Draft IDW Auditing Standard for Less Complex Entities: Responses to Assessed Risks (IDW AuSLCE 5)

IDW AuSLCE 5

Status: 2021-12-05[1]

Within the context of the audit of financial statements of small and medium-sized entities (SMEs) as a model, the Hauptfachausschuss (HFA) [Auditing and Assurance Board] issued the following draft IDW Auditing Standard for Less Complex Entities: Responses to Assessed Risks.

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[1] Issued by the HFA on December 5, 2021.

1 Overall Responses to Address Relevant Risks at the Financial Statement Level

1 The auditor shall design and implement overall responses to address relevant risks at the financial statement level, whether due to fraud or error.

2 In determining overall responses to address the relevant risks at the financial statement level due to fraud, the auditor shall:

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

2 Audit Procedures to Address Relevant Risks of Material Misstatement

3 The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the relevant risks of material misstatement, whether due to fraud or error.

4 The auditor shall design and perform the further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

5 In designing the further audit procedures to be performed, the auditor shall:

(a) Consider the reasons for the assessment given to the relevant risks of material misstatement, including:
    (i) The likelihood and magnitude of misstatement due to the particular characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and
    (ii) Whether the risk assessment takes account of controls that address the control risk, thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and
(b) Obtain more persuasive audit evidence the higher the auditor's assessment of the relevant risk of material misstatement.

6 The auditor shall determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the relevant risks of material misstatement.

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3 Selecting Items for Testing

3.1 General Requirements for Obtaining Audit Evidence

7 When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

The means available to the auditor for selecting items for testing are:

(a) Selecting all items (100% examination);
(b) Selecting specific items; and
(c) Audit sampling.

3.2 Designing an Audit Sample Pursuant to Paragraph 7 (c)

8 When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

9 The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

10 The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

3.3 Audit Procedures for Items Selected

11 The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

12 If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.

13 If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

14 The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

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

A misstatement that has been established to be an anomaly need not be projected across the remaining population.

16 For tests of details, the auditor shall project misstatements found in the sample to the population.

17 The auditor shall evaluate:

(a) The results of the sample: and

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(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

4 Test of Controls and Evaluating the Operating Effectiveness of Controls

4.1 Test of Controls

18 The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if:

(a) The auditor's assessment of relevant risks of material misstatement includes an expectation that the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
(b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

19 In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

20 In designing and performing tests of controls, the auditor shall:

(a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
    (i) How the controls were applied at relevant times during the period under audit;
    (ii) The consistency with which they were applied; and
    (iii) By whom or by what means they were applied.
(b) To the extent not already addressed, determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.

21 The auditor shall test controls for the particular point in time, or throughout the period, for which the auditor intends to rely on those controls, subject to paragraphs 22 and 24, in order to provide an appropriate basis for the auditor's intended reliance.

22 If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall:

(a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and
(b) Determine the additional audit evidence to be obtained for the remaining period.

23 In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

(a) The effectiveness of other components of the entity's system of internal control, including the control environment, the entity's process to monitor the system of internal control, and the entity's risk assessment process;
(b) The risks arising from the characteristics of the control, including whether it is manual or automated;
(c) The effectiveness of general IT controls;
(d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and

whether there have been personnel changes that significantly affect the application of the control;

(e) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

(f) The risks of material misstatement and the extent of reliance on the control.

(g) Based on the tests of the design effectiveness and implementation of the control in IDW AuSLCE 4[2], whether significant changes to the controls have occurred subsequent to the previous audit. If so, the auditor shall test the controls in the current period. In any case, the auditor shall test the controls every three years and test some controls each audit.

24 If the auditor intends to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.

4.2 Evaluating the Operating Effectiveness of Controls

25 When evaluating the operating effectiveness of controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.

26 If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;

(b) Additional tests of controls are necessary; or

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

27 The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control and whether, individually or in combination, they constitute significant deficiencies.

5 Substantive Procedures

5.1 General Requirements

28 Irrespective of the relevant risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

29 When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures, the auditor shall:

(a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the relevant risks of material misstatement and tests of details, if any, for these assertions;

[2] See IDW Auditing Standard for Less Complex Entities: Identification and Assessment of Risks of Material Misstatement (IDW AuSLCE 4).

(b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 30.

30 If analytical procedures performed identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

(a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
(b) Performing other audit procedures as necessary in the circumstances.

31 If the auditor has determined that a relevant risk of material misstatement is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

32 If substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:

(a) substantive procedures, combined with tests of controls for the intervening period; or
(b) if the auditor determines that it is sufficient, further substantive procedures only,

that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

5.2 External Confirmation Procedures

33 The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures.

34 When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

(a) Determining the information to be confirmed or requested;
(b) Selecting the appropriate confirming party;
(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
(d) Sending the requests, including follow-up requests when applicable, to the confirming party.

35 If management refuses to allow the auditor to send a confirmation request, the auditor shall:

(a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
(b) Evaluate the implications of management's refusal on the auditor 's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and

(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

36 If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance. The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with IDW AuSLCE 7[3].

37 If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts.

38 If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

39 In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

40 The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements.

41 The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

5.3 Going Concern

42 The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, the auditor needs to evaluate management's assessment of the entity's ability to continue as going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 43 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

43 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in IDW AuSLCE 5, the auditor shall request management to extend its assessment period to at least twelve months from that date.

44 If there is significant delay in the approval of the financial statements by management or those charged with governance alter the date of the financial statements, the auditor shall

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[3] See IDW Auditing Standard for Less Complex Entities: Forming an Opinion, Auditor's Report and Archiving (IDW AuSLCE 7).

inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform additional audit procedures necessary, as described in paragraph 47, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.

45 In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

46 The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

47 If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
    (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
    (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

5.4 Fraud

48 Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall:
    (i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
    (ii) Select journal entries and other adjustments made at the end of a reporting period; and
    (iii) Consider the need to test journal entries and other adjustments throughout the period.

(b) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

49 The auditor shall determine whether, in order to respond to the identified risks of management override of controls, the auditor needs to perform other audit procedures in addition to those specifically referred to above (that is, where there are specific additional risks of management override that are not covered as part of the procedures performed to address the requirements in paragraph 48).

50 If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

5.5 Accounting Estimates

51 The auditor's further audit procedures shall include one or more of the following approaches:

(a) Obtaining audit evidence from events occurring up to the date of the auditor's report;
(b) Testing how management made the accounting estimate; or
(c) Developing an auditor's point estimate or range.

52 When the auditor's further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor shall evaluate whether such audit evidence is sufficient and appropriate to address the relevant risks of material misstatement relating to the accounting estimate, taking into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect the relevance of such audit evidence in the context of the applicable financial reporting framework.

53 When testing how management made the accounting estimate, the auditor's further audit procedures shall include procedures, to obtain sufficient appropriate audit evidence regarding the relevant risks of material misstatement relating to:

(a) The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate, including whether there are indications that these have been subject to management bias; and
(b) How management selected the point estimate and developed related disclosures about estimation uncertainty and whether there are indications that the selection and disclosures were subject to management bias.

54 In relation to significant assumptions, the auditor's further audit procedures shall address:

(a) Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and
(b) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so.

55 If the auditor develops a point estimate or an auditor's range, the auditor shall:

(a) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated by the auditor to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework; and
(b) Design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement relating to the disclosures in the financial statements that describe the estimation uncertainty.

56 The auditor shall review accounting estimates for bias and evaluate whether judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature. If so, the auditor shall reevaluate the accounting estimates taken as a whole.

57 In reviewing accounting estimates for bias the auditor shall perform a retrospective review - also for identifying fraud - of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.

58 In relation to accounting estimates, the auditor shall evaluate:

(a) In the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole; or
(b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading.

5.6 Related Parties

59 If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

60 If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

(a) Promptly communicate the relevant information to the other members of the engagement team;
(b) Where the applicable financial reporting framework established related party requirements, request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
(c) Inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
(d) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;
(e) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
(f) If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit.

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61 For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

(a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
   (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
   (ii) The terms of the transactions are consistent with management's explanations; and
   (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
(b) Obtain audit evidence that the transactions have been appropriately authorized and approved.

62 If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion.

5.7 Litigation, Claims and Non-Compliance

63 If the auditor identifies a relevant risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other IDW AuSLCEs, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures.

64 In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those specified in identifying and assessing the risks of material misstatement.

65 If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

(a) An understanding of the nature of the act and the circumstances in which it has occurred; and
(b) Further information to evaluate the possible effect on the financial statements.

66 If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

5.8 Inventory

67 If inventory is material to the financial statements, the auditor shall obtain sufficient approriate audit evidence regarding the existence and condition of inventory by:

(a) Attendance at physical inventory counting, unless impracticable, to

(i) Evaluate managements's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
(ii) Observe the performance of management's count procedures;
(iii) Inspect the inventory; and
(iv) Perform test counts; and

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

68 If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, in addition to the procedures required by paragraph 67, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.

69 If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.

70 If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with IDW AuSLCE 7.

71 If inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

(a) Request confirmation from the third party[4] as to the quantities and condition of inventory held on behalf of the entity.
(b) Perform inspection or other audit procedures appropriate in the circumstances.

5.9 Financial Statement Closing Process

72 The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:

(a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
(b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

5.10 Comparative Information

73 The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

(a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
(b) 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

[4] See IDW Auditing Standard for Less Complex Entities: Concluding Auditing Procedures, Communication with Those Charged with Governance and obtaining of written representation (IDW AuSLCE 6).

policies, whether those changes have been properly accounted for and adequately presented and disclosed.

74 If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.

6 Accumulation of Misstatements

75 The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

„Clearly trivial" is not another expression for "not material". Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

7 Consideration of Identified Misstatements as the Audit Progresses

76 The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:

(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or

(b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with IDW AuSLCE 3[5].

77 If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing or extent of substantive procedures covering the remaining period need to be modified.

78 If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

8 Communication and Correction of Misstatements

79 The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management. The auditor shall request management to correct those misstatements.

[5] See IDW Auditing Standard for Less Complex Entities: Engagement Acceptance and Preparatory Activities for a Financial Statement Audit (IDW AuSLCE 3).

80 If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

81 If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

9 Evaluating the Effect of Uncorrected Misstatements

82 Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with IDW AuSLCE 3[6] to confirm whether it remains appropriate in the context of the entity's actual financial results.

83 The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

(a) 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
(b) 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.

84 If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

85 If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit.

86 The auditor shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

10 Documentation

87 The auditor shall include in the audit documentation:

(a) The overall responses to address the relevant risks of material misstatement, whether due to fraud or error, at the financial statement level, and the nature, timing and extent of the further audit procedures performed;
(b) The linkage of those procedures with the assessed risks of material misstatement at the assertion level, taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks; and
(c) The results of the audit procedures, including those designed to address the risk of management override of controls as well as the conclusions where these are not otherwise clear.

[6] See IDW AuSLCE 3, para. 24 ff.

88 If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached about relying on such controls that were tested in a previous audit.

89 The auditor shall include the following in connection with accounting estimates in the audit documentation:

(a) The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;
(b) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph 56; and
(c) Significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

90 The auditor shall include in the audit documentation' identified or suspected non-compliance with laws and regulations and:

(a) The audit procedures performed, the significant professional judgments made and the conclusions reached thereon; and
(b) The discussions of significant matters related to the non-compliance with management, those charged with governance and others, including how management and, where applicable, those charged with governance have responded to the matter.

91 The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

92 The auditor shall include the following in connection with misstatements in the audit documentation:

(a) The amount below which misstatements would be regarded as clearly trivial (para. 75);
(b) All misstatements accumulated during the audit and whether they have been corrected; and
(c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (para. 83).

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