OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH CANADIAN AUDITING STANDARDS: CAS 200

Overall Objectives of the Auditor

- 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 CASs, in accordance with the auditor's findings

Requirements

Ethical Requirements

- The auditor shall comply with relevant **ethical requirements**:
    - Integrity
    - Objectivity
    - Professional competence and due care
    - Confidentiality
    - Professional behavior
- The auditor is also subject to the relevant independence and other ethical requirements set out in **rules of professional conduct**

Professional Skepticism

- The auditor shall plan and perform an audit with professional skepticism
- Professional skepticism includes being alert to:
    - 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 CASs
- The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary
- The auditor cannot disregard/ignore past experience with the honesty and integrity of management and those charged with governance

Professional Judgment

- Professional judgment is necessary to make decisions about:
    - Materiality and audit risk.
    - The nature, timing and extent of audit procedures
    - Evaluating whether sufficient appropriate audit evidence has been obtained
    - The evaluation of management's judgments in applying GAAP/other frameworks
    - The drawing of conclusions based on the audit evidence obtained (i.e. assessing the reasonableness of the estimates made by management)
- Professional judgment needs to be **appropriately documented**; the auditor is required to prepare audit documentation sufficient to allow an **experienced auditor, having no previous**

connection with the audit, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit
- Professional judgment is **not** to be used to justify decisions not supported by facts

Sufficient Appropriate Audit Evidence and Audit Risk

- obtain **sufficient appropriate audit evidence** to reduce **audit risk to an acceptably low level**
- **Sufficiency** is the measure of the **quantity** of audit evidence
  - The **quantity** of audit evidence needed is **affected by** the assessment of the **risks of misstatement** (the higher the assessed risks, the more audit evidence required)
  - Obtaining more audit evidence doesn't make up for poor quality evidence
- Appropriateness is the measure of the quality of audit evidence
  - Appropriateness = relevant and reliable evidence
  - Reliability is based on the source of the evidence
- **Audit risk** = risk of material misstatement + detection risk = risk of expressing an opinion that the F/S are free from material misstatements when in fact the F/S are materially misstated
  - audit risk does not include the risk that the auditor might express an opinion that the F/S are materially misstated when they are not
- the **risk of material misstatement** occur at **2 levels**:
  - the overall F/S level; and
  - the assertion level for individual classes of transactions, accounts and disclosures
- The **risks of material misstatement at the assertion level** = inherent risk + control risk
- **Inherent risk** = transactions being naturally risky
  - Complexity of accounting (revenue recognition)
  - Technological developments leading to obsolescence
  - Cannot be controlled by management or auditors
- **Control risk** = risk arising from the internal controls (or lack thereof) implemented by management
  - Possibility of human errors/mistakes (input errors)
  - Ability to circumvent/override controls
  - Possibility of collusion
- Detection risk = inversely relates to risk of material misstatement to bring overall audit risk to the desired low level
  - Detection risk is controlled by auditors by
    - obtaining sufficient appropriate evidence
    - adequately planning
    - Properly assigning staff to the engagement team
    - applying professional skepticism
    - supervising and reviewing the audit work performed

Conduct of an Audit in Accordance with CASs

- The auditor shall comply with all CAS's relevant to the audit
- In exceptional circumstances, the auditor may judge it **necessary to depart from a relevant requirement in a CAS**; in such cases, the auditor should perform alternative audit procedures to achieve the aim of that requirement
- This happens when a specific procedure is to be performed per a CAS, and the procedure would be ineffective in achieving the aim of the requirement