

# Draft IDW Auditing Standard for Less Complex Entities: Concluding Auditing Procedures, Communication with Those Charged with Governance and obtaining Written Representations (IDW AuSLCE 6)

IDW AuSLCE 6

**Stand: 2021-12-05<sup>1</sup>**

*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: Concluding Auditing Procedures, Communication with Those Charged with Governance and obtaining Written Representations.*

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<sup>1</sup> Issued by the HFA on December 5, 2021.

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# 1 Final Auditing Procedures

## 1.1 Final Analytical Procedures

- 1 The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.
- 2 The auditor shall evaluate thereby whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion, indicate a previously unrecognized risk of material misstatement due to fraud.

## 1.2 Appropriateness of Management's Use of the Going Concern basis

- 3 The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- 4 Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
  - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
  - (b) In the case of a compliance framework, the financial statements not to be misleading.
- 5 If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
  - (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
  - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- 6 If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

## 1.3 Evaluation Overall Presentation

- 7 The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:

- (a) Classification and description of financial information and the underlying transactions, events and conditions; and
- (b) Presentation, structure and content of the financial statements.

## 1.4 Subsequent Events

- 8 The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.
- 9 The auditor shall perform the procedures required by paragraph 8 so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:
- (a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
  - (b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
  - (c) Reading minutes, if any, of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
  - (d) Reading the entity's latest subsequent interim financial statements, if any.
- 10 If, as a result of the procedures performed as required by paragraphs 8 and 9, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.
- 11 If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:
- (a) The circumstances encountered;
  - (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
  - (c) When and by whom the resulting changes to audit documentation were made and reviewed.

## 1.5 Evaluating the Sufficiency and Appropriateness of Audit Evidence

- 12 Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate, including, regarding accounting estimates, when indicators of possible management bias have been identified.
- 13 The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence obtained,

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regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.

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

## 1.6 Final Engagement Partner Review

- 15 On or before the date of the auditor's report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
- 16 Prior to dating the auditor's report, the engagement partner shall review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.
- 17 Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that:
- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
  - (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this IDW AuSLCE.
- 18 Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

## 2 Communication with Those Charged with Governance

### 2.1 Matters to Communicate with Those Charged with Governance

#### 2.1.1 Significant Findings

- 19 The auditor shall communicate with those charged with governance:
- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;
  - (b) Significant difficulties, if any, encountered during the audit;

- (c) Unless all of those charged with governance are involved in managing the entity:
  - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and
  - (ii) Written representations the auditor is requesting;
- (d) Circumstances that affect the form and content of the auditor's report, if any; and
- (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

20 In doing so, the auditor shall consider the matters, if any, to communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors in making accounting estimates and related disclosures. In addition, in certain circumstances, the auditor is required by law or regulation to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors.

21 The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit.

### **2.1.2 Entity's Ability to Continue as Going Concern**

22 Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
- (c) The adequacy of related disclosures in the financial statements; and
- (d) Where applicable, the implications for the auditor's report.

### **2.1.3 Modifying the Opinion**

23 When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

24 If the auditor withdraws as contemplated by paragraph 54(b)(ii) of IDW AuSLCE 7, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

### **2.1.4 Uncorrected Misstatements**

25 The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

- 26 The auditor shall also communicate with those charged with governance 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.

## 2.2 Adequacy of the Communication Process

- 27 The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

## 3 Written Representations

### 3.1 From Whom Written Representations are Requested

- 28 The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.

### 3.2 Content of Written Representations

- 29 The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.

- 30 Management's responsibilities shall be described in the written representations required by paragraphs 29 and 38 in the manner in which these responsibilities are described in the terms of the audit engagement.

- 31 The auditor shall obtain written representations from management and, where appropriate, those charged with governance that:
- (a) They acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
  - (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;
  - (c) They have disclosed to the auditor their knowledge of fraud, or suspected fraud, affecting the entity involving:
    - (i) Management;
    - (ii) Employees who have significant roles in internal control; or
    - (iii) Others where the fraud could have a material effect on the financial statements;and
  - (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

- 32 The auditor shall request written representations from management and, when appropriate, those charged with governance about whether the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework. The auditor shall also consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used.

- 33 Where the applicable financial reporting framework establishes related party requirements, the auditor shall obtain written representations from management and, where appropriate, those charged with governance that:
- (a) They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
  - (b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.
- 34 The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.
- 35 The auditor shall request management and, where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor.
- 36 The auditor shall request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.
- 37 The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
- 38 The auditor shall request management to provide a written representation that:
- (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement; and
  - (b) All transactions have been recorded and are reflected in the financial statements.
- 39 If, in addition to the required representations in paragraphs 29 to 38 above, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations.

### **3.3 Date and Form of Written Representations**

- 40 The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.
- 41 The written representations shall be in the form of a representation letter addressed to the auditor.

### **3.4 Doubt as to the Reliability of Written Representations**

- 42 In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and

shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.

- 43** If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with IDW AuSLCE 7<sup>2</sup>, having regard to the requirement in paragraph 52 of IDW AuSLCE 7.
- 44** If management does not provide one or more of the requested written representations, the auditor shall:
- (a) Discuss the matter with management;
  - (b) Reevaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
  - (c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with IDW AuSLCE 7, having regard to the requirement in paragraph 52 of IDW AuSLCE 7.

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<sup>2</sup> See IDW Auditing Standard for Less Complex Entities: Forming an Opinion, Auditor's Report and Archiving (IDW AuSLCE 7).