

NOTES**Note 1 Account Balance/Class of Transactions/Disclosure**

Within this template, the term *class of transactions* refers to **Statement of Profit and Loss accounts** and *account balance* refers to **Balance Sheet accounts**. The term transaction type is used to describe an activity or series of activities that results in one or more classes of transactions, account balances, and disclosures.

Note 2 Relevant Assertions

NOTE: For a class of transactions (Statement of Profit and Loss account), account balance (Balance Sheet account), or disclosure, if an assertion is not considered relevant, include documentation in the working papers explaining why the assertion is not relevant for that class of transactions, account balance, or disclosure.

Note 3 Risk of Material Misstatement

For the material classes of transactions, account balances, and disclosures [significant accounts and disclosures] identified, the auditor is required to identify risks of material misstatement at the relevant assertion level to provide a basis for designing and performing further audit procedures. Consideration of transaction types may be relevant to such identification and assessment of risks of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures.

Note 4 Significant Findings or Issues

Significant Findings or Issues

Significant findings or issues represent matters of importance to the audit in planning, supervising, and reviewing the audit. These items are categorised as significant findings or issues to draw the attention of engagement leaders to them and to designate them as matters for which the audit partner is required to perform a primary review in addition to that of the manager. While a significant risk gives rise to an audit response that is incremental to that required for a normal risk, a significant finding or issue may not result in changes to the nature, timing, or extent of audit testing. However, significant findings or issues are separately identified in audit documentation (including planning) and a more detailed review by the audit partner could be warranted.

Risks of material misstatement related to significant findings or issues, identified during planning and which affect the audit procedures performed, may result in customisation of one or all of the related risks of material misstatement, control activities, and/or the related substantive procedures described in this template.

Significant findings or issues for planning purposes include, but are not limited to, the following:

- Risks of material misstatement that are determined to be significant risks and the results of the auditing procedures performed in response to those risks
- Matters that are significant involving the selection, application, and consistency of accounting principles, including related disclosures (e.g., new accounting pronouncements)
- Accounting for complex or unusual transactions
- Accounting estimates highly dependent upon judgment
- Significant uncertainties
- Matters that led to the classification of engagement risk as greater than normal or much greater than normal

Note 5 Classification of Inherent Risk

As part of the risk assessment, the auditor is required to determine whether any of the risks identified are, in their judgment, a significant risk. In exercising this judgment, they are required to exclude the effects of identified controls related to the risk.

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special auditor consideration.

Risks of material misstatement related to significant risks may result in customisation of one or all of the related risks of material misstatement, control activities, and/or related substantive procedures described in this template.

In exercising judgment as to which risks are significant risks, the auditor is required 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 entity, or that otherwise appear to be unusual.

Note 6 Risk of Material Misstatement Due to Fraud?

The auditor is required to use professional judgment to determine whether a fraud risk factor is present and whether it is to be considered in assessing the risks of material misstatement of the financial statements due to fraud.

There are certain risks that are presumed to exist on each audit engagement. The presumed risks due to fraud are revenue recognition and management override of controls.

The auditor is required to treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, he is required to obtain an understanding of the entity's related controls, including control activities, relevant to such risks, and evaluate whether such controls have been suitably designed and implemented to mitigate such fraud risks.

Note 7 Identifying potential fraud schemes may facilitate the evaluation of the design of relevant controls and the development of effective audit procedures**Risk Associated with the Control —**

The risk associated with a control consists of the risk that the control might not be effective and, if not effective, the risk that a material weakness would result.

If the risk of material misstatement associated with the related account(s) or assertions(s) is a significant risk, the risk associated with the control is higher.

Note 8 Identification and Documentation of Relevant Control Activities**Audit of Financial Statements along with Audit of Internal Financial Controls Over Financial Reporting (Integrated Audit)**

If an integrated audit is being performed, control activities that are relevant to the audit include those that address the assessed risks of material misstatement for each relevant assertion.

Nonintegrated Audits

The auditor is required to obtain an understanding of control activities relevant to the audit, i.e. those that he judges necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks.

He is required to obtain an understanding of the process for reconciling detailed records to the general ledger for material classes of transactions and account balances.

Control activities that are relevant to the audit are:

- Those that are required to be treated as such, being control activities that relate to significant risks and those that relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; or
- Those that are in the auditor's judgment considered to be relevant.

Relevant controls include:

- Controls that address significant risks
- Controls that address risks for which substantive procedures alone are not sufficient
- Controls that the auditor plans to rely upon to reduce substantive testing
- Controls over journal entries
- Controls that the auditor believes are necessary to understand in order to plan substantive procedures as part of their further audit procedures to obtain sufficient appropriate audit evidence
- Reconciliations of detailed records to the general ledger for material classes of transactions and account balances.

When obtaining an understanding of controls that are relevant to the audit, the auditor is required to evaluate the design of those controls and determine whether they have

Note 9 Conclusion — Design, Implementation, Operating Effectiveness of Controls

Was a deviation or exception identified? Does a deficiency exist? If yes, the auditor needs to evaluate the deficiency individually and in combination with other deficiencies. He needs to determine if the deficiency is a deficiency, a significant deficiency, or a material weakness and communicate the deficiency, as appropriate.

He should determine whether he has a basis for relying on those controls and whether he will be able to perform his planned extent of substantive procedures. In an integrated audit, he needs to evaluate the effect on the IFC opinion.

Note 10 Substantive Procedures Planned

Irrespective of the assessed risks of material misstatement, the auditor is required to design and perform substantive procedures for each relevant assertion related to each material class of transactions, account balance, and disclosure [significant account and disclosure].

The nature, timing, and extent of planned procedures may vary in response to the assessed risk of material misstatement at the assertion level.

A substantive procedure may address more than one risk. The auditor should consider the audit procedures and risks which they address when planning and performing substantive procedures so that the substantive procedures performed are effective and efficient.

Nature and Extent of Substantive Procedures

Depending on the circumstances, the auditor may determine that:

- Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level (e.g., where the assessment of risk is supported by audit evidence from tests of controls)
- Only tests of details are appropriate
- A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks

Note 11 Control Operating Effectiveness Testing Strategy

In an integrated audit, the auditor is required to test the operating effectiveness of controls in each of the five components of internal control each year, including (1) relevant controls within the control environment, entity's risk assessment process, information system relevant to financial reporting and communication, and monitoring components, and (2) those controls that address the assessed risks of material misstatement for each relevant assertion. The objective of the tests of controls in an audit of IFC is to obtain audit evidence about the effectiveness of controls to support the opinion on the entity's internal control over financial reporting.

Note 12 Control Year Last Tested —

The "Control Year Last Tested" represents the last year the relevant control was tested using a normal extent of testing.

Note 13 Operating Frequency

Depending on the circumstances, the auditor may use professional judgment to determine that larger sample sizes may be appropriate, for example, when they are performing tests of controls that address one or more significant risks.

When testing the operating effectiveness of a control that operates less frequently than many times per day, depending on the nature of the control, the risk associated with the control, and the number of times that it is applied when it operates, additional selections to test its operating effectiveness may be made.

Note 14 Information Produced by the Entity (IPE)

Types of IPE may include, but are not limited to:

- Standard "out of the box" reports as taken out from the system that have not been modified and do not allow for customisation of inputs/outputs
- Parameter-driven reports generated by the entity's application system that allow for user selection of inputs (fields/parameters) to generate the report output
- Custom-developed reports that are not standard to the application and are defined and generated by user-operated tools such as scripts, report writers, programming language, and query tools
- Spreadsheets that include relevant information (e.g., data (1) obtained from an outside source, (2) manually entered into a spreadsheet, (3) summarised or analysed using spreadsheet formulas or data exported from ledger system into an MS Access Database, and (4) then manipulated and summarised)
- Client-prepared analyses and schedules that are manually prepared by entity personnel either from information generated from the entity's system or from other internal or external sources.

Internal Controls IPE in the Context of Internal Controls

IPE in the context of internal controls may include the following:

- Information that the auditor uses to test a relevant control
- Information that entity personnel are dependent upon to perform a relevant control

Substantive Procedures IPE in the Context of Substantive Audit Procedures

IPE in the context of substantive audit procedures includes information that the auditor uses when performing substantive audit procedures. If the information is the starting point or subject of substantive audit procedures, the planned substantive audit procedures will typically address the accuracy and completeness of the information, and no additional procedures may therefore be necessary. In other cases, substantive audit procedures may use a report that is not the subject of the substantive audit procedures and/or tests of relevant controls, and it may be necessary to perform additional procedures to address the completeness and accuracy of the report.

Note 15 Application System

Document the names of relevant application systems.

Identifying the relevant application system allows the auditor to establish the linkage between the risks of material misstatement to which the relevant application systems and IT infrastructure relate, the relevant IT risks related to these application systems and IT infrastructure, and the general IT controls that address such risks.

General IT-controls may be relevant to the audit if:

- The entity relies on data related to significant accounts and disclosures that by their nature require general IT controls to address their integrity and reliability
- Any of the entity's relevant controls are automated controls
- Any of the entity's relevant controls rely on information produced by the entity or if the auditor intends to make use of information produced by the entity in designing and performing further procedures and he plans to obtain evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information
- The auditor has judged that it is not possible or practicable for him to obtain sufficient appropriate audit evidence to address certain risks of material misstatement only through performing substantive procedures and the relevant controls identified over such risks are automated controls or controls that rely on general IT-controls.

Note 16 Planned Procedures to Obtain Audit Evidence of Accuracy and Completeness of IPE

Reference to where IPE testing is performed.

For nonintegrated audits performed, when using information produced by the entity the auditor is required to evaluate whether the information is sufficiently reliable for his purposes, including as necessary in the circumstances:

- Obtaining audit evidence about the accuracy and completeness of the information
- Evaluating whether the information is sufficiently precise and detailed for his purposes.

For an audit of IFC which is integrated with the audit of the financial statements (an integrated audit), when testing a relevant control that is dependent upon information produced by the entity (and the effectiveness of the control is therefore dependent upon the accuracy and completeness of such information), the auditor is required to (1) identify controls that address the accuracy and completeness of such information produced by the entity and (2) test the design and operating effectiveness of such controls.

Obtaining audit evidence about the accuracy and completeness of information produced by the entity includes procedures to address:

- The accuracy and completeness of the source data
- The creation and modification of the applicable report logic and parameters.

Note 17 Testing Reference — General IT Controls

Include tickmark or cross-reference (as specific as possible) to the *IT Risk Worksheet — General Information Technology* or other supporting working papers where testing is documented

Note 18 Reference to Evaluation of D&I

Include a tickmark or cross-reference to where the evaluation of design and implementation is documented. The evaluation of design and implementation of relevant control activities may be documented in a separate working paper or within a tab inserted within this template.

Evaluation of Design and Implementation

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

Implementation of a control means that the control exists and that the entity is using it.

The evaluation of the design of controls documentation may include consideration of the (1) the nature and significance of the risks of material misstatement addressed by the control, (2) the characteristics or details of the control, and (3) the following factors to determine whether the control is appropriately designed (i.e., the precision of a control) to address the identified risk.

Note 19 Planned Nature, Timing, and Extent of Procedures to Evaluate Operating Effectiveness of Controls

Consider nature, timing, and extent of tests when planning procedures to evaluate operating effectiveness of controls.

Nature of Tests of Controls

Nature of tests of controls includes inspection of documentation supporting the auditors inquiries, reperformance supporting such inquiries, and observation supporting such inquiries.

Extent of Tests of Controls

When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. As well as the degree of reliance on controls, matters the auditor may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period
- The length of time during the audit period that the auditor is relying on the operating effectiveness of the control
- The expected rate of deviation from a control
- The relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level
- The extent to which audit evidence is obtained from tests of other controls related to the assertion.

In addition, matters the auditor may also consider in determining the extent of tests of controls include the following:

- The nature of the control, including, in particular, whether it is a manual control or an automated control
- For an automated control the effectiveness of relevant general IT controls

Timing of Tests of Controls

The auditor is required to test controls for the particular time, or throughout the period, for which he intends to rely on those controls, in order to provide an appropriate basis for his intended reliance.

Note 20 Testing Reference

Include tickmark or cross-reference (as specific as possible) to supporting working papers where testing is documented. Include reference, if applicable, to use of the work of others, use of specialists, and rollforward procedures if tested at an interim date.

Note 21 Findings and Observations

NOTE: When evaluating the operating effectiveness of relevant controls, the auditor is required to evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. The identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control is an indicator of a material weakness.

The auditor's evaluation of the effect of the findings of his substantive procedures on the effectiveness of internal control is required to include, at a minimum, the following:

- The appropriateness of the nature, timing, and extent of substantive procedures, especially those related to fraud, based on the assessed risk of material misstatement
- Findings with respect to non-compliance with laws and regulations and related party transactions
- Indications of management bias in making accounting estimates and in selecting accounting principles
- The appropriateness of his conclusions on the effectiveness of internal control when misstatements are detected by his substantive procedures.

Note 22 **Planned Extent of Substantive Testing**

A substantive procedure may address more than one risk of material misstatement. The planned extent of substantive testing would equate to the most extensive planned extent of substantive testing for all risks of material misstatement to which the procedure has been linked (e.g., if a substantive procedure is addressing multiple material misstatements and only one is a significant risk, the substantive procedure would be performed to address the extent of testing necessary to address the significant risk).