective control over important account balances and transactions, lessening or removing the need for more detailed controls activities.

...

²⁷ SSA 315 (Revised 2021), "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*" paragraphs 124 and 2142.

²⁸ SSA 315 (Revised 2021), paragraph 2142. Appendix 5 Paragraphs A67-A72 provides guidance on controls relevant to the audit.

Significant Deficiencies in Internal Control (Ref: Para. 6(b), 8)

A8. Controls may be designed to operate individually or in combination to effectively prevent, or detect and correct, misstatements²⁹. For example, controls over accounts receivable may consist of both automated and manual controls designed to operate together to prevent, or detect and correct, misstatements in the account balance. A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency. However, a combination of deficiencies affecting the same account balance or disclosure, ~~relevant~~ assertion, or component of the entity's system of internal control may increase the risks of misstatement to such an extent as to give rise to a significant deficiency.

²⁹ SSA 315 (Revised 2021), paragraph A175A73.

SSA 300, *Planning an Audit of Financial Statements*

Application and Other Explanatory Material

...

Involvement of Key Engagement Team Members (Ref: Para. 5)

- A4. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process³⁰.

...

Documentation (Ref: Para. 12)

...

Considerations Specific to Smaller Entities

- A21. As discussed in paragraph A11, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph A19) drawn up on the assumption of few relevant controls³¹ activities, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.

...

³⁰ SSA 315 (Revised 2021), paragraph 1740, establishes requirements and provides guidance on the engagement team's discussion of the susceptibility of the entity to material misstatements of the financial statements. SSA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 15, provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

³¹ SSA 315 (Revised 2021), paragraph 26(a)

SSA 320, *Materiality in Planning and Performing an Audit*

...

Materiality in the Context of an Audit

6. In planning the audit, the auditor makes judgments about misstatements that will be considered material. These judgments provide a basis for:
- (a) Determining the nature, timing and extent of risk assessment procedures;
 - (b) Identifying and assessing the risks of material misstatement; and
 - (c) Determining the nature, timing and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement³². In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.³³ (Ref: Para.A2)

...

Application and Other Explanatory Material

...

Determining Materiality and Performance Materiality When Planning the Audit

Materiality in the Context of an Audit (Ref: Para. 6)

- A2. Identifying and assessing the risks of material misstatement³⁴ involves the use of professional judgment to identify those classes of transactions, account balances and disclosures, including qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as:

...

³² See SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs A191-A192A128a-A128b

³³ SSA 450, paragraph A21.

³⁴ SSA 315 (Revised 2021), paragraph 2825, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level.

SSA 330, *The Auditor's Responses to Assessed Risks*

Introduction

Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SSA 315 (Revised 2021)³⁵ in an audit of financial statements.

...

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; A42-A52)
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 at the assertion level for each significant class of transactions, account balance, and disclosure, including:
 - (i) The likelihood and magnitude of ~~material~~ misstatement due to the particular characteristics of the ~~relevant~~ significant class of transactions, account balance, or disclosure (that is, the inherent risk); and
 - (ii) Whether the risk assessment takes account of ~~relevant~~ 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 ~~intends to rely on~~ 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)

Tests of Controls

8. The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls if:
 - (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor ~~intends~~ plans to test ~~to rely on~~ the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or

³⁵ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement* ~~through Understanding the Entity and Its Environment~~

- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A20–A24)

...

Nature and Extent of Tests of Controls

- 10. In designing and performing tests of controls, the auditor shall:
 - (a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
 - (i) How the controls were applied at relevant times during the period under audit;
 - (ii) The consistency with which they were applied; and
 - (iii) By whom or by what means they were applied. (Ref: Para. A26–A29a)
 - (b) ~~To the extent not already addressed, d~~Determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls. (Ref: Para. A30–A31)

..

Using audit evidence obtained in previous audits

- 13. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:
 - (a) The effectiveness of other ~~elements—components of the entity’s system of~~ internal control, including the control environment, the entity’s ~~process to monitoring of the system of internal~~ controls, and the entity’s risk assessment process;

...

- 14. If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance and reliability of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:

...

Controls over significant risks

- 15. If the auditor ~~plans—intends to rely test—~~intends to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.

Evaluating the Operating Effectiveness of Controls

- 16. When evaluating the operating effectiveness of ~~relevant—~~controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. (Ref: Para. A40)

17. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A41)

...

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

...

Evaluating the Sufficiency and Appropriateness of Audit Evidence

...

27. If the auditor has not obtained sufficient appropriate audit evidence ~~as to related to an material financial statement~~ relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.

Application and Other Explanatory Material

Overall Responses (Ref: Para. 5)

- A1. Overall responses to address the assessed risks of material misstatement at the financial statement level may include:
- Emphasizing to the engagement team the need to maintain professional skepticism.
 - Assigning more experienced staff or those with special skills or using experts.
 - ~~Providing more supervision~~ Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
 - Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
 - Changes to the overall audit strategy as required by SSA 300, or planned audit procedures, and may include changes to:
 - The auditor's determination of performance materiality in accordance with SSA 320.
 - The auditor's plans to test the operating effectiveness of controls, and the persuasiveness of audit evidence needed to support the planned reliance on the operating effectiveness of the controls, particularly when deficiencies in the control environment or the entity's monitoring activities are identified.
 - The nature, timing and extent of substantive procedures. For example, it may be appropriate to perform substantive procedures at or near the date of the financial statements when the risk of material misstatement is assessed as higher.
 - ~~Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.~~

...

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

The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)

- A4. The auditor's assessment of the identified risks of material misstatement at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. For example, the auditor may determine that:
- (a) Only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion;
 - (b) Performing only substantive procedures is appropriate for particular assertions and, therefore, the auditor excludes the effect of controls from the relevant risk assessment of the risk of material misstatement. This may be because the auditor's risk assessment procedures have not identified any effective controls relevant to the assertion, or because auditor has not identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence and therefore is not required to test the operating effectiveness of controls. testing controls would be inefficient and therefore, the auditor does not intend to rely on plan to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures; or
 - (c) A combined approach using both tests of controls and substantive procedures is an effective approach.

The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level. However, as required by paragraph 18, irrespective of the approach selected and the assessed risk of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure.

...

- A7. Extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control ~~activity~~.

...

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

Nature

- A9. SSA 315 (Revised 2021) requires that the auditor's assessment of the risks of material misstatement at the assertion level is performed by assessing inherent risk and control risk. The auditor assesses inherent risk by assessing the likelihood and magnitude of a misstatement taking into account how, and the degree to which the inherent risk factors affect the susceptibility to misstatement of relevant assertions.³⁶ The auditor's assessed risks, including the reasons for those assessed risks, may affect both the types of audit procedures to be performed and their combination. For example, when an assessed risk is high, the auditor may confirm the completeness of the terms of a contract with the counterparty, in addition to inspecting the document. Further, certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of material misstatement of the completeness assertion,

³⁶ SSA 315 (Revised 2021), paragraphs 31 and 34

whereas substantive procedures may be most responsive to the assessed risk of material misstatement of the occurrence assertion.

- A10. The reasons for the assessment given to a risk are relevant in determining the nature of audit procedures. For example, if an assessed risk is lower because of the particular characteristics of a class of transactions without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone provide sufficient appropriate audit evidence. On the other hand, if the assessed risk is lower because of ~~internal~~ the auditor plans to test the operating effectiveness of controls, and the auditor intends to base the substantive procedures on that low assessment, then the auditor performs tests of those controls, as required by paragraph 8(a). This may be the case, for example, for a class of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

...

Considerations specific to smaller entities

- A18. In the case of very small entities, there may not be many controls ~~activities~~ that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. In some rare cases, however, the absence of controls ~~activities~~ or of ~~other~~ components of the system of internal control may make it impossible to obtain sufficient appropriate audit evidence.

...

Designing and Performing Tests of Controls (Ref: Para. 8)

- A20. Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in an relevant assertion, and the auditor plans to test those controls. If substantially different controls were used at different times during the period under audit, each is considered separately.

...

- A24. In some cases, the auditor may find it impossible to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence at the assertion level.³⁷ This may occur when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system. In such cases, paragraph 8(b) requires the auditor to perform tests of ~~relevant~~ controls that address the risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

...

³⁷ SSA 315 (Revised 2021), paragraph 3330

Other audit procedures in combination with inquiry (Ref: Para. 10(a))

...

A27. The nature of the particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively. For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness. For other controls, however, documentation may not be available or relevant. For example, documentation of operation may not exist for some factors in the control environment, such as assignment of authority and responsibility, or for some types of controls ~~activities~~, such as automated controls activities performed by a computer. In such circumstances, audit evidence about operating effectiveness may be obtained through inquiry in combination with other audit procedures such as observation or the use of CAATs.

Extent of tests of controls

...

A29. Because of the inherent consistency of IT processing, it may not be necessary to increase the extent of testing of an automated control. An automated controls can be expected to function consistently unless the ~~program~~ IT application (including the tables, files, or other permanent data used by the ~~program~~ IT application) is changed. Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing tests to determine that the control continues to function effectively. Such tests ~~might~~ may include testing the general IT controls related to the IT application, determining that:

- ~~• Changes to the program are not made without being subject to the appropriate program change controls;~~
- ~~• The authorized version of the program is used for processing transactions; and~~
- ~~• Other relevant general controls are effective.~~

~~Such tests also might include determining that changes to the programs have not been made, as may be the case when the entity uses packaged software applications without modifying or maintaining them. For example, the auditor may inspect the record of the administration of IT security to obtain audit evidence that unauthorized access has not occurred during the period.~~

A29a. Similarly, the auditor may perform tests of controls that address risks of material misstatement related to the integrity of the entity's data, or the completeness and accuracy of the entity's system-generated reports, or to address risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. These tests of controls may include tests of general IT controls that address the matters in paragraph 10(a). When this is the case, the auditor may not need to perform any further testing to obtain audit evidence about the matters in paragraph 10(a).

A29b. When the auditor determines that a general IT control is deficient, the auditor may consider the nature of the related risk(s) arising from the use of IT that were identified in accordance with SSA 315 (Revised 2021)³⁸ to provide the basis for the design of the auditor's additional procedures to address the assessed risk of material misstatement. Such procedures may address determining whether:

³⁸ SSA 315 (Revised 2021), paragraph 26(c)(i)

- The related risk(s) arising from IT has occurred. For example, if users have unauthorized access to an IT application (but cannot access or modify the system logs that track access), the auditor may inspect the system logs to obtain audit evidence that those users did not access the IT application during the period.
- There are any alternate or redundant general IT controls, or any other controls, that address the related risk(s) arising from the use of IT. If so, the auditor may identify such controls (if not already identified) and therefore evaluate their design, determine that they have been implemented and perform tests of their operating effectiveness. For example, if a general IT control related to user access is deficient, the entity may have an alternate control whereby IT management reviews end user access reports on a timely basis. Circumstances when an application control may address a risk arising from the use of IT may include when the information that may be affected by the general IT control deficiency can be reconciled to external sources (e.g., a bank statement) or internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

Testing of indirect controls (Ref: Para. 10(b))

A30. In some circumstances, it may be necessary to obtain audit evidence supporting the effective operation of indirect controls (e.g., general IT controls). As explained in paragraphs A29 to A29b, general IT controls may have been identified in accordance with SSA 315 (Revised 2021) because of their support of the operating effectiveness of automated controls or due to their support in maintaining the integrity of information used in the entity's financial reporting, including system-generated reports. The requirement in paragraph 10(b) acknowledges that the auditor may have already tested certain indirect controls to address the matters in paragraph 10(a). For example, when the auditor decides to test the effectiveness of a user review of exception reports detailing sales in excess of authorized credit limits, the user review and related follow-up is the control that is directly of relevance to the auditor. Controls over the accuracy of the information in the reports (for example, general IT controls) are described as "indirect" controls.

~~A31. Because of the inherent consistency of IT processing, audit evidence about the implementation of an automated application control, when considered in combination with audit evidence about the operating effectiveness of the entity's general controls (in particular, change controls), may also provide substantial audit evidence about its operating effectiveness.~~

Timing of Tests of Controls

Intended period of reliance (Ref: Para. 11)

A32. Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, for example, when testing controls over the entity's physical inventory counting at the period end. If, on the other hand, the auditor intends to rely on a control over a period, tests that are capable of providing audit evidence that the control operated effectively at relevant times during that period are appropriate. Such tests may include tests of controls in the entity's process to monitoring of the system of internal controls.

...

Using audit evidence obtained in previous audits (Ref: Para. 13)

A35. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance and reliability. For example, in performing a previous audit, the auditor may have determined that an automated control was functioning as intended. The auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to be obtained in the current period about the operating effectiveness of the controls.

Controls that have changed from previous audits (Ref: Para. 14(a))

A36. Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued reliance. For example, changes in a system that enable an entity to receive a new report from the system probably do not affect the relevance of audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently does affect it.

Controls that have not changed from previous audits (Ref: Para. 14(b))

...

A38. In general, the higher the risk of material misstatement, or the greater the reliance on controls, the shorter the time period elapsed, if any, is likely to be. Factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:

- A deficient control environment.
- A Deficiency in the entity's process to monitoring of the system of internal controls.
- A significant manual element to ~~the relevant~~ controls.

...

Substantive Procedures (Ref: Para. 6, 18)

A42. Paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure, ~~irrespective of the assessed risks of material misstatement~~. For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 6 requires the auditor to design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level. Accordingly, substantive procedures are required to be designed and performed in accordance with paragraph 18:

- When the further audit procedures for significant classes of transactions, account balances or disclosures, designed and performed in accordance with paragraph 6, did not include substantive procedures; or

- For each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as material in accordance with SSA 315 (Revised 2021).³⁹
- This requirement reflects the facts that: (a) the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and (b) there are inherent limitations to ~~internal~~ controls, including management override.

A42a. Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, in designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

Nature and Extent of Substantive Procedures

..

A45. The ~~nature assessment~~ of the risk ~~and~~ or the nature of the assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining the relevant audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

A46. Because the assessment of the risk of material misstatement takes account of ~~internal controls~~ that the auditor plans to test, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.

...

Using audit evidence obtained during an interim period (Ref: Para. 22)

...

A56. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the following may influence whether to perform substantive procedures at an interim date:

- The control environment and other ~~relevant~~ controls.

...

A57. Factors such as the following may influence whether to perform substantive analytical procedures with respect to the period between the interim date and the period end:

...

³⁹ SSA 315 (Revised 2021), paragraph 36

- Whether the information system ~~relevant to financial reporting~~ will provide information concerning the balances at the period end and the transactions in the remaining period that is sufficient to permit investigation of:
 - (a) Significant unusual transactions or entries (including those at or near the period end);
 - (b) Other causes of significant fluctuations, or expected fluctuations that did not occur; and
 - (c) Changes in the composition of the classes of transactions or account balances.

...

Evaluating the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 25–27)

A60. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

...

In such circumstances, the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement for all or some of and the effect on the significant classes of transactions, account balances, or disclosures and ~~related their relevant~~ assertions. SSA 315 (Revised 2021) contains further guidance on revising the auditor's risk assessment.⁴⁰

...

A62. The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

...

- Understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control.

Documentation (Ref: Para. 28)

A63. The form and extent of audit documentation is a matter of professional judgment, and is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the audit.

⁴⁰ SSA 315 (Revised 2021), paragraph 5334

SSA 402, Audit Considerations Relating to an Entity Using a Service Organization

Introduction

Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies SSA 315 (Revised 2021)⁴¹ and SSA 330 in obtaining an understanding of the user entity, including the entity's system of internal control relevant to the preparation of the financial statements relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

...

3. Services provided by a service organization are relevant to the audit of a user entity's financial statements when those services, and the controls over them, are part of the user entity's information system, ~~including related business processes, relevant to financial reporting~~ the preparation of the financial statements. ~~Although most controls at the service organization are likely to relate to financial reporting~~ be part of the user entity's information system relevant to the preparation of the financial statements, there may be other or related controls that may also be relevant to the audit, such as controls over the safeguarding of assets. A service organization's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following:

- (a) How information relating to significant classes of transactions, account balances and disclosures flows through the user entity's information system, whether manually or using IT, and whether obtained from within or outside the general ledger and subsidiary ledgers. The classes of transactions in the user entity's operations that are significant to the user entity's financial statements; This includes when the service organization's services affect how:
 - (i) ~~(b) The procedures, within both information technology (IT) and manual systems, by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; Transactions of the user entity are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and~~
 - (ii) Information about events or conditions, other than transactions, is captured, processed and disclosed by the user entity in the financial statements.
- (b) ~~(c) The related accounting records, either in electronic or manual form, supporting information and specific accounts in the user entity's financial statements and other supporting records relating to the flows of information in paragraph 3(a) that are used to initiate, record, process and report the user entity's transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;~~
- (d) ~~How the user entity's information system captures events and conditions, other than transactions, that are significant to the financial statements;~~

⁴¹ SSA 315 (Revised 2021), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"

- (ce) The financial reporting process used to prepare the user entity's financial statements from the records described in paragraph 3(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures ~~accounting estimates and disclosures~~; and
- (d) The entity's IT environment relevant to (a) to (c) above.
- ~~(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.~~

...

Objectives

7. The objectives of the user auditor, when the user entity uses the services of a service organization, are:
 - (a) To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's system of internal control relevant to the audit, sufficient to provide an appropriate basis for the identification and assessment of ~~identify and assess~~ the risks of material misstatement; and
 - (b) To design and perform audit procedures responsive to those risks.

...

Requirements

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

9. When obtaining an understanding of the user entity in accordance with SSA 315 (Revised 2021)⁴², the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operations, including: (Ref: Para. A1-A2)
- ...
10. When obtaining an understanding of the entity's system of internal control relevant to the audit in accordance with SSA 315 (Revised 2021),⁴³ the user auditor shall identify controls in the control activities component⁴⁴ ~~evaluate the design and implementation of relevant controls at the user entity, from those~~ that relate to the services provided by the service organization, and evaluate their design and determine whether they have been implemented.⁴⁵ (Ref: Para. A12-A14)
11. The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's system of internal control relevant to the audit has been obtained to provide an appropriate basis for the identification and assessment of the risks of material misstatement.

⁴² SSA 315 (Revised 2021), paragraph 1944.

⁴³ ~~SSA 315 (Revised), paragraph 12~~

⁴⁴ SSA 315 (Revised 2021), paragraphs 26(a)

⁴⁵ SSA 315 (Revised 2021), paragraph 26(d)

12. If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:

...

- (d) Using another auditor to perform procedures that will provide the necessary information about ~~the relevant~~ controls at the service organization. (Ref: Para. A15–A20)

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organization

...

14. If the user auditor plans to use a type 1 or type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organization, the user auditor shall:

...

- (b) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the ~~user entity's internal controls~~ at the service organization relevant to the audit; and

...

Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

Understanding the Controls Relating to Services Provided by the Service Organization (Ref: Para. 10)

- A14. As noted in SSA 315 (Revised 2021)⁴⁶ in respect of some risks, the user auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions and account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. Such automated processing characteristics may be particularly present when the user entity uses service organizations. In such cases, the user entity's controls over such risks are relevant to the audit and the user auditor is required to obtain an understanding of, and to evaluate, such controls in accordance

...

Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity (Ref: Para. 12)

...

- A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant-controls at the service organization related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find the guidance in SSA 600 useful as it relates to understanding another auditor (including that auditor's independence and professional competence),

⁴⁶ SSA 315 (Revised 2021), paragraph 3330.

involvement in the work of another auditor in planning the nature, timing and extent of such work, and in evaluating the sufficiency and appropriateness of the audit evidence obtained.

...

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organization
(Ref: Para. 13–14)

...

A22. A type 1 or type 2 report, along with information about the user entity, may assist the user auditor in obtaining an understanding of:

...

A type 1 or type 2 report may assist the user auditor in obtaining a sufficient understanding to identify and assess the risks of material misstatement. A type 1 report, however, does not provide any evidence of the operating effectiveness of the ~~relevant~~ controls.

Responding to the Assessed Risks of Material Misstatement

...

Test of Controls

A29. The user auditor is required by SSA 330 to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls in certain circumstances. In the context of a service organization, this requirement applies when:

...

A30. If a type 2 report is not available, a user auditor may contact the service organization, through the user entity, to request that a service auditor be engaged to provide a type 2 report that includes tests of the operating effectiveness of the ~~relevant~~ controls or the user auditor may use another auditor to perform procedures at the service organization that test the operating effectiveness of those controls. A user auditor may also visit the service organization and perform tests of ~~relevant~~ controls if the service organization agrees to it. The user auditor's risk assessments are based on the combined evidence provided by the work of another auditor and the user auditor's own procedures.

Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively

...

A33. It may also be necessary for the user auditor to obtain additional evidence about significant changes to the ~~relevant~~ controls at the service organization outside of the period covered by the type 2 report or determine additional audit procedures to be performed. Relevant factors in determining what additional audit evidence to obtain about controls at the service organization that were operating outside of the period covered by the service auditor's report may include:

...

- The effectiveness of the control environment and the user entity's process to monitor the system of internal control ~~monitoring of controls at the user entity.~~

A34. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the user entity's process to monitor the system of internal control monitoring of controls.

...

A39. The user auditor is required to communicate in writing significant deficiencies identified during the audit to both management and those charged with governance on a timely basis.¹¹ The user auditor is also required to communicate to management at an appropriate level of responsibility on a timely basis other deficiencies in internal control identified during the audit that, in the user auditor's professional judgment, are of sufficient importance to merit management's attention.¹² Matters that the user auditor may identify during the audit and may communicate to management and those charged with governance of the user entity include:

- Any controls within the entity's process to monitor the system of internal control monitoring of controls that could be implemented by the user entity, including those identified as a result of obtaining a type 1 or type 2 report;

...

SSA 500, *Audit Evidence*

Application and Other Explanatory Material

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

A1. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit ~~determined whether changes have occurred since the previous audit that may affect its relevance to the current audit~~⁴⁷) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

...

Audit Procedures for Obtaining Audit Evidence

...

Observation

A17. Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of controls activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. See SSA 501 for further guidance on observation of the counting of inventory.

...

⁴⁷ SSA 315 (Revised 2021), paragraph 169.

SSA 501, *Audit Evidence—Special Considerations for Selected Items*

Application and Other Explanatory Material

Inventory

Attendance at Physical Inventory Counting (Ref: Para. 4(a))

...

Evaluate Management's Instructions and Procedures (Ref: Para. 4(a)(i))

A4. Matters relevant in evaluating management's instructions and procedures for recording and controlling the physical inventory counting include whether they address, for example:

- The application of appropriate controls ~~activities~~, for example, collection of used physical inventory count records, accounting for unused physical inventory count records, and count and re-count procedures.

...

SSA 505, *External Confirmations*

...

Application and Other Explanatory Material

...

Implications for the Assessment of Risks of Material Misstatement (Ref: Para. 8(b))

- A7. The auditor may conclude from the evaluation in paragraph 8(b) that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with SSA 315 (Revised 2021).⁴⁸ For example, if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with SSA 240.

...

Unreliable Responses (Ref: Para. 11)

- A17. When the auditor concludes that a response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with SSA 315 (Revised 2021).⁴⁹ For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with SSA 240.

...

Non-Responses (Ref: Para. 12)

...

- A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with SSA 315 (Revised 2021).⁵⁰ For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with SSA 240.

...

SSA 505, *External Confirmations*

⁴⁸ SSA 315 (Revised 2021), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 3734.

⁴⁹ SSA 315 (Revised 2021), paragraph 3734.

⁵⁰ SSA 315 (Revised 2021), paragraph 3734.

SSA 520, *Analytical Procedures*

Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's use of analytical procedures as substantive procedures (substantive analytical procedures). It also deals with the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. SSA 315 (Revised 2021)⁵¹ deals with the use of analytical procedures as risk assessment procedures. SSA 330 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

...

Application and Other Explanatory Material

...

Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 6)

...

- A17. The results of such analytical procedures may identify a previously unrecognized risk of material misstatement. In such circumstances, SSA 315 (Revised 2021) requires the auditor to revise the auditor's assessment of the risks of material misstatement and modify the further planned audit procedures accordingly.⁵²

...

⁵¹ SSA 315 (Revised 2021), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 644(b).

⁵² SSA 315 (Revised 2021), paragraph 3734.

SSA 530, Audit Documentation

Application and Other Explanatory Material

...

Sample Design, Size, and Selection of Items for Testing

Sample Design (Ref: Para. 6)

...

- A7. In considering the characteristics of a population, for tests of controls, the auditor makes an assessment of the expected rate of deviation based on the auditor's understanding of the ~~relevant~~ controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size....

...

Appendix 2 (Ref: Para. A11)

Example of Factors Influencing Sample Size for Test of Controls

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

Factor 1 An increase in the extent to which the auditor's risk assessment takes into account ~~relevant~~ plans to test the operating effectiveness of controls.

...

SSA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Introduction

Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how SSA 315 (Revised 2021),⁵³ SSA 330,⁵⁴ SSA 450,⁵⁵ SSA 500⁵⁶ and other relevant SSAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

...

Key Concepts of This SSA

4. ~~This SSA 315 (Revised 2021) requires a separate assessment of inherent risk for identified risks of material misstatement at the assertion level.⁵⁷ purposes of assessing the risks of material misstatement at the assertion level for accounting estimates.~~ In the context of SSA 540 (Revised), and depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, and the interrelationship among them. As explained in SSA 200,⁵⁸ inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to in this SSA as the spectrum of inherent risk. (Ref: Para. A8–A9, A65–A66, Appendix 1)
5. This SSA refers to relevant requirements in SSA 315 (Revised 2021) and SSA 330, and provides related guidance, to emphasize the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:
 - There are controls ~~relevant to the audit~~ required to be identified by SSA 315 (Revised 2021), for which the auditor is required to evaluate their design and determine whether they have been implemented.
 - To test the operating effectiveness of ~~relevant~~ controls.
6. ~~This SSA 315 (Revised 2021) also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level for accounting estimates.~~ In assessing control

⁵³ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵⁴ SSA 330, *The Auditor's Responses to Assessed Risks*

⁵⁵ SSA 450, *Evaluation of Misstatements Identified during the Audit*

⁵⁶ SSA 500, *Audit Evidence*

⁵⁷ SSA 315 (Revised 2021), paragraph 31

⁵⁸ SSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing*, paragraph A40

risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not ~~perform plan to tests the operating effectiveness of controls, or does not intend to rely on the operating effectiveness of controls,~~ the auditor's assessment of ~~the risk of material misstatement at the assertion level control risk cannot be reduced for the effective operation of controls with respect to the particular assertion is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk.~~⁵⁹ (Ref: Para. A10)

...

8. The exercise of professional skepticism in relation to accounting estimates is affected by the auditor's consideration of inherent risk factors, and its importance increases when accounting estimates are subject to a greater degree of estimation uncertainty or are affected to a greater degree by complexity, subjectivity or other inherent risk factors. Similarly, the exercise of professional skepticism is important when there is greater susceptibility to misstatement due to management bias or ~~fraud~~ other fraud risk factors insofar as they affect inherent risk. (Ref: Para. A11)

...

Requirements

Risk Assessment Procedures and Related Activities

13. When obtaining an understanding of the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control, as required by SSA 315 (Revised 2021),⁶⁰ the auditor shall obtain an understanding of the following matters related to the entity's accounting estimates. The auditor's procedures to obtain the understanding shall be performed to the extent necessary to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Ref: Para. A19–A22)

Obtaining an Understanding of ~~t~~The Entity and Its Environment and the Applicable Financial Reporting Framework

- (a) The entity's transactions and other events ~~and~~ conditions that may give rise to the need for, or changes in, accounting estimates to be recognized or disclosed in the financial statements. (Ref: Para. A23)
- (b) The requirements of the applicable financial reporting framework related to accounting estimates (including the recognition criteria, measurement bases, and the related presentation and disclosure requirements); and how they apply in the context of the nature and circumstances of the entity and its environment, including how ~~transactions and other events or conditions are subject to, or affected by,~~ the inherent risk factors affect susceptibility to misstatement of assertions. (Ref: Para. A24–A25)
- (c) Regulatory factors relevant to the entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision. (Ref: Para. A26)

⁵⁹ SSA 530, *Audit Sampling*, Appendix 3

⁶⁰ SSA 315 (Revised 2021), paragraphs 3, 5–6, 9, 11–12, 15–17, and 20–21 19–27

- (d) The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements, based on the auditor's understanding of the matters in 13(a)–(c) above. (Ref: Para. A27)

Obtaining an Understanding of the Entity's System of Internal Control

- (e) The nature and extent of oversight and governance that the entity has in place over management's financial reporting process relevant to accounting estimates. (Ref: Para. A28–A30).
- (f) How management identifies the need for, and applies, specialized skills or knowledge related to accounting estimates, including with respect to the use of a management's expert. (Ref: Para. A31)
- (g) How the entity's risk assessment process identifies and addresses risks relating to accounting estimates. (Ref: Para. A32–A33)
- (h) The entity's information system as it relates to accounting estimates, including:
 - (i) How information relating to accounting estimates and related disclosures for significant classes of transactions, account balances or disclosures flows through the entity's information system ~~The classes of transactions, events and conditions, that are significant to the financial statements and that give rise to the need for, or changes in, accounting estimates and related disclosures;~~ and (Ref: Para. A34–A35)
 - (ii) For such accounting estimates and related disclosures, how management:
 - a. Identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable financial reporting framework, including how management: (Ref: Para. A36–A37)
 - i. Selects or designs, and applies, the methods used, including the use of models; (Ref: Para. A38–A39)
 - ii. Selects the assumptions to be used, including consideration of alternatives, and identifies significant assumptions; (Ref: Para. A40–A43); and
 - iii. Selects the data to be used; (Ref: Para. A44)
 - b. Understands the degree of estimation uncertainty, including through considering the range of possible measurement outcomes; and (Ref: Para. A45)
 - c. Addresses the estimation uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements. (Ref: Para. A46–A49)
 - (i) Identified controls in the control activities component⁶¹ ~~activities relevant to the audit~~ over management's process for making accounting estimates as described in paragraph 13(h)(ii). (Ref: Para. A50–A54)
 - (j) How management reviews the outcome(s) of previous accounting estimates and responds to the results of that review.

⁶¹ SSA 315 (Revised 2021), paragraphs 26(a)(i)–(iv)

14. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A55–A60)

...

Identifying and Assessing the Risks of Material Misstatement

16. In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, including separately assessing inherent risk and control risk at the assertion level, as required by SSA 315 (Revised 2021),⁶² the auditor shall ~~separately assess inherent risk and control risk~~. The auditor shall take the following into account in identifying the risks of material misstatement and in assessing inherent risk: (Ref: Para. A64–A71)

- (a) The degree to which the accounting estimate is subject to estimation uncertainty; and (Ref: Para. A72–A75)
- (b) The degree to which the following are affected by complexity, subjectivity, or other inherent risk factors: (Ref: Para. A76–A79)
 - (i) The selection and application of the method, assumptions and data in making the accounting estimate; or
 - (ii) The selection of management’s point estimate and related disclosures for inclusion in the financial statements.

17. The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 16 are, in the auditor’s judgment, a significant risk.⁶³ If the auditor has determined that a significant risk exists, the auditor shall identify controls that obtain an understanding of the entity’s controls, including control activities, relevant to address that risk,⁶⁴ and evaluate whether such controls have been designed effectively, and determine whether they have been implemented.⁶⁵ (Ref: Para. A80)

...

19. As required by SSA 330,⁶⁶ the auditor shall design and perform tests to obtain sufficient appropriate audit evidence as to the operating effectiveness of ~~relevant~~ controls, if:
- (a) The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively; or
 - (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

⁶² SSA 315 (Revised 2021), paragraph ~~25 and 26~~31 and 34

⁶³ SSA 315 (Revised 2021), paragraph 32~~27~~

⁶⁴ SSA 315 (Revised 2021), paragraph 26(a)(i)~~29~~

⁶⁵ SSA 315 (Revised 2021), paragraph 26(a)

⁶⁶ SSA 330, paragraph 8

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. 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.⁶⁷ (Ref: Para. A85–A89)

...

Application and Other Explanatory Material

...

Key Concepts of This SSA

Inherent Risk Factors (Ref: Para. 4)

- A8. ~~Inherent risk factors are characteristics of conditions and events and conditions that may affect the susceptibility of an assertion to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosures, before consideration of controls.~~⁶⁸ Appendix 1 further explains the nature of these inherent risk factors, and their inter-relationships, in the context of making accounting estimates and their presentation in the financial statements.
- A9. ~~In addition to the inherent risk factors of estimation uncertainty, complexity or subjectivity, other inherent risk factors that the auditor may consider in identifying and~~ When assessing the risks of material misstatement at the assertion level⁶⁹, in addition to estimation uncertainty, complexity, and subjectivity, the auditor also takes into account the degree ~~may include the extent~~ to which inherent risk factors included in SSA 315 (Revised 2021); (other than estimation uncertainty, complexity, and subjectivity); affect susceptibility to misstatement of assertions to misstatement about the accounting estimate. Such additional inherent risk factors include ~~is subject to, or affected by:~~
- Change in the nature or circumstances of the relevant financial statement items, or requirements of the applicable financial reporting framework which may give rise to the need for changes in the method, assumptions or data used to make the accounting estimate.
 - Susceptibility to misstatement due to management bias, or other fraud risk factors insofar as they affect inherent risk, in making the accounting estimate.
 - Uncertainty, other than estimation uncertainty.

Control Risk (Ref: Para. 6)

- A10. ~~An important consideration for the auditor in assessing control risk at the assertion level in accordance with SSA 315 (Revised 2021), the auditor takes into account is the effectiveness of the design of the controls that whether the auditor intends plans to rely test on the operating effectiveness of controls. and the extent to which the controls address the assessed inherent risks at the assertion level. When the auditor is considering whether to test the operating effectiveness of controls, the auditor's evaluation that controls are effectively designed and have been implemented supports an expectation, by the auditor, about the operating effectiveness of the controls in determining whether establishing the plan to test them.~~

⁶⁷ SSA 330, paragraph 9

⁶⁸ SSA 315 (Revised 2021), paragraph 12(f)

⁶⁹ SSA 315 (Revised 2021), paragraph 31

...

Risk Assessment Procedures and Related Activities

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework, and the Entity's System of Internal Control (Ref: Para. 13)

A19. Paragraphs ~~1944–2724~~ of SSA 315 (Revised 2021) require the auditor to obtain an understanding of certain matters about the entity and its environment, the applicable financial reporting framework and including the entity's system of internal control. The requirements in paragraph 13 of this SSA relate more specifically to accounting estimates and build on the broader requirements in SSA 315 (Revised 2021).

Scalability

A20. The nature, timing, and extent of the auditor's procedures to obtain the understanding of the entity and its environment, including the applicable financial reporting framework, and the entity's system of internal control, related to the entity's accounting estimates, may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances. For example, the entity may have few transactions or other events ~~and or~~ conditions that give rise to the need for accounting estimates, the applicable financial reporting requirements may be simple to apply, and there may be no relevant regulatory factors. Further, the accounting estimates may not require significant judgments, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to, or affected by, estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree, and there may be fewer identified controls in the control activities component relevant to the audit. If so, the auditor's risk identification and assessment procedures are likely to be less extensive and may be obtained primarily through inquiries of management with appropriate responsibilities for the financial statements, such as and simple walk-throughs of management's process for making the accounting estimate (including when evaluating whether identified controls in that process are designed effectively and when determining whether the control has been implemented).

...

The Entity and Its Environment

The entity's transactions and other events ~~and or~~ conditions (Ref: Para. 13(a))

...

The requirements of the applicable financial reporting framework (Ref: Para. 13(b))

A24. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with a basis for discussion with management and, where applicable, those charged with governance about how management has applied ~~these~~ requirements of the applicable financial reporting framework relevant to the accounting estimates, and about the auditor's determination of whether they have been applied appropriately. This understanding also may assist the auditor in communicating with those charged with governance when the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework, not to be the most appropriate in the circumstances of the entity.⁷⁰

⁷⁰ SSA 260 (Revised), paragraph 16(a)

...

The Entity's System of Internal Control ~~Relevant to the Audit~~

The nature and extent of oversight and governance (Ref: Para. 13(e))

A28. In applying SSA 315 (Revised 2021),⁷¹ the auditor's understanding of the nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates may be important to the auditor's required evaluation ~~of as it relates to~~ whether:

- Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; ~~and~~
- The ~~strengths in the entity's~~ control environment ~~elements collectively~~ provides an appropriate foundation for the other components of the system of internal control considering the nature and size of the entity; and ~~whether~~
- ~~those other components are undermined by~~ Control deficiencies identified in the control environment undermine the other components of the system of internal control.

...

The entity's risk assessment process (Ref: Para. 13(g))

A32. Understanding how the entity's risk assessment process identifies and addresses risks relating to accounting estimates may assist the auditor in considering changes in:

...

- The entity's information systems or IT environment; and

...

The entity's information system relating to accounting estimates (Ref: Para. 13(h)(i))

A34. The significant classes of transactions, events and conditions within the scope of paragraph 13(h) are the same as the significant classes of transactions, events and conditions relating to accounting estimates and related disclosures that are subject to paragraphs ~~25(a)18(a) and (d)~~ of SSA 315 (Revised 2021). In obtaining the understanding of the entity's information system as it relates to accounting estimates, the auditor may consider:

- Whether the accounting estimates arise from the recording of routine and recurring transactions or whether they arise from non-recurring or unusual transactions.
- How the information system addresses the completeness of accounting estimates and related disclosures, in particular for accounting estimates related to liabilities.

A35. During the audit, the auditor may identify classes of transactions, events ~~and or~~ conditions that give rise to the need for accounting estimates and related disclosures that management failed to identify. SSA 315 (Revised 2021) deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including ~~determining whether there is a significant deficiency in internal control with regard to~~ considering the implications for the auditor's evaluation of the entity's risk assessment process.⁷²

⁷¹ SSA 315 (Revised 2021), paragraph 21(a)¹⁴

¹³⁷ SSA 315 (Revised 2021), paragraph 22(b)¹⁷

Management's Identification of the Relevant Methods, Assumptions and Sources of Data (Ref: Para. 13(h)(ii)(a))

...

Methods (Ref: Para. 13(h)(ii)(a)(i))

...

Models

A39. Management may design and implement specific controls around models used for making accounting estimates, whether management's own model or an external model. When the model itself has an increased level of complexity or subjectivity, such as an expected credit loss model or a fair value model using level 3 inputs, controls that address such complexity or subjectivity may be. When complexity in relation to models is present, controls over data integrity are also more likely to be identified controls in accordance with SSA 315 (Revised 2021) relevant to the audit. Factors that may be appropriate for the auditor to consider in obtaining an understanding of the model and of related identified controls activities relevant to the audit include the following:

...

Data (Ref: Para. 13(h)(ii)(a)(iii))

A44. Matters that the auditor may consider in obtaining an understanding of how management selects the data on which the accounting estimates are based include:

...

- The complexity of IT applications or other aspects of the entity's IT environment ~~the information technology systems~~ used to obtain and process the data, including when this involves handling large volumes of data.

...

How management understands and addresses estimation uncertainty (Ref: Para. 13(h)(ii)(b)–13(h)(ii)(c))

...

Identified Controls Activities Relevant to the Audit Over Management's Process for Making Accounting Estimates (Ref: Para 13(i))

A50. The auditor's judgment in identifying controls ~~relevant to the audit~~ in the controls activities component, and therefore the need to evaluate the design of those controls and determine whether they have been implemented, relates to management's process described in paragraph 13(h)(ii). The auditor may not identify ~~relevant controls activities~~ in relation to all ~~the elements~~ aspects of paragraph 13(h)(ii), ~~depending on the complexity associated with the accounting estimate~~.

A51. As part of ~~obtaining an understanding of~~ identifying the controls ~~activities relevant to the audit~~, and evaluating their design and determining whether they have been implemented, the auditor may consider:

...

- The effectiveness of the design of the controls ~~activities~~. Generally, it may be more difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, than it is to design controls that address complexity. Controls that address subjectivity and estimation uncertainty may need to include more manual elements, which may be less reliable than automated controls as they can be more easily bypassed, ignored or overridden by management. The design effectiveness of controls addressing complexity may vary depending on the reason for, and the nature of, the complexity. For example, it may be easier to design more effective controls related to a method that is routinely used or over the integrity of data.

A52. When management makes extensive use of information technology in making an accounting estimate, identified controls relevant to the audit in the control activities component are likely to include general IT controls and ~~application~~-information processing controls. Such controls may address risks related to:

- Whether the IT applications or other aspects of the IT environment ~~information technology system~~ has the capability and is appropriately configured to process large volumes of data;
 Complex calculations in applying a method. When diverse IT applications systems are required to process complex transactions, regular reconciliations between the IT applications systems are made, in particular when the IT applications systems do not have automated interfaces or may be subject to manual intervention;

...

A53. In some industries, such as banking or insurance, the term governance may be used to describe activities within the control environment, the entity's process to monitor the system of internal control monitoring of controls, and other components of the system of internal control, as described in SSA 315 (Revised 2021).⁷³

A54. For entities with an internal audit function, its work may be particularly helpful to the auditor in obtaining an understanding of:

...

- The design and implementation of controls ~~activities~~ that address the risks related to the data, assumptions and models used to make the accounting estimates;

...

Reviewing the Outcome or Re-Estimation of Previous Accounting Estimates (Ref: Para. 14)

...

A59. The measurement objective for fair value accounting estimates and other accounting estimates, based on current conditions at the measurement date, deals with perceptions about value at a point in time, which may change significantly and rapidly as the environment in which the entity operates changes. The auditor may therefore focus the review on obtaining information that may be relevant to identifying and assessing risks of material misstatement. For example, in some cases, obtaining an understanding of changes in marketplace participant assumptions that affected the outcome of a previous period's fair value accounting estimates may be unlikely to provide relevant audit evidence.

⁷³ SSA 315 (Revised 2021), Appendix 3 paragraph A77

In this case, audit evidence may be obtained by understanding the outcomes of assumptions (such as a cash flow projections) and understanding the effectiveness of management's prior estimation process that supports the identification and assessment of the risks of material misstatement in the current period.

A60. A difference between the outcome of an accounting estimate and the amount recognized in the previous period's financial statements does not necessarily represent a misstatement of the previous period's financial statements. However, such a difference may represent a misstatement if, for example, the difference arises from information that was available to management when the previous period's financial statements were finalized, or that could reasonably be expected to have been obtained and taken into account in the context of the applicable financial reporting framework.⁷⁴ Such a difference may call into question management's process for taking information into account in making the accounting estimate. As a result, the auditor may reassess any plan to test related controls and the related assessment of control risk ~~and/or~~ may determine that more persuasive audit evidence needs to be obtained about the matter. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes that do not, and the accounting treatment required to be followed in each case.

...

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 4, 16)

...

A65. Paragraph A42 of SSA 200 states that the SSAs ~~do not ordinarily refer to inherent risk and control risk separately~~ typically refer to the "risks of material misstatement" rather than to inherent risk and control risk separately. However, this SSA 315 (Revised 2021) requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the risks of material misstatement at the assertion level,⁷⁵ including significant risks, ~~at the assertion level for accounting estimates~~ in accordance with SSA 330.⁷⁶

A66. In identifying the risks of material misstatement and in assessing inherent risk for accounting estimates in accordance with SSA 315 (Revised 2021),⁷⁷ the auditor is required to take into account the degree to which the accounting estimate is subject to, or affected by, the inherent risk factors that affect susceptibility to misstatement of assertions, and how they do so ~~estimation uncertainty, complexity, subjectivity, or other inherent risk factors~~. The auditor's consideration of the inherent risk factors may also provide information to be used in ~~determining~~:

- Assessing the likelihood and magnitude of misstatement (i.e., ~~W~~where inherent risk is assessed on the spectrum of inherent risk); and
- Determining ~~T~~the reasons for the assessment given to the risks of material misstatement at the assertion level, and that the auditor's further audit procedures in accordance with paragraph 18 are responsive to those reasons.

The interrelationships between the inherent risk factors are further explained in Appendix 1.

⁷⁴ SSA 560, Subsequent Events, paragraph 14

⁷⁵ SSA 315 (Revised 2021), paragraphs 31 and 34

⁷⁶ SSA 330, paragraph 7(b)

⁷⁷ SSA 315 (Revised 2021), paragraph 31(a)

...

A68. The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk at close to the lower end of the spectrum of inherent risk.

...

A70. Events occurring after the date of the financial statements may provide additional information relevant to the auditor's assessment of the risks of material misstatement at the assertion level. For example, the outcome of an accounting estimate may become known during the audit. In such cases, the auditor may assess or revise the assessment of the risks of material misstatement at the assertion level,⁷⁸ regardless of how the inherent risk factors affect susceptibility of assertions to misstatement relating to degree to which the accounting estimate was subject to, or affected by, estimation uncertainty, complexity, subjectivity or other inherent risk factors. Events occurring after the date of the financial statements also may influence the auditor's selection of the approach to testing the accounting estimate in accordance with paragraph 18. For example, for a simple bonus accrual that is based on a straightforward percentage of compensation for selected employees, the auditor may conclude that there is relatively little complexity or subjectivity in making the accounting estimate, and therefore may assess inherent risk at the assertion level at close to the lower end of the spectrum of inherent risk. The payment of the bonuses subsequent to period end may provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.

...

Other Inherent Risk Factors (Ref: Para. 16(b))

A79. The degree of subjectivity associated with an accounting estimate influences the susceptibility of the accounting estimate to misstatement due to management bias or ~~fraud~~ other fraud risk factors insofar as they affect inherent risk. For example, when an accounting estimate is subject to a high degree of subjectivity, the accounting estimate is likely to be more susceptible to misstatement due to management bias or fraud and this may result in a wide range of possible measurement outcomes. Management may select a point estimate from that range that is inappropriate in the circumstances, or that is inappropriately influenced by unintentional or intentional management bias, and that is therefore misstated. For continuing audits, indicators of possible management bias identified during the audit of preceding periods may influence the planning and risk assessment procedures in the current period.

...

When the Auditor Intends to Rely on the Operating Effectiveness of ~~Relevant~~ Controls (Ref: Para: 19)

A85. Testing the operating effectiveness of ~~relevant~~ controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks. This may be the case when the accounting estimate is subject to or affected by a high degree of complexity. When the accounting estimate is affected by a high degree of subjectivity, and therefore requires significant judgment by management, inherent limitations in the effectiveness of the design of controls may lead

⁷⁸ SSA 315 (Revised 2021), paragraph 3734

the auditor to focus more on substantive procedures than on testing the operating effectiveness of controls.

...

Significant Assumptions (Ref: Para. 24)

...

A104. Through the knowledge obtained in performing the audit, the auditor may become aware of or may have obtained an understanding of assumptions used in other areas of the entity's business. Such matters may include, for example, business prospects, assumptions in strategy documents and future cash flows. Also, if the engagement partner has performed other engagements for the entity, SSA 315 (Revised 2021)⁷⁹ requires the engagement partner to consider whether information obtained from those other engagements is relevant to identifying risks of material misstatement. This information may also be useful to consider in addressing whether significant assumptions are consistent with each other and with those used in other accounting estimates.

...

Overall Evaluation Based on Audit Procedures Performed (Ref: Para. 33)

A137. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures.⁸⁰ In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.⁸¹

...

Documentation (Ref: Para. 39)

A149. SSA 315 (Revised 2021)⁸² and SSA 330⁸³ provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in SSA 230.⁸⁴ In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements of the auditor's understanding of the entity and its environment related to accounting estimates. In addition, the auditor's judgments about the assessed risks of material misstatement related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

...

⁷⁹ SSA 315 (Revised 2021), paragraph 15(b)8

⁸⁰ SSA 330, paragraph A60

⁸¹ See also SSA 315 (Revised 2021), paragraph 3734.

⁸² SSA 315 (Revised 2021), paragraphs 3832 and A237–A241A144-147

⁸³ SSA 330, paragraphs 28 and A63

⁸⁴ SSA 230, paragraph 8(c)

SSA 550, Related Parties

...

Risk Assessment Procedures and Related Activities

11. As part of the risk assessment procedures and related activities that SSA 315 (Revised 2021) and SSA 240 require the auditor to perform during the audit⁸⁵, the auditor shall perform the audit procedures and related activities set out in paragraphs 12-17 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. (Ref: Para. A8)

Understanding the Entity's Related Party Relationships and Transactions

12. The engagement team discussion that SSA 315 (Revised 2021) and SSA 240 require⁸⁶ shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. (Ref: Para. A9-A10)

...

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

18. In meeting the SSA 315 (Revised 2021) requirement to identify and assess the risks of material misstatement⁸⁷, the auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.

Application and Other Explanatory Material

...

Special-Purpose Entities as Related Parties

- A7. In some circumstances, a special-purpose entity⁸⁸ may be a related party of the entity because the entity may in substance control it, even if the entity owns little or none of the special-purpose entity's equity.

Risk Assessment Procedures and Related Activities

...

Understanding the Entity's Related Party Relationships and Transactions

Discussion among the Engagement Team (Ref: Para. 12)

⁸⁵ SSA 315 (Revised 2021), paragraph 135; SSA 240, paragraph 16.

⁸⁶ SSA 315 (Revised 2021), paragraph 1740; SSA 240 paragraph 15.

⁸⁷ SSA 315 (Revised 2021), paragraph 2825.

⁸⁸ SSA 315 (Revised 2021), Appendix 1 paragraphs 6-7A33-A34, provides guidance regarding the nature of a special-purpose entity.

A9. Matters that may be addressed in the discussion among the engagement team include:

- ...
- The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of ~~relevant~~ controls.

...

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

...

A12. However, where the framework does not establish related party requirements, the entity may not have such information systems in place. Under such circumstances, it is possible that management may not be aware of the existence of all related parties. Nevertheless, the requirement to make the inquiries specified by paragraph 13 still applies because management may be aware of parties that meet the related party definition set out in this SSA. In such a case, however, the auditor's inquiries regarding the identity of the entity's related parties are likely to form part of the auditor's risk assessment procedures and related activities performed in accordance with SSA 315 (Revised 2021) to obtain information regarding the entity's organizational structure, ownership, governance and business model:-

- ~~The entity's ownership and governance structures;~~
- ~~The types of investments that the entity is making and plans to make; and~~
- ~~The way the entity is structured and how it is financed.~~

...

The Entity's Controls over Related Party Relationships and Transactions (Ref: Para. 14)

...

A17. In meeting the SSA 315 (Revised 2021) requirement to obtain an understanding of the control environment⁸⁹, the auditor may consider features of the control environment relevant to mitigating the risks of material misstatement associated with related party relationships and transactions, such as:

- Internal ethical codes, appropriately communicated to the entity's personnel and enforced, governing the circumstances in which the entity may enter into specific types of related party transactions.

Considerations specific to smaller entities

A20. Controls activities in smaller entities are likely to be less formal and smaller entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions. For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through inquiry of management combined with other procedures,

⁸⁹ SSA 315 (Revised 2021), paragraph 2144.

such as observation of management's oversight and review activities, and inspection of available relevant documentation.

...

Sharing Related Party Information with the Engagement Team (Ref: Para. 17)

A28. Relevant related party information that may be shared among the engagement team members includes, for example:

- The identity of the entity's related parties.
- The nature of the related party relationships and transactions.

Significant or complex related party relationships or transactions that may be determined to be significant risks ~~require special audit consideration~~, in particular transactions in which management or those charged with governance are financially involved.

...

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the SSA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls,⁹⁰ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

...

⁹⁰ SSA 330, paragraph 8(b)

SSA 570, *Going Concern*

...

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by SSA 315 (Revised 2021),⁹¹ the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3–A6)

...

Application and Other Explanatory Material

...

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

- A7. SSA 315 (Revised 2021) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.⁹² If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. SSA 330 establishes requirements and provides guidance on this issue.

...

⁹¹ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 135

⁹² SSA 315 (Revised), paragraph 3734

SSA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

Requirements

Understanding the Group, Its Components and Their Environments

17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the system of internal control. The group engagement team shall:
- (a) ...

Application and Other Explanatory Material

...

Definitions

...

Significant Component (Ref: Para. 9(m))

...

- A6. The group engagement team may also identify a component as likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, ~~(that is, risks that require special audit consideration⁹³)~~. For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.

...

Understanding the Group, Its Components, and Their Environments

Matters about Which the Group Engagement Team Obtains an Understanding (Ref: Para. 17)

- A23. SSA 315 (Revised 2021) contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance.⁹⁴ Appendix 2 of this SSA contains guidance on matters specific to a group including the consolidation process.

...

Discussion among Group Engagement Team Members and Component Auditors Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (Ref: Para. 17)

⁹³ SSA 315 (Revised), paragraphs 27–29

⁹⁴ SSA 315 (Revised 2021), paragraphs A6225–A6449 and Appendix 1

A28. The key members of the engagement team are required to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, specifically emphasizing the risks due to fraud. In a group audit, these discussions may also include the component auditors⁹⁵. The group engagement partner's determination of who to include in the discussions, how and when they occur, and their extent, is affected by factors such as prior experience with the group.

...

Appendix 2

Examples of Matters about Which the Group Engagement Team Obtains an Understanding

...

Group-Wide Controls

1. Group-wide controls may include a combination of the following:
 - Regular meetings between group and component management to discuss business developments and to review performance.
 - ...
 - Controls ~~activities~~ within an IT system that is common for all or some components.
 - Controls within the group's process to monitor ~~Monitoring the system of internal~~ controls, including activities of the internal audit function and self-assessment programs.
 - ...

Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters that are relevant to the planning of the work of the component auditor:

- ...
- ...

Matters that are relevant to the conduct of the work of the component auditor:

- The findings of the group engagement team's tests of controls ~~activities~~ of a processing system that is common for all or some components, and tests of controls to be performed by the component auditor.
- ...

⁹⁵ SSA 240, paragraph 15, and SSA 315 (Revised 2021), paragraph 1740.

SSA 610 (Revised 2013), *Using the Work of Internal Auditors*

Introduction

...

Relationship between SSA 315 (Revised 2021) and SSA 610 (Revised 2013)

...

7. SSA 315 (Revised 2021) addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and identification and assessment of risks of material misstatement. SSA 315 (Revised 2021) also explains how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor's work.

...

Application and Other Explanatory Material

Definition of Internal Audit Function (Ref: Para. 2, 14(a))

...

- A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this SSA, although they may perform controls activities that can be tested in accordance with SSA 330. For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.
- A4. While the objectives of an entity's internal audit function and the external auditor differ, the function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements. If so, the external auditor may make use of the function for purposes of the audit in one or more of the following ways:
 - To obtain information that is relevant to the external auditor's assessments of the risks of material misstatement due to error or fraud. In this regard, SSA 315 (Revised 2021)⁹⁶ requires the external auditor to obtain an understanding of the nature of the internal audit function's responsibilities, its status within the organization, and the activities performed, or to be performed, and make inquiries of appropriate individuals within the internal audit function (if the entity has such a function); or

...

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

- A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring controls activities that may be performed within the entity.

⁹⁶ SSA 315 (Revised 2021), paragraph 14(a)6.

...

A21. As explained in SSA 315 (Revised 2021),⁹⁷ significant risks ~~require special audit consideration~~ are risks assessed close to the upper end of the spectrum of inherent risk and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risks of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.

...

A26. SSA 200⁹⁸ discusses the importance of the auditor planning and performing the audit with professional skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention⁹⁹. The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with SSA 240¹⁰⁰.

⁹⁷ SSA 315 (Revised 2021), paragraph 12(~~1~~)4(e)

⁹⁸ SSA 200, paragraphs 15 and A18.

⁹⁹ SSA 315 (Revised 2021), paragraph A118A146.

¹⁰⁰ SSA 315 (Revised 2021), Appendix 4 paragraph 5A14 in relation to SSA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".

SSA 620, *Using the Work of an Auditor's Expert*

Application and Other Explanatory Material

...

Determining the Need for an Auditor's Expert (Ref: Para. 7)

A4. An auditor's expert may be needed to assist the auditor in one or more of the following:

- Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the, including its entity's system of internal control.
- ...

SSA 700, *Forming an Opinion and Reporting on Financial Statements*

...

Application and Other Explanatory Material

...

Responsibilities for the Financial Statements (Ref: Para. 33–34)

...

- A47. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in SSA 315 (Revised 2021)¹⁰¹), the descriptions in SSA 210 and in paragraph 34 do not make specific reference to them.

...

¹⁰¹ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 124(c)

SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Application and Other Explanatory Material

...

Determining Key Audit Matters (Ref: Para. 9–10)

...

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with SSA 315 (Revised 2021) (Ref: Para. 9(a))

...

A20. SSA 315 (Revised 2021) defines a significant risk as an identified ~~and assessed~~ risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur that, in the auditor's judgment, requires special audit consideration.¹⁰² Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

...

A22. SSA 315 (Revised 2021) explains that 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.¹⁰³ Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

¹⁰² SSA 315 (Revised 2021), paragraph 12(l)

¹⁰³ SSA 315 (Revised 2021), paragraph 37~~34~~

SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

...

A31. The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, the applicable financial reporting framework, and including the entity's system of internal control, obtained in accordance with SSA 315 (Revised 2021).¹⁰⁴ SSA 315 (Revised 2021) sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:

- (a) The entity's organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;
- (b) ~~The r~~Relevant industry, regulatory, and other external factors;
- (c) The relevant measures used, internally and externally, to assess measurement and review of the entity's financial performance; ~~and~~
- (~~b~~) ~~The nature of the entity;~~
- (~~c~~) ~~The entity's selection and application of accounting policies;~~
- (~~d~~) ~~The entity's objectives and strategies;~~

...

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)

A51. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment, the financial reporting framework and the entity's system of internal control and, accordingly, may indicate the need to revise the auditor's risk assessment¹⁰⁵.
- ...

...

¹⁰⁴ SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 1944–2742

¹⁰⁵ SSA 315 (Revised 2021), paragraphs 1944, 3734 and A11A4