Exposure Draft

Standard on Auditing for Audits of Smaller and Less Complex Entities (SASE) 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing for Audits of Smaller and Less Complex Entities

(Last date for comments: January 17, 2019)

Issued by
Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Your comments on this Exposure Draft should reach us by January 17, 2019. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:

Secretary, Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
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PREAMBLE

The Auditing and Assurance Standards Board (AASB or Board) as per the directions of the Council of ICAI has decided to issue separate set of standards for audits of smaller and less complex entities. The concern behind this as discussed was that the Standards on Auditing have been developed keeping in mind the public interest and consequently the listed entities.

Since Standards are principal based these were made applicable to all entities. Concern was raised internationally that the audits of small and medium enterprises (SMEs) particularly audits of less complex entities do not require the compliances as per Standards in place.

The International Auditing and Assurance Standards Board (IAASB) also recognized the issue and held a specific Conference in Paris in January 2017 and thereafter had regular meetings and discussions on the issue and finally the Agenda was taken to address the challenges being faced by SMPs in case of audit of SMEs. It was also discussed that to simplify the Standards, it should be suitable for implementation in case of audit of SMEs ensuring the quality in reporting.

In the Indian scenario, there are large numbers of SMEs and audits of SMEs are conducted by large number of SMPs. In India, all entities particularly those in corporate sector are required to get their accounts audited and even in case of non-corporate sector also, the audit is mandatory under tax laws and other laws. AASB therefore took the view to address the issue by having a separate set of Standards for audits of smaller and less complex entities. AASB also discussed that the need is only to simplify the Standards for effective implementation and that the quality in reporting shall be maintained, in the same series of the extant SA's part of the existing framework and accordingly, the Preface be modified to include this series.

To start with, AASB has prepared the draft of SASE 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing for Audits of Smaller and Less Complex Entities" in a simplified manner which is easy to understand and implement based on which further Standards will also be formulated and exposed for comments. The Board also decided that nomenclature of these standards will be "Standard on Auditing for Audits of Smaller and Less Complex entities (SASE)".

Standard on Auditing for Audits of Smaller and Less Complex Entities (SASE) 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing for audits of smaller and less complex entities

Contents

SASE 200 should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which will set out the authority of SASEs.

Introduction

Scope of this SASE

1. This SASE prescribes overall responsibilities of the independent auditor when conducting an audit of financial statements of smaller and less complex entities in accordance with SASEs. Specifically, this standard sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the SASEs, and their compliances. The independent auditor is referred to as "the auditor" hereafter.

2. SASEs are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances, as applicable, when conducting an audit of other historical financial information.

An Audit of Financial Statements

3. The auditor is required to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In case of general purpose frameworks, the opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the applicable framework. The auditor while forming the opinion has the support of SASEs and relevant ethical requirements.

Scope of the Audit

3.1 The basic audit responsibility (i.e. responsibility to express an opinion on the financial statements) may be extended by the applicable laws and regulations and accordingly may require additional reporting by the auditor.

4. The preparation and presentation of the financial statements is the responsibility of the management/ persons responsible for Governance of the entity. SASEs neither impose responsibilities on management/persons responsible for Governance nor override the laws and regulations but the fundamentals to conduct the audit are that such responsibility shall be only of management/persons responsible for governance of the entity.

Preparation of the Financial Statements

4.1 The preparation and presentation of the financial statements shall be in accordance with the applicable financial reporting framework which includes design, implementation and maintenance of internal control relevant thereto that ensure that the financial statements are free from material misstatement whether due to fraud or error. The management is also responsible:

a) to provide the auditor all information and records/ documents relevant thereto and any additional information which the auditor may require;

b) to provide the auditor direct access to the relevant personnel to obtain audit evidence and other information;

c) for identification of the applicable financial reporting framework having regard to the applicable laws and regulations and compliance thereof;

d) to make accounting estimates which are reasonable in the circumstances; and

e) to select and apply appropriate accounting policies having regard to the applicable financial reporting framework.

Financial Reporting Framework

4.2 The requirements of the applicable financial reporting framework determine the form and content of the financial statements. The applicable financial reporting framework may not specify how to account for or disclose all transactions or events, but it generally specifies sufficient broad principles to serve as basis for developing and applying accounting policies to meet the requirements of the framework.

The financial reporting framework can be different based on the requirements of applicable laws and regulations.

The special purpose financial reporting framework meets the financial information needs of specific users. The general purpose financial reporting framework meets the common financial information needs of wide range of users.

Some financial reporting frameworks may be fair presentation framework and some financial reporting frameworks may be compliance framework. Fair presentation framework primarily includes the applicable financial reporting standards to be used by entities in preparation and presentation of general purpose financial statements. In some cases, it may also encompass legislative or regulatory requirements.

Financial statements are intended to provide information about the state of affairs (balance sheet), results of operations (statement of profit and loss or income & expenditure account) and cash flows (cash flow statement) of an entity and related notes.

4.3 SASE 210 will establish requirements and will provide guidance on determining the acceptability of the applicable financial reporting framework. SASE 800 will deal with special considerations when financial statements are prepared in accordance with a special purpose framework. The auditor is required to issue the engagement letter as per SASE 210 which includes the responsibility of the management/ persons responsible for governance of the entity and the auditor.

5. SASEs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance but not an absolute level of assurance, because there are inherent limitations of an audit, as because the audit evidence on which the auditor draws conclusions and forms the auditor's opinion is persuasive rather than conclusive.

6. The concept of materiality is applied by the auditor both in planning and

performing the audit, and 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 economic 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 the detection of misstatements that are not material to the financial statements as a whole. The materiality is primarily the professional judgement of the auditor in light of the surrounding circumstances and the auditor's perception of the financial information needs of the users of financial statements.

7. The SASEs contain objectives, requirements and application guidance that are designed to support the auditor in obtaining reasonable assurance. The SASEs require the auditor to exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.

8. The form of auditor's opinion will depend upon the applicable financial reporting framework and any applicable laws or regulations.

8.1 In case of a fair presentation framework, the opinion required by the SASEs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. In case of a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the SASEs to the auditor's opinion cover both forms of opinion.

9. The auditor may also have certain other communication and reporting responsibilities to users, management, persons responsible for governance or parties outside the entity, in relation to matters arising from the audit. These may be established by the SASEs or by applicable laws or regulations.

Effective Date

10. This SASE is effective for audits of financial statements for periods ending on or after 31.03.2019.

Overall Objectives of the Auditor

11. 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 as required by the SASEs, in accordance with the auditor's findings.

12. In all cases when reasonable assurance cannot be obtained and a qualified audit opinion is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the SASEs require the auditor to disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.

Definitions

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

(a) Applicable financial reporting framework – The financial reporting framework adopted by management/ persons responsible for governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term "fair presentation framework" refers to a financial reporting framework that requires compliance with the requirements of the framework and:

(i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management/ persons responsible for governance to provide disclosures beyond those specifically required by the framework; or

(ii) Acknowledges explicitly that it may be necessary for management/ persons responsible for governance to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" refers to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

(b) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources. For purposes of the SASEs:

(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

(c) Audit risk – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

(d) Auditor – "Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an SASE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used.

(e) Detection risk – The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

(f) Financial statements – A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes generally comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" generally refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.

(g) Historical financial information – Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

(h) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For example, partners in case of a partnership firm, Board of Directors in case of a Company or an owner-manager in case of a sole proprietorship.

(i) Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

(j) Professional judgment – 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 engagement.

(k) Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

(l) Reasonable assurance – In the context of an audit of financial statements, a high, but not absolute, level of assurance.

(m) Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

(n) Persons responsible for governance – The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

(o) Smaller and Less Complex Entities - An entity which typically possesses characteristics such as:

- **Concentration of ownership and management in a small number of individuals;**
- **Straightforward or uncomplicated transactions;**
- **Simple record-keeping/cash basis of accounting/centralized accounting with use of less complex IT system;**
- **Few lines of business and few products within business lines;**
- **Few internal controls;**
- **Few levels of management with responsibility for a broad range of controls;**
- **Few personnel, many having a wide range of duties;**
- **Use of less complex IT systems;**

- **Extensive involvement by the owners and senior management in the day-to-day activities of the business;**
- **Entities exempted from reporting requirements on internal financial controls under Section 143(3)(i) of the Companies Act 2013.**

Smaller and less complex entities may have one or more characteristics, however irrespective of having any or even all of the above characteristics, listed entities and NBFCs accepting public deposit will not be a smaller and less complex entity.

Requirements

Ethical Requirements Relating to an Audit of Financial Statements

14. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to audit of financial statements.

14.1 Relevant ethical requirements generally comprise the Code of Ethics (The Code) issued by the Institute of Chartered Accountants of India as may be applicable to audit.

14.2 The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles:

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional behavior.

14.3 The Code also requires the auditor to be independent of the entity subject to the audit. The Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism**.** In addition to the Code, the auditor may also be required to comply with the applicable laws and regulations.

Professional Skepticism

15. The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

15.1 Professional skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained.

- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the SASEs.

15.2 Maintaining professional skepticism throughout the audit is necessary.

15.3 Professional skepticism is necessary for critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management/persons responsible for governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example where risk of fraud exist and a single document having susceptibility to fraud, is the only evidence for a material financial statement amount.

15.4 The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. However, the auditor is required to consider the reliability of information to be used as audit evidence. In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the SASEs require the auditor to examine further and determine what additional audit procedures are necessary to resolve the matter.

15.5 The auditor is not expected to disregard past experience of the honesty and integrity of the entity's management/persons responsible for governance. However, a belief that management/persons responsible for governance are honest and have integrity still require the auditor to maintain professional skepticism.

Professional Judgment

16. The auditor shall exercise professional judgment in planning and performing an audit of financial statements.

16.1 Professional judgment is essential for proper conduct of an audit. This is because interpretation of relevant ethical requirements and the SASEs and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- Materiality and audit risk.
- The nature, timing, and extent of audit procedures to be used to meet the requirements of the SASEs and obtain audit evidence.
- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more work needs to be done to achieve the objectives of the SASEs and

audit.

- The evaluation of management's/persons responsible for governance judgments in applying the 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/persons responsible for governance in preparing the financial statements.

16.2 The distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

16.3 The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor.

16.4 Professional judgment can be evaluated based on whether the judgment reached reflects proper application of auditing and accounting principles and consistency with, the facts and circumstances that were known to the auditor.

16.5 Professional judgment needs to be exercised throughout the audit. It also needs to be appropriately documented as may be necessary.

Sufficient Appropriate Audit Evidence and Audit Risk

17. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk of material misstatement and to draw reasonable conclusions to form an opinion.

Sufficiency and Appropriateness of Audit Evidence

17.1 Audit evidence is necessary to support the auditor's opinion and report. It is collective in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. The information prepared by an expert engaged or employed by the entity may also be used as audit evidence. In addition, in some cases, the absence of information (for example, management's/persons responsible for governance refusal to provide a management representation letter) is also used by the auditor as audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

17.2 The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less audit evidence may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

17.3 Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

17.4 Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment. SASE 500 and other relevant SASEs will establish requirements and will provide further guidance.

Audit Risk

17.5 Audit risk is the risk of expressing an inappropriate audit opinion on financial statements that are materially misstated. The objective of the audit is to reduce this audit risk to the extent, that, there is no material misstatement as a whole. 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.

Risks of Material Misstatement

17.6 The risks of material misstatement may exist at two levels:

- The overall financial statement level; and
- The assertion level for classes of transactions, account balances, and disclosures.

17.7 Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.

17.8 Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement.

17.9 The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial statements.

17.10 SASE 315 will establish requirements and will provide guidance on identifying and assessing the risks of material misstatement at the financial statement and assertion levels. SASE 300 and SASE 330 will establish requirements and will provide guidance on planning an audit of financial statements and the auditor's responses to assessed risks. Detection risk, however, can only be reduced it cannot be eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

Inherent Limitations of an Audit

17.11 The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures;
- The nature of audit evidence available; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

The following table outlines some of the inherent limitations of audit work performed.

Limitations	**Reasons**
The Nature of Financial Reporting	The preparation of financial statements involves: • Judgment by management in preparing the financial statements and applying the presentation and disclosure requirements in the applicable financial reporting framework; and • Subjective decisions or assessments (such as estimates) by management involving a range of acceptable interpretations or judgments.
Nature of Audit Evidence Available	Audit evidence which is available tends to be persuasive in nature rather than conclusive.
The Nature of Audit Procedures	Audit procedures, however well designed, will not detect every misstatement because of factors such as: • Any sample of less than 100% of a population introduces some risk that a misstatement will not be detected; • Management or others may not provide, intentionally or unintentionally, the complete information required. Fraud may involve sophisticated and carefully organized schemes designed to conceal it; and

	• Audit procedures used to gather audit evidence may not detect that some information is missing.
Timeliness of Financial Reporting	The relevance/value of financial information tends to diminish over time, so a balance needs to be struck between the reliability of information and its cost. Users of financial statements expect that the auditor will form his opinion within a reasonable period of time and at a reasonable cost. Consequently, it is impracticable to address all information that may exist, or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

17.12 Due to these inherent limitations, it is necessary for the auditor to plan the audit as to direct audit effort to areas most expected to contain risks of material misstatement.

17.13 Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SASEs. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with SASEs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. This means that the auditors should not account this non-detection in this planning and performance of audit procedures.

Conduct of an Audit in Accordance with SASEs

Complying with SASEs Relevant to the Audit

18. The auditor shall comply with all SASEs relevant to the audit. An SASE is relevant to the audit when the SASE is in effect and the circumstances addressed by the SASE exist.

Nature of the SASEs

18.1 The SASEs, collectively, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The SASEs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.

18.2 The scope, effective date and any specific limitation of the applicability of a specific SASE is made clear in the SASE.

18.3 In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the SASEs. The SASEs do not override laws and regulations that govern an audit of financial statements. In case those laws and regulations differ from the SASEs, the auditor should take a note and address the same properly.

19. The auditor shall have an understanding of the entire text of an SASE, including its application guidance, to understand its objectives and to apply its requirements properly.

Contents of the SASE*s*

19.1 In addition to objectives and requirements **(requirements are expressed in the SASEs using "shall" and in bold text**), **related application guidance is given in the SASEs in normal text**. It may also contain introductory material that provides context relevant to a proper understanding of the SASE, and definitions.

19.2 Where necessary, the application guidance provides further explanation of the requirements of an SASE and guidance for their proper application. In particular, it may:

- Explain more precisely what a requirement means or intends to cover.
- Include examples of audit procedures that may be appropriate in the circumstances.

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

19.3 Appendices form part of the application guidance. The purpose and intended use of an appendix are explained in the body of the related SASE or within the title and introduction of the appendix itself.

19.4 Introductory material may include, as needed, such matters as explanation of:

- The purpose and scope of the SASE, including how the SASE relates to other SASEs.
- The subject matter of the SASE.
- The respective responsibilities of the auditor and others in relation to the subject matter of the SASE.
- The context in which the SASE is set.

19.5 An SASE may include, in a separate section under the heading "Definitions", a description of the meanings attributed to certain terms for purposes of the SASEs. These are provided to assist in the consistent application and interpretation of the SASEs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the SASEs.

20. The auditor shall not represent compliance with SASEs in the auditor's report unless the auditor has complied with the requirements of this SASE and all other SASEs relevant to the audit.

Objectives Stated in Individual SASEs

21. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SASEs in planning and performing the audit, having regard to the interrelationships among the SASEs, to:

(a) Determine whether any audit procedures in addition to those required by the SASEs are necessary in pursuance of the objectives stated in the SASEs; and

(b) Evaluate whether sufficient appropriate audit evidence has been obtained.

Use of Objectives to Determine Need for Additional Audit Procedures

21.1 The requirements of the SASEs are designed to enable the auditor to achieve the objectives specified in the SASEs, and thereby the overall objectives of the auditor. The proper application of the requirements of the SASEs by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements differ widely and all such circumstances cannot be anticipated in the SASEs, the auditor should determine the additional audit procedures, as may be necessary to fulfill the requirements of the SASEs and to achieve the objectives.

Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained

21.2 The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches:

- Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other SASEs;
- Perform other procedures, if necessary in the circumstances.

Complying with Relevant Requirements

22. Subject to paragraph 23, the auditor shall comply with each requirement of an SASE unless, in the circumstances of the audit:

(a) The entire SASE is not relevant; or

(b) The requirement is not relevant because it is conditional and the condition does not exist or it is not material considering the nature, size and type of the entity under audit.

Relevant Requirements

22.1 In some cases, an SASE (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, SASE 610 will not be relevant.

22.2 Within a relevant SASE, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the condition exists. Also the requirement may not be material for compliances considering the nature, size and type of the entity.

23. In certain circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SASE. In such circumstances, the auditor should perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise where the requirement is for a specific procedure to be performed and, in the given circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

Departure from a Requirement

23.1 SASE 230 will establish documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement materially influencing the opinion. The SASEs do not require compliance with a requirement that is not relevant in the circumstances of the audit.

Failure to Achieve an Objective

24. If an objective in a relevant SASE cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SASEs, to modify the auditor's opinion or withdraw from the engagement. Failure to achieve an objective represents a significant matter requiring documentation in accordance with SASE 230.

24.1 Whether an objective has been achieved is a matter for the auditor's professional judgment. That judgment takes account of the results of audit procedures performed in complying with the requirements of the SASEs, and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more work needs to be done in the particular circumstances of the audit to achieve the objectives stated in the SASEs. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:

- Prevent the auditor from complying with the relevant requirements of an SASE.
- Result in its not being practicable or possible for the auditor to carry out the additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21, for example due to a limitation in the available audit evidence.

24.2 The documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.