

INTOSAI



Fundamental Principles of Financial Auditing

Proposed

Endorsement Version

(In the PSC working language)

For approval by the PSC

Steering Committee

(Cf. Due Process - Stage 3)

INTOSAI PROFESSIONAL STANDARDS COMMITTEE

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INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their national laws and regulations and mandate.
2. ISSAI 100, Fundamental Principles of Public Sector Auditing, includes the fundamental principles for public sector auditing in general including the authority of the ISSAIs. ISSAI 200, Fundamental Principles of Financial Auditing, has been developed to address the key principles related to an audit of financial statements in the public sector and builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of audits of financial statements. ISSAI 200 constitutes the basis for auditing standards related to audits of financial statements. ISSAI 200 has to be read and understood in conjunction with ISSAI 100.
3. The main purpose of the ISSAIs on financial audits is to provide INTOSAI members with a comprehensive set of principles, standards and guidelines for the audit of financial statements of public sector entities. The ISSAIs on financial audit includes ISSAI 200 and 1000 to 1810. ISSAI 1000 to 1810 include Practice Notes developed by INTOSAI in addition to the International Standards on Auditing (ISAs) developed by the International Auditing and Assurance Standards Board (IAASB). The Practice Note and ISA together constitute a guideline in the ISSAI standards framework.
4. The scope of financial audits in the public sector may be defined by the mandate as a range of objectives that are to be audited in addition to financial statements prepared in accordance with a Financial Reporting Framework. These objectives may include matters such as:
 - States' or entities' accounts or other financial reports not necessary prepared in accordance with a general purpose financial reporting framework;
 - Budgets, budget sections, appropriations and other decisions on allocation of resources and the implementation thereof;
 - Policies, programmes or activities defined by their legal basis or source of financing;
 - Legally defined areas of responsibility, such as the responsibilities of ministers; and
 - Categories of income or payments or assets or liabilities.
5. When the SAI mandate defines such objectives SAIs may also need to consider development or adoption of standards based on the general fundamental principles on public sector auditing in ISSAI 100 and the fundamental principles on compliance and performance auditing. The guidance in the ISSAIs on level 4 that apply to special purpose frameworks¹, audits of single financial statements and specific elements, accounts, or items of a financial statement², and reports on summary financial statements³, may also be relevant for such purposes.

¹ ISSAI 1800 Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks .

² ISSAI 1805 Special Considerations – Audits of single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

³ ISSAI 1810 Engagements to Report on Summary Financial Statements.

6. This ISSAI provides detailed information on the following:
 - The purpose and authority of the Fundamental Principles of Financial Auditing
 - Framework for Auditing Financial Statements in the Public Sector
 - The elements of an audit of Financial Statements
 - The principles of an audit of Financial Statements.

PURPOSE AND AUTHORITY OF THE FUNDAMENTAL PRINCIPLES OF FINANCIAL AUDITING

7. ISSAI 200 provides the fundamental principles relevant for an audit of financial statements prepared in accordance with a Financial Reporting Framework. The principles are also applicable for circumstances when SAIs are engaged or have responsibilities to audit single financial statements and specific elements, accounts, or items of a financial statement and financial statements prepared in accordance with special purpose financial frameworks as well as summary financial statements. When reference are made in ISSAI 200 to audits of financial statements this includes such responsibilities.
8. ISSAIs 1000 to 1810 for financial audits may be applied as appropriate to such responsibilities. However, auditors are prohibited from making reference to the use of the ISSAIs if:
 - the preconditions for an audit in accordance with the ISSAI⁴s for financial audit not are in place
 - the auditor is not able to comply with the authority attached to the ISAs⁵and ISSAIs
9. The Fundamental Principles of Financial Auditing apply to all public sector audits of financial statements, whether they are representing the whole of government, parts of government or single entities.
10. ISSAI 200 Fundamental Principles of Financial Auditing represents the core of the detailed auditing standards found on level 4 of the ISSAI framework (e.g., ISSAIs 1000 to 1810). The principles in ISSAI 200 can be used in three ways:
 - To form the basis on which standards are developed,
 - To form the basis on which consistent national standards are adopted.
 - To form the basis for adoption of the Financial Auditing Guidelines (ISSAI 1000-1810) as the authoritative standards.
11. Reference to ISSAI 200 in audit reports or the auditor's report should only be made if auditing standards have been developed or adopted that fully comply with all relevant principles of ISSAI 200. A principle is considered relevant when it deals with the type of audit or combinations of audit types and the circumstance or procedure is applicable. The principles do not override national laws, regulations or mandates.

⁴ ISSAI 1210 Agreeing the Terms of Audit Engagements, paragraphs 6-8.

⁵ ISSAI 1000 – paragraphs 37-43.

12. When adopting or developing audit standards based on the Fundamental Principles reference to these in the auditor's report may be done by stating;

... We conducted our audit in accordance with [standards] based on [or consistent with] the INTOSAI Fundamental Auditing Principles (ISSAI 100-999) of the International Standards of Supreme Audit Institutions.

13. SAs adopting the ISSAIs on level 4⁶ as their authoritative standards makes reference to these in their reports. Reference to the use of them as standards can, depending on the standards applied and the SA's mandate, be done in two ways:
 - (a) In accordance with the ISSAIs (1000-1810); this means full compliance with all relevant ISAs and the additional guidance set out in the INTOSAI Practice Notes to the ISAs
 - (b) In accordance with the ISAs; this includes compliance with all relevant ISAs

ISSAI 100 further explains the authority attached to the INTOSAI Fundamental Principles

14. When the ISSAIs on the level 4 are used as authoritative standards, auditors of public sector entities also respect the authority of the ISAs. SAs are encouraged to strive to full adoption of the guidelines on level 4 as their authoritative standards. They have been developed to reflect best practice. INTOSAI recognizes that in some environments this might not be possible due to lack of basic requirements in government structure or due to laws or regulations that will not allow for the premises attached to an audit of financial statements in accordance with level 4. In such cases, SAs in such environments have the option to develop authoritative standards based on the Fundamental Principles of Financial Auditing.
15. When the ISSAIs on level 4 are used as authoritative standards for an audit of financial statements conducted together with a compliance audit, auditors of public sector entities respect the authority of both the Financial Audit Guidelines and the Compliance Audit Guidelines⁷.

FRAMEWORK FOR FINANCIAL AUDITING

The objective of financial auditing

16. The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, or as for financial statements

⁶ ISSAI 1000-1810, The Financial Audit Guidelines.

⁷ ISSAI 4000 General Introduction to Guidelines on Compliance Audit, and ISSAI 4200 Compliance Audit Guidelines Related to Audit of Financial Statements.

prepared in accordance with a fair presentation financial reporting framework, whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with the framework. Laws or regulations for public sector audit organizations may prescribe the use of other wordings for expressing the opinion. An audit conducted in accordance with standards based on INTOSAI Fundamental Principles for Financial Auditing and relevant ethical requirements enables the auditor to express such an opinion.

17. ISSAI 200 is based on the objective as defined in ISSAI 1200⁸ as follows:

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

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate the result of the audit, in accordance with the auditor's findings.

Public Sector Applications covered by ISSAI 200

Preconditions for an audit of financial statements in accordance with the ISSAIs

18. **The auditor should assess the whether the preconditions for an audit of financial statements have been met.**
19. A financial audit conducted in accordance with ISSAIs is premised on the following conditions:
- The financial reporting framework used for preparation of the financial statements is deemed to be acceptable by the auditor.
 - Management of the entity acknowledges and understands its responsibility:
 - For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
 - For such internal control that management determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - To provide the auditor with unrestricted access to all information of which management is aware, that is relevant to the preparation of the financial statements.
20. Financial Reporting Frameworks may be for general use or specific use. A framework designed to meet the information needs of a wide range of users is referred to as a general purpose framework, and alternatively special purpose is frameworks designed to meet the specific needs of a specific user or group of users. Frameworks may also be referred to as fair presentation frameworks or compliance frameworks. A fair presentation framework

⁸ ISSAI 1200 paragraph 11 of ISA 200.

requires compliance with the framework, but allows, explicit or implicit, that it may be necessary to depart from a requirement or to provide additional information in order to achieve fair presentation of the financial statements. The term compliance framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements above.

21. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements. Suitable criteria should be formal, for example in the preparation of financial statements; the criteria may be International Public Sector Accounting Standards (IPSASs), the International Financial Reporting Standards (IFRSs), or other international or national financial reporting frameworks for use in the public sector.
22. A complete set of financial statements for a public sector entity prepared in accordance with a financial reporting framework for the public sector, normally comprises of:
 - A statement of financial position;
 - A statement of financial performance;
 - A statement of changes in net assets/equity;
 - A cash flow statement;
 - A comparison of budget and actual amounts either as a separate additional financial statement or as a reconciliation;
 - Notes, comprising a summary of significant accounting policies and other explanatory information
 - In certain environments a complete set of financial statements according to the financial reporting framework may also include other reports such as reports on performance and appropriation reports.

If the financial statements are prepared in accordance with a framework for other accounting bases, such as modified accrual or a cash basis of accounting, a complete set of financial statements may not comprise all the above statements.

23. Frameworks prescribed by law or regulation may often be determined as acceptable by the auditor, but if such framework is determined to be unacceptable, the auditor may anyway accept such framework, if:
 - Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading and,
 - The auditor's report on the financial statements includes an Emphasis of Matter paragraph, drawing users' attention to such additional disclosures

Reference to the ISSAIs, in accordance with the authority of this ISSAI, should not be made in the auditor's report if the auditor assesses the reporting framework as not being acceptable or the above circumstances have not been met. In such cases, the auditor may use the ISSAIs on financial audits as guidance for the audit process, but may not make reference to them in the report.

24. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in the financial statements being useful for the intended users:
 - Relevance, in that the information provided in the financial statements is relevant to the nature of the audited entity and the purpose of the financial statements.
 - Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - Reliability, in that the information provided in the financial statements:

- (i) Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
- (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
- Neutrality and objectivity, in that it contributes to information in the financial statements that is free from bias.
- Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly diverse interpretation.

Appendix 2 of ISSAI 1210⁹, may provide further assistance for the auditor in determining if the financial reporting framework is acceptable.

25. In some public sector audit environments, financial audits are referred to as budget execution audits, which often include the examination of transactions against the budget for compliance and regularity issues. Such audits may be undertaken on a risk basis or with the objective to cover all transactions. In such audit environments there is often a lack of an acceptable financial reporting framework. The result of financial transactions may be presented in the format of expenditure amounts compared to budgetary figures. In environments where such audits are undertaken and there are no financial statements presented in accordance with an acceptable financial reporting framework, the underlying preconditions of an audit in accordance with the ISSAIs on financial audit are not in place. Auditors in such environments may consider developing standards using the fundamental principles on financial auditing as guidance to suit their specific needs. In such cases, reference should not be made to the Fundamental Principles of Financial Auditing. In cases where the audit mandate refers to financial audit not directed to financial statements prepared in accordance with a financial reporting framework, it is suggested that the ISSAIs are considered best available practice and the spirit of those are implemented in specific standards that apply for the specific environment. In cases where the audit mandate refers to audits of single financial statements and specific elements, accounts, or items of a financial statement, ISSAI 1805¹⁰ may be relevant.
26. The type of audit performed in environments where compliance with authorities is the main focus of the audit would normally be considered a compliance audit. ISSAI 400, Fundamental Principles on Compliance Auditing may be a relevant source of information for the development or adoption of standards for the audit work. If on the other hand, the audit mandate allows for a change in audit procedures and the use of acceptable financial reporting frameworks is introduced, with financial statements being prepared in accordance with such an acceptable financial reporting framework, the ISSAIs on financial auditing may be adopted in the future.

⁹ ISSAI 1210 Agreeing the Terms of Audit Engagements.

¹⁰ ISSAI 1805 Special Considerations – Audits of single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

27. The principles of ISSAI 200 are applicable to audits of financial statements prepared in accordance with both general purpose frameworks and special purpose frameworks. In addition to preparing general purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs. In some environments such financial statements are the only financial statements prepared by the public sector entity. Financial statements prepared for a special purpose are not appropriate for the general public. Auditors, therefore, need to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”), or the financial information needs of specific users, or the requirements of a standard setting body.
28. Examples of special purpose frameworks relevant to the public sector may include:
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for a governing body;
 - The financial reporting provisions established by an international funding organization or mechanism
 - The financial reporting provisions established by a governing body, the legislature or other parties that perform an oversight function to meet the requirements of that body; or
 - The financial reporting provisions of a contract, such as a project grant.
29. The principles of ISSAI 200 are relevant for audits of financial statements prepared in accordance with such frameworks. In addition to the principles, SAIs may find it useful to consider the requirements and guidance in ISSAI 1800, which deals with special considerations in the application of ISSAIs 1200 to 1700 to an audit of financial statements prepared in accordance with a special purpose framework, when developing or adapting standards based on ISSAI 200 principles.

Audits of Single Financial Statements, Specific Elements, Accounts or Items of a Financial Statement

30. The principles of ISSAI 200 are also applicable for audits of public sector entities preparing financial information, including single financial statements, specific elements, accounts or items of a financial statement for other parties (such as governing bodies, the legislature or other parties that perform an oversight function). Such information may fall under the audit mandate of the SAI. Auditors may also be engaged to audit single financial statements, specific elements, accounts or items such as the audit of projects financed by the government in organizations in which they are not engaged to audit the complete set of financial statements with the legislature or those with the responsibility to direct the audit organization.
31. In addition to consideration of the principles of ISSAI 200, SAIs may find it useful to consider the requirements and guidance in ISSAI 1805 when developing or adapting standards based on the principles in ISSAI 200. ISSAI 1805 deals with special considerations in the application of the requirements of the ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with either a general or a special purpose framework.

ELEMENTS OF FINANCIAL AUDITING

32. An audit of financial statements is defined as an assurance engagement. Assurance engagements involve at least three separate parties: an auditor, a responsible party and intended users. The elements of public sector auditing are described in ISSAI 100¹¹. ISSAI 200 provides some additional aspects of the elements relevant for an audit of financial statements.

Three parties involved in financial auditing

33. In an audit of financial statements, the responsible party is responsible for the subject matter information, normally the financial statements, and may also be responsible for the underlying subject matter (the financial activities undertaken and reflected in the financial statements). The responsible party is normally the executive branch of government and/or its underlying hierarchy of public sector entities responsible for the management of public funds and the exercise of authority under the control of the legislature as well as the financial statements. Their responsibility is to manage resources and exercise authority in accordance with the decisions and premises of the legislature.
34. Legislators represent the citizens, who are the ultimate users of the financial statements in the public sector. The “intended user” is primarily the parliament, representing the citizens by making decisions and fixing priorities of public finance, and also on the purpose and contents of spending and income as a part of a public democratic process. Such decisions and premises of the legislature may form the basis of the broader perspective of financial audit in the public sector. For public sector entities, legislators and regulators are often the primary users of their financial statements.
35. The responsible party and the intended users may be from different public sector entities or the same. As an example of the latter case, in a governmental structure, a supervisory board may seek assurance about information provided by the management board of that public sector entity. The relationship between the responsible party and the intended users needs to be viewed within the context of the specific engagement and may differ from more traditionally defined lines of responsibility.

Suitable Criteria

36. Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria in the preparation of financial statements are normally formal; the criteria may be IPSASs, IFRS or other national financial reporting frameworks for use in the public sector.

¹¹ ISSAI 100 Fundamental Principles of Public Sector Auditing.

Subject Matter Information

37. The financial position, financial performance, cash flows and notes represented in the financial statements (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure (criteria) to a public sector entity's financial information (subject matter). The term "subject matter information" is the outcome of the evaluation or measurement of a subject matter. It is the subject matter information (e.g. the entity's financial statements) about which the auditor gathers sufficient appropriate audit evidence to provide a reasonable basis for expressing an opinion in the auditor's report.

Reasonable Assurance Engagement

38. An audit of financial statements conducted in accordance with the ISSAIs is a reasonable assurance engagement. Reasonable assurance is high, but not absolute, as there are inherent limitations of an audit, which result in most of the audit evidence to be obtained by the auditor being persuasive rather than conclusive. In general, reasonable assurance audits are designed to result in a positive form of expressing a conclusion, such as... "in our opinion the financial statements presents fairly, in all material respects (or give a true and fair view of) the financial position of...and its financial performance and cash flows...", or when the framework is a compliance framework, "in our opinion the financial statements are prepared, in all material respects, in accordance with..".
39. Engagements to provide limited assurance, such as in review engagements are currently not covered by the ISSAIs on financial audits. Such engagements provide a lower level of assurance than reasonable assurance engagements, and are designed to result in a negative form of expression of a conclusion, such as "nothing has come to our attention that would cause us to believe that the financial statements are not presented fairly in all material respects". Auditors engaged to perform such engagements may need to apply guidance outside the ISSAIs on financial audit and the fundamental principles of ISSAI 100 may provide guidance in this regard.

PRINCIPLES OF FINANCIAL AUDITING

General principles

Prerequisites for conducting financial audits

Ethics and Independence

40. **The auditor should comply with relevant ethical requirements, including those pertaining to independence, when performing audits of financial statements.**

41. Auditors who perform assurance engagements in accordance with the ISSAIs are subject to ethical requirements in accordance with INTOSAI Code of Ethics¹² applied in the national context. For SAIs that either adopt the ISSAIs on level 4 as their authoritative standards or apply the ISAs, auditors are required to comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) (the IESBA Code), which establishes fundamental ethical principles for professional accountants, or adopt national requirements that are at least as demanding; the INTOSAI Code of Ethics (ISSAI 30) applied in the national context may be such an relevant ethical code. SAIs therefore need to adopt ISSAI 30 or the IESBA Code in their environment in order to make reference in the auditor's report to the audit been conducted in accordance with the ISSAIs or the ISAs.

Quality Control

42. **The auditor should implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements, and that the auditor's report issued is appropriate in the circumstances.**
43. As stated in ISSAI 100 SAIs should adopt quality control procedures in accordance with ISSAI 40¹³. It provides the context of the IAASB's International Standards on Quality Control (ISQC) 1 in a public sector environment. ISQC 1 establishes standards and provides guidance on an organization's system of quality control. Although the general purpose and key principles of ISSAI 40 are consistent with ISQC 1, the requirements of ISSAI 40 have been adapted to ensure they are relevant to SAIs.
44. In SAIs, an Auditor General, or the equivalent, has overall responsibility for introducing and maintaining quality control procedures, although the day-to-day operational responsibility may be delegated to others. For example, all those with engagement auditor responsibility in a SAI with an Auditor General System would ultimately report to the Auditor General.
45. Public sector auditors performing audits of financial statements in accordance with standards based on or consistent with the principles of ISSAI 200 are subject to quality control requirements at the engagement level. SAIs developing standards based on ISSAI 200 or adapting standards consistent with ISSAI 200 consider the need to formulate requirements related to:
- The need for the responsible auditor to take responsibility for the overall quality on each audit engagement.
 - The need for the responsible auditor to ensure that members of the engagement team comply with relevant ethical requirements.
 - The need for the responsible auditor to form a conclusion on compliance with independence requirements that applies to the audit engagement and to take appropriate actions to eliminate threats to independence.
 - The need for the responsible auditor to be satisfied that the engagement team and any auditor's experts collectively have the appropriate competence and capabilities.

¹² ISSAI 30 Code of Ethics.

¹³ ISSAI 40 Quality Control for SAIs.

- The need for the responsible auditor to take responsibility for the performance of the engagement, specifically:
 - The direction, supervision and performance of the engagement and;
 - Ensuring that reviews are performed in accordance with the SAI's review policies and procedures.

Engagement team management and skills

46. **The responsible auditor should be satisfied that the entire engagement team, and any experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:**
- (a) Perform the audit in accordance with applied standards and applicable legal and regulatory requirements; and**
- (b) Enable the auditor to issue a report that is appropriate in the circumstances.**
47. When considering the appropriate competence and capabilities expected of the team as a whole, the responsible auditor may consider the following matters, such as the team's:
- Understanding and practical experience of, audit engagements of a similar nature and complexity through appropriate training and experience.
 - Understanding of professional standards and applicable legal and regulatory requirements.
 - Technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing.
 - Knowledge of relevant industries in which the audited organization operates.
 - Ability to apply professional judgment.
 - Understanding of the SAI's quality control policies and procedures.
 - Skills that are necessary to discharge the terms of the audit mandate in the relevant environment, including an understanding of the applicable reporting arrangements, and reporting to the legislature or other governing body or in the public interest
 - Skills related to performance auditing or compliance auditing, if relevant.

Principles related to basic Audit Concepts

48. ISSAIs 1000 – 1810 are the best example of how the Fundamental Principles of Financial Auditing can be applied. However for SAIs that choose to develop standards based on the fundamental auditing principles or adopt national standards that are consistent with the principles the areas dealt with in this and the following section are matters that should be addressed.

Audit Risk

49. **The auditor should reduce audit risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the auditor's opinion.**
50. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of

professional judgment, rather than a matter capable of precise measurement. The risks of material misstatement consist of two components: inherent risk and control risk.

51. In general, engagement risk in an audit, relates to the risk that the subject matter information is materially misstated, and depends on these components:
 - a) Inherent risk: the susceptibility of the subject matter information to a material misstatement, assuming that there are no related controls; and
 - b) Control risk: the risk that a material misstatement could occur and will not be prevented, or detected and corrected, on a timely basis by related controls. When control risk is relevant to the subject matter, some control risk will always exist because of the inherent limitations of the design and operation of internal control; and
 - c) In addition to the risk that the subject matter information is materially misstated, the auditor also considers the risk that the auditor will not detect a material misstatement that exists. The degree to which the auditor considers each of these components is affected by the engagement circumstances.
52. Audit risk for an audit of financial statements is the risk that the auditor expresses an inappropriate conclusion when the subject matter information is materially misstated. The auditor reduces the risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the auditor's conclusion. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

Professional Judgment and professional skepticism

53. **The auditor should plan and perform the audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. When planning, performing, concluding and reporting an audit of financial statements, the auditor should exercise professional judgment.**
54. The terms 'professional skepticism' and 'professional judgment' are to be used when formulating requirements relating to the auditor's decisions about the appropriate response to or decisions on matters concerning the audit, and to express the attitude of the auditor that includes a questioning mind. These concepts are included in the ISSAIs on financial audit.
55. The concept of professional judgment is applied by the auditor at all stages of the audit process. The term "professional judgment" means: the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement¹⁴.
56. Professional judgment is necessary in particular regarding decisions about:
 - Materiality and audit risk.
 - The nature, timing, and extent of audit procedures used to meet the requirements of the ISSAIs and the ISAs and gather audit evidence.

¹⁴ ISSAI 1200 paragraph 13.

- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the overall objectives of the auditor.
- The evaluation of management's judgments in applying the audited entity's applicable financial reporting framework.
- The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

57. Professional skepticism is fundamental to all audit engagements. The auditor plans and performs an assurance engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional skepticism is necessary throughout the engagement process for the auditor to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

Materiality

58. **The auditor should apply the concept of materiality appropriately when planning and performing the audit.**
59. When establishing the audit strategy, the auditor should determine materiality for the financial statements as a whole. If there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the decisions of users taken on the basis of the financial statements, the auditor should also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.
60. The auditor should also determine performance materiality for the purposes of assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds the materiality set for the financial statements as a whole. The determination of performance materiality involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.
61. A misstatement is material, individually or when aggregated with other misstatements, when it could reasonably be expected to influence the decisions that users make based on the financial statements. Materiality has both quantitative and qualitative aspects. In the public sector, materiality is not limited to economic decisions of users, also decisions about whether to continue certain government programs or grant funding may be based on the financial

statements. The qualitative aspects of materiality generally play a greater role in the public sector than in other types of entities. The assessment of materiality and the consideration of sensitivity and other qualitative factors in a particular engagement are matters for the auditor's judgment.

62. The concept of materiality is applied by the auditor in planning and performing the audit, as well as in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for detecting misstatements that are not material to the financial statements as a whole.. The auditor should still identify and document quantitative immaterial misstatements as they may be material due to their nature or when aggregated. Misstatements less than the trivial threshold need not to be considered
63. 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. Although it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The aspects the auditor considers include the sensitive nature of certain transactions or programs, the public interest, the need for effective legislative oversight and regulation, and the nature of the misstatement or deviation (e.g., if it is related to fraud or corruption).

Communication

64. **The auditor should, after determining the appropriate person(s) within the audited entity's governance structure with whom to communicate, communicate with those persons regarding the planned scope and timing of the audit and significant findings from the audit.**
65. The auditor's communication includes communicating with both management and those charged with governance. The communication includes obtaining information relevant to the audit and providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process and to promote effective two-way communication between the auditor and those charged with governance.
66. In the public sector, identifying those charged with governance may be a challenge. The audited entity may be part of a larger or broader structure with governance bodies at several organizational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where there are several distinct groups that are identified as those charged with governance. Furthermore, an audit in the public sector might involve both financial statement objectives as well as compliance objectives and in some cases that may involve separate governance bodies.

67. Communication should be in writing, if the auditor determines that it is not adequate to communicate orally. The auditor may also have additional responsibilities to communicate with other parties than those within the organization, such as the legislature, appropriate regulators, or relevant funding agencies.
68. Written communications need not to include all matters arising during the course of the audit. However, written communication is needed for significant findings from the audit and auditors are required to communicate those findings to those charged with governance.
69. Auditors in the public sector are often the mandated auditors of the whole, or the major parts, of the government and its administration. In this situation, auditors may have access to information from other audited entities and their audits, which might be of relevance to those charged with governance. Examples of this might include material errors in transactions with the audited entity that also affect other audited entities, or designs of relevant controls which have provided efficiency gains in other audited entities. Communicating this type of information to those charged with governance may add value to the audit when circumstances permit. However, laws, regulations or ethical requirements may prohibit communicating this type of information.

Documentation

70. **The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, with no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the standards applied and applicable legal and regulatory requirements, the results of the audit procedures performed, and the audit evidence obtained, the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. The audit documentation should be prepared on a timely basis.**
71. Adequate audit documentation is important for several reasons. It will:
 - confirm and support the auditor's opinions and reports;
 - serve as a source of information for preparing reports or answering any enquiries from the audited organization or from any other party;
 - serve as evidence of the auditor's compliance with the auditing standards;
 - facilitate planning, supervision and review;
 - help the auditor's professional development;
 - help to ensure that delegated work has been satisfactorily performed; and
 - provide evidence of work done for future reference.
72. Auditing standards based on the fundamental principles need to include further requirements on the auditor in relation to documentation in the following areas:
 - The timely preparation of audit documentation.
 - The form, content and extent of audit documentation.
 - Documentation requirements where the auditor judges it necessary to depart from a relevant requirement in the applied auditing standards.
 - Documentation requirements where the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report.
 - The assembly of the final audit file.The ISSAIs on level 4 provides additional guidance for adopting requirements and guidance related to audit documentation

73. For auditors with a judicial role, such as a Court of Accounts, documentation forms part of the basis of the official ruling. In such an environment, due process of law may establish specific and strict requirements to be adhered to in regard to confidentiality of documentation in connection with the proceedings of a case. Additionally, as decisions may result in a legally binding public credit, there may be additional documentation retention requirements to which public sector auditors adhere.

Principles related to the Audit Process

Agreeing the Terms of the Engagement

74. **The auditor should agree or, if the terms of the engagement are clearly mandated, establish a common understanding of the terms of the audit engagement with management or those charged with governance, as appropriate.**
75. The terms of an audit engagement in the public sector are normally mandated and therefore not subject to requests from, and agreement with, management or those charged with governance. Instead of agreeing the terms formally, public sector auditors may instead choose to establish a common, formal understanding of the respective roles and responsibilities between the management and the auditor. Since the public sector auditor is normally engaged by and reports to the legislature, agreements may need to be reached with both the legislature and those charged with governance.
76. The auditor should communicate with relevant representatives of those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including the auditor's responsibility for forming and expressing an opinion on the financial statements, prepared by management with the oversight of those charged with governance.
77. If law or regulation prescribes in sufficient detail the terms of the engagement, it may not be necessary to record them in an audit engagement letter, or other suitable form of written agreement. An exception may be for the agreement by management and, where appropriate, those charged with governance, that they acknowledge and understand the responsibilities set out in the specific auditing standards, such as the ISSAIs and the ISAs. Such engagements often exist in the public sector, while written agreements on the terms of engagements may not be used, although such agreements may assist in clarifying the responsibilities of the parties involved.
78. An overview of the planned scope and timing of the audit should also be communicated with those charged with governance. In communicating with those charged with governance, the auditor includes views about significant qualitative aspects of the audited entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
79. SAIs are normally required to carry out an audit as stated in their mandate. They do not normally have the option to reject an assignment, even if the preconditions are not met.

Standards developed based on the fundamental principles needs to provide guidance on suitable actions in such circumstances. ISSAI 1210¹⁵ includes guidance for such situations.

Planning

80. **The auditor should develop an overall audit strategy that includes the scope, timing and direction of the audit, and an audit plan which directs the audit .**
81. An overall audit strategy guides the auditor in the development of the audit plan. When developing the overall audit strategy, the auditor needs to:
 - Identify the characteristics of the engagement that define its scope
 - Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required
 - Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts
 - Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement auditor for the audited entity is relevant Ascertain the nature, timing and extent of resources necessary to perform the engagement.
 - Consider the results and knowledge obtained from performance audits and other audit activities relevant to the audited entity, including the implications of previous recommendations
 - Consider and assess the expectations of the legislature and other relevant users of the auditors' report
82. **The auditor should properly plan the audit to ensure that it is conducted in an effective and efficient manner.**
83. The auditor should prepare an audit plan. The audit plan should include a description of:
 - The nature, timing and extent of planned risk assessment procedures.
 - The nature, timing and extent of planned further audit procedures at the assertion level.
 - Other planned audit procedures that are required to be performed so that the engagement complies with the applicable standards. Such procedures may involve the review of the legal framework of the audit; a brief description of the activity, programme or entity to be audited; the reasons for carrying out the audit; the factors affecting the audit, including those determining the materiality of matters to be considered; the audit objectives and scope; the audit approach; the specification of the audit evidence to be collected, and the procedures required to collect and analyse such evidence; the resources required; a timetable for the audit; and the form, content and users of the Auditor's Report and Management Letter.
84. Both the overall strategy and the audit plan needs to be documented. They also need to be updated, as necessary, during the course of the audit.

¹⁵ ISSAI 1210 Agreeing the terms of an engagement

Understanding the audited entity

85. **The auditor should have an understanding of the audited entity and its environment, including internal control procedures that are relevant to the audit.**
86. Understanding the different aspects of the organization and its environment enables the auditor to effectively plan and perform the audit, and includes an understanding of:
- The relevant environment, regulations, and other external factors including the applicable financial reporting framework.
 - The nature of the audited entity, including how it operates, the governance structure, how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements, the selection and application of accounting policies, including the reasons for changes thereto.
 - The measurement and review of the audited entity's financial performance.
 - Decisions initiated outside the audited entity as a result of political processes such as new programs or budget constraints.
 - Specific laws and regulations to which the audited entity is subject and the potential impact of non-compliance with these.
 - Program objectives and strategies may include public policy elements and therefore may have implications for the risk assessment.
 - Governance structures affected by the legal structure of the audited entity, for example whether the audited entity is a ministry, department, agency or other type of public sector entity.
87. Elements of the control environment that may be relevant when obtaining an understanding of the control environment, may include consideration of the audited entity's communication and enforcement of integrity and ethical values, commitment to competence, participation by those charged with governance, management's philosophy and operating style, organizational structure, existence and level of internal audit activity, assignment of authority and responsibility and human resource policies and practices.
88. Relevant audit evidence may be obtained through a combination of inquiries and other risk assessment procedures such as corroborating inquiries through observation or inspection of documents. For example, through inquiries of management and employees, the auditor may obtain an understanding of how management communicates its views on business practices and ethical behavior with the employees. The auditor may then determine whether relevant controls have been implemented by considering, for example, whether management has a written code of conduct and whether it acts in a manner that supports the code.
89. As part of the understanding process, the auditor also needs to consider whether the audited entity has a process for identifying business risks relevant to financial reporting objectives and further estimate the significance of those risks by assessing the likelihood of their occurrence. If such a process has been established, the auditor needs to obtain an understanding of it, and the results thereof.
90. The auditor's understanding of internal control relevant to financial reporting may include the following areas:
- The classes of transactions in the audited entity's operations that are significant to the financial statements;
 - The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

- The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;
- How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
- The financial reporting process used to prepare the audited entity's financial statements, including significant accounting estimates and disclosures;
- Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;
- Relevant controls that relate to compliance with authorities;
- Controls related to monitoring performance against the budget;
- Controls related to transferring budgetary funds to other audited entities;
- Controls of classified data related to national security and sensitive personal data, such as tax and health information; and
- Supervision and other controls performed by parties outside the audited entity that relate to areas such as:
 - Compliance with laws and regulations, such as procurement regulations;
 - Execution of the budget;
 - Other areas as defined by legislation or audit mandate; and
 - Management's accountability.

91. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. However, obtaining an understanding of an audited entity's controls and, if relevant, government- wide controls, is not sufficient to test their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls..

Risk assessment

92. **The auditor should assess the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for performing further audit procedures.**

93. Risk assessment procedures may include the following:

- Inquiries of management and of others within the audited entity that in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
- Analytical procedures.
- Observation and inspection.

94. Identifying and assessing the risks of material misstatement should be conducted at both the financial statement level and the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures. For this purpose, the auditor needs to:

- Identify risks throughout the process of obtaining an understanding of the audited entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
- Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;

- Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
- Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

95. As part of the risk assessment, the auditor determines whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor should exclude the effects of identified controls related to the risk. When judging on which risks are significant risks, the auditor needs to consider at least the following:
- Whether the risk is a risk of fraud;
 - Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
 - The complexity of transactions;
 - Whether the risk involves significant transactions with related parties;
 - The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty;
 - Whether the risk involves significant transactions that are outside the normal course of business for the audited entity, or that otherwise appear to be unusual; and
 - Whether the risk also affects compliance with laws and regulations.
96. The identification of assessed risks of material misstatement at both the financial statement level and assertion level, and the risks identified, and related controls about which the auditor has obtained understanding are to be sufficiently documented.

Responses to assessed risks

97. **The auditor should respond appropriately to address the assessed risks of material misstatement in the financial statements**
98. Responses to assessed risks include designing audit procedures that addresses the risks, such as substantive procedures and test of controls. Substantive procedures includes both tests of details and substantive analytical procedures (of classes of transactions, account balances, and disclosures).
99. The nature, timing, and extent of audit procedures are based on and are responsive to the assessed risks of material misstatement at the assertion level. In designing the audit procedures to be performed, the auditor should consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure. Such considerations may include the inherent risk of transactions (the likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure) and the control risk (whether the risk assessment takes account of relevant controls).
100. Relevant consideration of the control risk requires the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures).
101. When designing and performing tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, the auditor considers the

need to obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

102. **The auditor should design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement.**
103. The auditor should always undertake some substantive tests irrespective whether controls have been tested and in addition if the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures should include tests of details.

Considerations relating to fraud in an audit of financial statements

104. **The auditor should identify and assess the risks of material misstatement of the financial statements due to fraud and obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, and respond appropriately to fraud or suspected fraud identified during the audit.**
105. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection. An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
106. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Although fraud is a broad legal concept, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
107. The auditor is expected to maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud at both financial statement level, and at the assertion level for classes of transactions, account balances and disclosures could exist, notwithstanding the auditor's past experience of the honesty and integrity of the management and those charged with governance. When performing risk assessment procedures, and related activities to obtain an understanding of the audited entity and its environment, the auditor needs to perform procedures to obtain information for use in identifying the risks of material misstatement due to fraud.
108. Areas where auditors are alert to fraud risks may include procurement, grants, privatizations, intentional misrepresentation of results or information, and misuse of authority or power. Such areas may include risks for material misstatements in the financial statements. When developing standards based on these fundamental principles, the guidance on fraud risk areas in ISSAI 1240 may be of assistance.

109. Requirements for reporting of fraud in the public sector may be subject to specific provisions of the audit mandate or related legislation or regulation, and the auditor may be required to communicate such issues to a party outside the audited entity. Such parties may include regulatory and enforcement authorities. In some environments, there may be a specific obligation to refer indications of fraud to investigative bodies and even cooperate with such bodies to determine if fraud or abuse has occurred. In other environments, auditors may be obliged to report circumstances that may indicate the possibility of fraud or abuse to the competent jurisdictional body or to the appropriate part of the government or legislature, such as prosecutors, the police and (if relevant to legislation) affected third parties. Auditors also consider that the use of public monies tends to impose a higher profile on fraud issues. As a result auditors may need to be responsive to public expectations regarding detection of fraud. ISSAI 1240 makes reference to the possible extended reporting responsibilities within the public sector to address concerns about public accountability.

Considerations of Going Concern

110. **The auditor should consider whether there are events or conditions that may cast significant doubt on the audited entity's ability to continue as a going concern.**
111. Financial statements are normally prepared on the assumption that the audited entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless the legislature has decided to liquidate the audited entity or that it should cease operations.
112. The going concern concept may have little or no relevance for “ordinary” public sector entities such as those funded through appropriations on the government budget. When such organizations are abolished or merged with others their liabilities and assets are usually taken over by other public sector entities. For some types of entities such as government business enterprises and joint ventures with other principals such as private sector entities that operates in legal forms that provides for limited liabilities for the owners this may not be the case. The responsibility for carrying out government programs may also be contracted to private sector organizations, such as NGOs and private companies but may still be audited by the Supreme Audit Institution. A general trend is outsourcing and thereby the going concern concept, as well as the auditor's judgment thereon may become increasingly relevant for public sector auditors.
113. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the audited entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. Since the going concern assumption is a fundamental principle in the preparation of financial statements, the preparation of the financial statements requires management to assess the audited entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
114. The auditor should obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the audited entity's ability to continue as a going concern. If the financial statements have been

prepared on a going concern basis but, in the auditor's judgment, the use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists the auditor should, if adequate disclosure is made in the financial statements the auditor should express an unmodified opinion and include an Emphasis of Matter paragraph. If such disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISSAI 1705¹⁶

115. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the audited entity is nonetheless a going concern. For example:
 - In assessing whether a government is a going concern, the power to levy rates or taxes may enable some audited entities to be considered as a going concern even though they may operate for extended periods with negative net assets/equity; and
 - For an individual audited entity, an assessment of its statement of financial position at the reporting date may suggest that the use of the going concern assumption in the preparation of its financial statements is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the audited entity.
116. The determination of whether the use of the going concern assumption is appropriate, is primarily relevant for individual audited entities rather than for a government as a whole. For individual audited entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial statements may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before concluding that the use of the going concern assumption is appropriate.
117. When performing risk assessment procedures the auditor should consider whether there are events or conditions that may cast significant doubt on the audited entity's ability to continue as a going concern. In forming a view of the audited entity's ability to continue its operations, the auditor's consideration of going concern embraces two separate, but sometimes overlapping, factors:
 - The greater risk associated with changes in policy direction (for example, where there is a change in government); and
 - The less common operational, or business, risk (for example, where an audited entity has insufficient working capital to continue its operations at its existing level).

Considerations relating to laws and regulations in an audit of financial statements

118. **The auditor should identify the risks of material misstatement of the financial statements due to direct and material non-compliance with laws and regulations.**

¹⁶ ISSAI 1705 – Modifications to the Opinion in the Independent Auditor's Report

Identification of such risks should be based on a general understanding of the legal and regulatory framework applicable to the specific environment in which the audited entity operates and how the audited entity is complying with that framework.

The auditor should obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations generally recognized to have a direct and material effect on the determination of material amounts and disclosures in financial statements.

119. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
120. When conducting an audit of financial statements in accordance with standards based on or consistent with ISSAI 200, the auditor needs to have an understanding of the legal and regulatory framework applicable for the entity.
121. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an audited entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an audited entity's financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the audited entity is allowed to conduct its operations but do not have a direct effect on an audited entity's financial statements.
122. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the audited entity that may have a material effect on the financial statements.
123. In the public sector there may be specific laws and regulations on how to distribute grants and subsidies from an agency that will have a direct impact on the financial statements. The financial reporting framework may often also include information such as a budget report, appropriation report, or performance report. When the financial reporting framework includes such information, auditors may need to consider specific laws and regulations that may have a direct or indirect effect on such information.
124. The auditor should communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential. However, the audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include responsibilities to report all instances of non-compliance with authorities including those that are clearly inconsequential.

125. This broader scope may, for example, include additional responsibilities for expressing a separate opinion as to the audited entity's compliance with laws and regulations. These additional responsibilities, and related audit and reporting objectives, may include reporting whether auditors found non-compliance with authorities. Such objectives are dealt within the Fundamental Principles on Compliance Audit and the related guidelines¹⁷. However, even where there are no such additional objectives, there may be general public expectations in regard to auditors' reporting of non-compliance with authorities. Therefore, auditors keep such expectations in mind, and are alert to instances of non-compliance.

Audit Evidence

126. **The auditor should perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion.**
127. The audit procedures to be applied should be appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. Audit evidence includes information contained in the accounting records underlying the financial statements and other information. The auditor should consider both relevance and reliability of the information to be used as audit evidence. An audit of financial statements does not involve the authentication of documentation, nor is the auditor trained as or expected to be an expert in such authentication. However, the auditor considers the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
128. Audit evidence should be sufficient and appropriate. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The quantity of evidence needed is affected by the risk of the subject matter information being materially misstated (the greater the risk, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence does not compensate for its poor quality.
129. The reliability of evidence is influenced by its source and nature, and is dependent on the individual circumstances under which the evidence is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. Even when evidence is obtained from sources external to the audited entity, such as external confirmations, circumstances may exist that could affect the reliability of the information obtained. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

¹⁷ ISSAI 400 Fundamental Principles of Compliance Audit, ISSAI 4000 General Introduction to Guidelines on Compliance Audit, and ISSAI 4200 Compliance Audit Guidelines Related to Audit of Financial Statements.

- Evidence is more reliable when it is obtained from independent sources outside the audited entity.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
- Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

130. The auditor ordinarily obtains more assurance from consistent evidence obtained from different sources, or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may indicate that an individual item of evidence is not reliable.

131. Audit evidence may be obtained by performing audit procedures to test accounting records. Audit evidence comprises of both information that supports and corroborates management's assertions, and of any information that contradicts such assertions. In the case of financial statements in the public sector, management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of a financial audit. Auditors in the public sector may also need to consider requirements and the guidance in the Fundamental Principles on Compliance Audit and the related guidelines¹⁸ for developing or adopting standards in such cases.

¹⁸ ISSAI 400 Fundamental Principles of Compliance Audit, ISSAI 4000 General Introduction to Guidelines on Compliance Audit, and ISSAI 4200, Compliance Audit Guidelines Related to Audit of Financial Statements.

132. When adopting or developing auditing standards, SAs also consider the necessity for requirements to obtain sufficient and appropriate audit evidence in relation to:
- The use of external confirmations as audit evidence;
 - Audit evidence when using analytical procedures and different audit sampling techniques;
 - Audit evidence related to the use of fair value measurement, if relevant;
 - Audit evidence when the audited entity has related parties; and
 - Audit evidence in relation to the audited entity's use of service organizations.
 - Audit evidence when using the work of internal audit functions or, when allowed by law or regulation and considered relevant, direct assistance from internal auditors
 - Audit evidence when using external experts
 - The use of written representations to support audit evidence.

Further guidance on such procedures and requirements are included in ISSAIs on level 4. Those may be of assistance for SAs when developing further requirements in these areas.

133. Auditors in certain environments, such as a Court of Accounts environment, may be subject to laws and regulations requiring the auditors to understand and follow precise procedures related to rules of evidence. Public sector auditors familiarize themselves with any such policies and procedures describing additional requirements relating to audit evidence and that are designed to ensure compliance with applicable rules.

Considerations of subsequent events

134. **The auditor should obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor should also respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.**
135. Procedures should be designed to cover the period from the date of the financial statements to the date of the auditor's report, or as near as possible thereto. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:
- (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
 - (b) Those that provide evidence of conditions that arose after the date of the financial statements.
136. Procedures to obtain sufficient appropriate audit evidence may include:
- Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
 - Inquiries of management.
 - Reading minutes.
 - Reading the entity's latest subsequent interim financial statements, if any.

When inquiring of management auditors may need to include events that have occurred that have relevance for the government entity's ability to fulfill its program objectives and may impact the presentation of any performance information in the financial statements.

137. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, it may have caused the auditor to amend the auditor's report; the auditor should take appropriate actions. Such actions may include:
 - Discussing the matter with the management and, where appropriate, those charged with governance.
 - Determining whether the financial statements need amendment and, if so,
 - Inquiring how management intends to address the matter in the financial statements.
138. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor should notify management and, those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. Auditor actions to seek to prevent reliance on auditor's report may include the need to seek legal advice and also consider reporting to the appropriate statutory body. Further guidance is included in ISSAI 1560¹⁹

Evaluating misstatements

139. **The auditor should accumulate misstatements identified during the audit, and communicate with management and those charged with governance as appropriate on a timely basis all misstatements accumulated during the course of the audit.**
140. Uncorrected misstatements should be evaluated whether they are material, individually or in aggregate, to determine the effect they may have on the opinion to be included in the auditor's report.
141. The auditor should request management to correct those misstatements, and if management refuses to correct some, or all communicated misstatements the auditor should obtain the reasons for not making the corrections. When evaluating whether the financial statements as a whole are misstated, the auditor considers the understanding of the reasons for not making the corrections. The auditor should communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report. The auditor's communication should identify material uncorrected misstatements in classes of transactions, account balances or disclosures individually.

¹⁹ ISSAI 1560 Subsequent Events

142. Misstatements that are clearly trivial need normally not be communicated, except for when the mandate requires the auditor to report all misstatements. The auditor needs to determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the auditor considers;
- The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
 - The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.
- Further guidance on evaluating misstatements is included in ISSAI 145020

Forming an Opinion and Reporting on the Financial Statements

143. **The auditor should form an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. The opinion should be expressed clearly through a written report that also describes the basis for that opinion.**
144. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or legislation, regulation, ministerial directive, government policy requirements, or resolutions of the legislature, may include additional objectives. These additional objectives, which may be of equal importance to the opinion on the financial statements, may include audit and reporting responsibilities, for example, relating to reporting whether auditors found any instances of noncompliance with authorities. However, even when there are no such additional objectives, there may be general public expectations in regard to auditors' reporting of noncompliance with authorities or reporting on effectiveness of internal control.
145. Auditors with responsibilities relating to reporting on compliance or non-compliance with authorities may consider the Fundamental Principles of Compliance Auditing and related Guidelines²¹.
146. In order to form an opinion, the auditor should conclude whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conclusion should take into account;
- a) Whether sufficient appropriate evidence has been obtained,
 - b) Whether uncorrected misstatements are material, individually or in aggregate, and

²⁰ ISSAI 1450 Evaluation of Misstatements Identified during the Audit

²¹ ISSAI 400 Fundamental Principles of Compliance Audit, ISSAI 4000 General Introduction to Guidelines on Compliance Audit, and ISSAI 4200 Compliance Audit Guidelines Related to Audit of Financial Statements.

- c) That evaluations detailed below were performed and considered in determining the form of opinion:
- Whether the financial statements are prepared in all material respects, in accordance with requirements of the applicable financial reporting framework, including consideration of the qualitative aspects of the entity's accounting practices, such as possible bias in management's judgments.
 - Whether the financial statements adequately disclose the significant accounting policies selected and applied,
 - Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate,
 - Whether the accounting estimates made by management are reasonable,
 - Whether the information presented in the financial statements is relevant, reliable, comparable, and understandable,
 - Whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements,
 - Whether the terminology used in the financial statements, including the title of each financial statement, is appropriate,
 - Whether the financial statements adequately refer to or describe the applicable financial reporting framework.
- d) When the financial statements are prepared in accordance with a fair presentation framework, the evaluation should also include whether the financial statements achieve fair presentation which includes consideration of:
- Whether the financial statements' overall presentation, structure, and content achieve fair presentation,
 - Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

Form of Opinion

147. The auditor should express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the Auditor's Report".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Elements Required in the Auditor's Report

149. The auditor's report should be in written form and contain the following elements:
- A title that clearly indicates that it is the report of an independent auditor;
 - An addressee as required by the circumstances of the engagement;
 - An introductory paragraph that (1) identifies whose financial statements have been audited, (2) state that the financial statements have been audited, (3) Identify the title of each statement that comprise the financial statements, (4) refer to the summary of significant accounting policies and other explanatory information, and (5) specify the date or period covered by each financial statement comprising the financial statements;
 - A section with the heading "Management's Responsibility for the Financial Statements," which describes that management is responsible of the financial statements in accordance with the applicable financial reporting framework, and for internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
 - A section with the heading "Auditor's Responsibility," which states that the responsibility of the auditor is to express an opinion on the financial statements based on the audit, and describe an audit as involving performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, with the procedures selected depending on auditor's judgment including the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances. This section also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. The auditor's report should state whether the auditor believes that the audit evidence the auditor has obtain is sufficient and appropriate to provide a basis for the auditor's opinion.
 - A section with the heading "Opinion" which should use one of the following equivalent phrases when expressing an unmodified opinion on the financial statements prepared in accordance with a fair presentation framework:
 - The financial statements present fairly, in all material respects,... in accordance with [the applicable reporting framework]; or

- The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].

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

If the reference to the applicable financial reporting framework is not to the International Public Sector Accounting Standards or the International Financial Reporting Standards, the auditor's opinion should identify the jurisdiction of origin of the framework.

- If required, or as determined by the auditor, a section with the heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, which addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the requirements to report on the financial statements.
- A signature of the auditor.
- A date when the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements, including evidence that
 - All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - Those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- The location in the jurisdiction where the auditor practices.

150. The auditor may, in addition the opinion, also be required by law or regulation to report observations and findings which have not affected the opinion and any recommendations made as a result thereon. Such reporting should be made so it is clearly separated from the elements of the opinion.

Modifications to the Opinion in the Auditor's Report

151. The auditor should modify the opinion in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatements. Auditors may issue three types of modified opinions, namely a qualified opinion, an adverse opinion, and a disclaimer of opinion.

Determining the Type of Modification to the Auditor's Opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:
- The nature of the matter, giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.
153. The auditor should express a qualified opinion when: (1) the auditor having obtained sufficient appropriate audit evidence concludes that misstatements, individually or in the aggregate are material, but not pervasive, to the financial statements; or (2) the auditor is unable to obtain sufficient appropriate audit evidence on which to base an opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
154. The auditor should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
155. The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any could be both material and pervasive. If after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope for the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.
156. When the auditor modifies the audit opinion, the auditor should modify the heading to correspond with the type of opinion expressed. ISSAI 1705²² provides additional guidance on specific language to use to express the modified opinion and to describe the auditor's responsibility. It also includes illustrative report examples.

²² ISSAI 1705 Modifications to the Opinion in the Independent Auditor's Report.

Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Auditor's Report

157. When the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to users' understanding of the financial statements, the auditor should include a Emphasis of Matter paragraph in the auditor's report provided that the auditor has sufficient appropriate evidence that the matter is not materially misstated in the financial statements. The Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.
158. When the auditor includes an Emphasis of Matter paragraph, the auditor should:
- Include it immediately after the opinion paragraph;
 - Use the Heading "Emphasis of Matter" or other appropriate heading;
 - Include in the paragraph a clear reference to the matter being emphasized and to where the relevant disclosures that fully describe the matter can be found in the financial statements; and
 - Indicate that the auditor's opinion is not modified in respect of the matter emphasized.
159. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor should do so in a paragraph with the heading "Other Matter," or other appropriate heading. This paragraph should be immediately after the opinion paragraph and any Emphasis of Matter paragraph
160. If the auditor expects to include either or both of these paragraphs in the auditor's report, the auditor should communicate with those charged with governance regarding this expectation and the wording of such paragraphs. Auditors may be required or decide to communicate with other parties, such as the legislature, in addition to those charged with governance.
161. Public sector audit mandates or expectations may expand circumstances where it would be relevant to include an Emphasis of Matter paragraph, if the matter is properly disclosed in the financial statements

Comparative Information – Corresponding Figures and Comparative Financial Statements

162. The auditor should determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. To accomplish this, the auditor should evaluate whether:
- The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
 - The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
163. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstance to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.

164. When corresponding figures are presented, the auditor's opinion should not refer to the corresponding figures except for the following circumstances;
- If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor should express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
 - If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor should express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements.
 - If the prior period financial statements were not audited, the auditor should state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited.

The auditor's consideration of these circumstances is done using the current year for comparability and with the materiality considerations for the current year. When comparative financial statements are presented, the auditor's opinion should refer to each period for which financial statements are presented and on which an audit opinion is expressed.

165. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the substantive reasons for the different opinion in an Other Matters paragraph.
166. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor should include in an Other Matter paragraph:
- That the financial statements of the prior period were audited by the predecessor auditor;
 - The type of opinion expressed by the predecessor auditor and if the opinion was modified the reasons therefore; and
 - The date of that report (unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statement).
167. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor should communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor should report only on the current period.
168. If the prior period financial statements were not audited, the auditor should state in Other Matter paragraph that the comparative financial statements are unaudited. Such statement in the Other matter paragraph does not relieve the auditor from obtaining sufficient, appropriate audit evidence that the opening balances do not contain misstatements that materially affect

the current period's financial statements. Further guidance on comparative information is included in ISSAI 1710²³.

The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

169. The auditor should read the other information to identify material inconsistencies or material misstatement of fact, if any, with the audited financial statements. If the auditor identifies a material inconsistency or material misstatement of fact on reading the other information, the auditor should determine whether the audited financial statements or the other information needs to be revised. The actions the auditor should take may include possible modification of the auditor's opinion, withholding of the auditor's report, withdrawing from the engagement (in those rare cases when possible in the public sector), notifying those charged with governance, or including an Other Matter paragraph in the auditor's report.
170. If the auditor identifies material inconsistency or material misstatement of fact that management refuses to correct, the auditor is required to communicate with those charged with governance. Auditors may also be required or decide to communicate with other parties, such as the legislature, in addition to those charged with governance. Further guidance on the auditor's responsibilities relating to other documents are included in ISSAI 1720²⁴.

Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

171. The auditor is required to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In an audit of special purpose financial statements, the auditor should obtain an understanding of:
- The purpose for which the financial statements are prepared;
 - The intended users; and
 - The steps taken by management to determine that the applicable financial reporting framework is acceptable under the circumstances.
172. In planning and performing an audit of special purpose financial statements, the auditor should determine whether application of the ISSAIs requires special consideration in the circumstances of the engagement.
173. When forming an opinion and reporting on special purpose financial statements, the auditor should comply with the same requirements as for general purpose financial statements. In the case of an auditor's report on special purpose financial statements, the report should:
- Describe the purpose for which the financial statements are prepared; and

²³ ISSAI 1710 Comparative Information – Corresponding Figures and Comparative Financial Statements

²⁴ ISSAI 1720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

- Make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of which framework to use in preparing the financial statements.

174. The auditor should include an Emphasis of Matter paragraph alerting users that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.
175. Further guidance on the auditor's special considerations related to audits of financial statements prepared in accordance with special purpose frameworks are included in ISSAI 1800²⁵.

Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

176. In the case of an audit of a single financial statement, or of a specific element of a financial statement, the auditor should determine whether the audit of a single financial statement or of a specific element of a financial statement is practical. In the case of an audit of a single financial statement, or of a specific element of a financial statement, the fundamental principles apply irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. If the auditor is not engaged in also auditing the entity's complete set of financial statements, the auditor should determine whether the audit of a single financial statement or of a specific element of those financial statements is in accordance with the fundamental principles as included in the applied auditing standards.
177. The auditor should also determine whether application of the financial reporting framework will result in a presentation that provides adequate disclosure to enable the intended users to understand information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.
178. The auditor should consider whether the expected form of opinion is appropriate in the circumstances, and should apply the reporting requirements adapted as necessary in the circumstances of the engagement.
179. If the auditor undertakes an engagement to report on a single financial statement, or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor should express a separate opinion for each engagement.
180. If the opinion in the auditor's report on an entity's complete set of financial statement is modified, or that the report includes an Emphasis of Matter paragraph or Other Matter paragraph, the auditor should determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements. When

²⁵ ISSAI 1800 Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

deemed appropriate, the auditor should modify the opinion or include Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report on the single financial statement or on a specific element of those financial statements.

181. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements, the auditor is prohibited from including an unmodified auditor's report on a single financial statement or a specific element. This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. Additional requirements and guidance on issuing these special reports in conjunction with the opinion on the complete set of financial statements is provided in ISSAI 1805²⁶.

²⁶ ISSAI 1805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Considerations relevant for audits of the Group Financial Statements (including whole of government financial statements)

182. **Auditors engaged to audit group financial statements should obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the whole of government financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.**
183. The principles of ISSAI 200 apply to all public sector audits of financial statements, whether they are representing parts of government or the whole of government. In situations where the auditor is engaged to audit group financial statements, such as the whole of government accounts, specific requirements and considerations may apply. The auditor performing the audit of group financial statements is referred to as the group auditor. The group auditor should establish a group audit strategy and develop a group audit plan. The principles on understanding the entity should include an understanding of the group, its components and their environments, including group-wide controls as well as the consolidation process. The understanding obtained should be sufficient to confirm or revise the initial identification of components that are likely to be significant for the group financial statements; and to assess the risks of material misstatement of the group financial statements, whether due to fraud or error.
184. Components of group financial statements may include agencies, departments, bureaus, corporations, funds, component units, districts, joint ventures and non-governmental organizations. Components may be considered to be significant:
 - Due to their individual financial significance.
 - If they are likely to include significant risks of material misstatement of the group financial statements due to their specific nature or circumstances.
 - If they involve matters that have heightened public sensitivity, such as national security issues, donor-funded projects or the reporting on tax revenue.
185. In the public sector, it can be difficult to agree on the inclusion of certain components in the group financial statements. The application of the financial reporting framework may result in the exclusion of a specific type of agency, department, bureau, corporation, fund, district, joint venture or non-governmental organization from the government financial statements. In such cases, if the group auditor believes that this outcome would result in a misleading government financial statement presentation, the group auditor may, in addition to considering the impact on the auditor's report, also consider the need to communicate the matter to the legislature or other appropriate regulatory bodies.
186. In some situations, the financial reporting framework may not provide specific guidance for inclusion, or exclusion of a specific type of agency, department, bureau, corporation, fund, district, joint venture or non-governmental organization in the group financial statements. In such cases, the government group auditor may participate in discussions between group management and component management to determine whether the treatment of the component in the group financial statements will result in fair presentation. Such difficulty may have implications for using the work of the component auditors. It is also possible that group management may not agree with the inclusion of the component in the group financial statements, which, in turn, may limit the ability of the group auditor to communicate with and use the work of the component auditor.
187. For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, should perform an audit of

the financial information of the component using component materiality set by the whole of government auditor. For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements, due to its specific nature or circumstances, the group engagement team, or a component auditor on its behalf, may not need to perform an audit of the financial information, but may apply specified audit procedures relating to the significant risks identified. For components that are not significant components, the group engagement team should perform analytical procedures on group level.

188. When developing or adopting auditing standards based on, or consistent with, the fundamental principles of financial auditing it may be useful to consider the guidance in ISSAI 1600²⁷ that provides further detailed guidance on group audits.

²⁷ ISSAI 1600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).