Audit of Smaller Entities: A Snapshot of Special Considerations In Standards on Auditing

Purpose of Audit

1. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This confidence is provided by the auditor through the opinion that he/she expresses on the financial statements subjected to audit i.e. whether these financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. In terms of the opinion, the auditor, normally, states whether these financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the financial reporting framework.

Overall Objectives of the Auditor

2. 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 Standards on Auditing (SAs), in accordance with the auditor's findings.

Standards on Auditing (SAs)

3. The Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI), contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance about the financial statements and express an appropriate opinion.
4. Auditors are required to comply with all the SAs relevant to the audit. An SA is relevant to the audit when:
   - The SA is effective; and
   - The circumstances addressed in the SA exist.

   The auditor, therefore, needs to have an understanding of the entire text of an SA, including its application and other explanatory material to understand its objectives and to apply its requirements properly.
5. To achieve the overall objectives of the auditor, the auditor needs to use the objectives stated in relevant SAs in planning and performing the audit. In doing so, the auditor also needs to have regard to the interrelationships among the SAs. Each SA contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives help the auditor in:
   - Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
   - Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.

   In using the objectives, the auditor is required to have regard to the interrelationships among the SAs.

SAs – Smaller Entity Considerations

6. When appropriate, additional considerations specific to audits of smaller entities and public sector entities are also included within the application and other explanatory material of an SA. These additional considerations assist in the application of the requirements of the SA in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the SAs.

Smaller Entities – Characteristics

7. For purposes of specifying additional considerations to audits of smaller entities, a "smaller entity" refers to an entity which typically possesses qualitative characteristics such as:
   (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
   (b) One or more of the following:
      (i) Straightforward or uncomplicated transactions;
      (ii) Simple record-keeping;
      (iii) Few lines of business and few products within business lines;
      (iv) Few internal controls;
      (v) Few levels of management with responsibility for a broad range of controls; or

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(vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

The SAs refer to the proprietor of a smaller entity who is involved in running the entity on a day-to-day basis as the "owner-manager."

SAs – Smaller Entity Considerations

8. The following is an extract from the various such SAs which contain considerations specific to their application to audits of smaller entities. **The extract is for the ready reference of the readers and is not meant to be a substitute for the authoritative text of the SAs issued by ICAI**.

Context	Requirement of SA (and Para Nos.)	Application wrt Smaller Entity Audit
SA 210: Agreeing The Terms Of Audit Engagements		
Pre-conditions for an audit	6. In order to establish whether the preconditions for an audit are present, the auditor shall: …….. (b) Obtain the agreement of management that it acknowledges and understands its responsibility:	A19. One of the purposes of agreeing the terms of the audit engagement is to avoid misunderstanding about the respective responsibilities of management and the auditor. For example, when a third party has assisted with the preparation of the financial statements, it may be useful to remind management that the preparation of the financial statements in accordance with the applicable financial reporting framework remains its responsibility.
SA 220: Quality Control For An Audit Of Financial Statements		
Engagement quality control review	20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve: (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements and the proposed auditor's report; (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.	A29. In addition to the audits of financial statements of listed entities, an engagement quality control review is required for such engagements also that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.
	21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following: (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. (Ref: Para. A27-A30)	

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SA 230: Audit Documentation		
Form, Content and Extent of Documentation	8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.	A16. The audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement in paragraph 8 to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes. A17. When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality, determined in accordance with SA 320(Revised)[1], assessed risks, significant matters noted during the audit, and conclusions reached.
SA 240: The Auditor's Responsibilities Relating To Fraud		
Evaluation of Fraud Risk Factors	24. The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.	A27. In the case of a small entity, some or all of these considerations may be inapplicable or less relevant. For example, a smaller entity may not have a written code of conduct but, instead, may have developed a culture that emphasises the importance of integrity and ethical behavior through oral communication and by management example. Domination of management by a

[1] *SA 320 (Revised), "Materiality in Planning and Performing an Audit".*

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		single individual in a small entity does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorisation can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual can be a potential deficiency in internal control since there is an opportunity for management override of controls.
SA 265: Communicating Deficiencies In Internal Control		
	9. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.	A18. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of larger entities.
SA 300: Planning An Audit Of Financial Statements		
Planning activities	7. In establishing the overall audit strategy, the auditor shall: …….. (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.	*Considerations Specific to Smaller Entities* A12. In audits of small entities, the entire audit may be conducted by a very small audit team. Many audits of small entities involve the engagement partner (who may be a sole practitioner) working with one engagement team member (or without any engagement team members). With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 7.

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Direction, supervision and review	10. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.	A16. When an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgments made in the course of the audit can present practical problems when the same individual also performs the entire audit. When particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably-experienced auditors or the auditor's professional body[2].
SA 315: Identifying And Assessing The Risk Of Material Misstatement Through Understanding The Entity And Its Environment		
Analytical procedures	6. The risk assessment procedures shall include the following: …….. (b) Analytical procedures	A8a. Some smaller entities may not have interim or monthly financial information that can be used for purposes of analytical procedures. In these circumstances, although the auditor may be able to perform limited analytical procedures for purposes of planning the audit or obtain some information through inquiry, the auditor may need to plan to perform analytical procedures to identify and assess the risks of material misstatement when an early draft of the entity's financial statements is available.
Discussion among engagement team	10. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.	A14. Many small audits are carried out entirely by the engagement partner (who may be a sole practitioner). In such situations, it is the engagement partner who, having personally conducted the planning of the audit, would be responsible for considering the susceptibility of the entity's financial statements to material misstatement due to fraud or error.
Measurement and review of the entity's financial performance	11. The auditor shall obtain an understanding of the following: …….. (e) The measurement and review of the entity's financial performance.	A37. Smaller entities often do not have processes to measure and review financial performance. Inquiry of management may reveal that it relies on certain key indicators for evaluating financial performance and taking appropriate action. If such

[2] *In India, the Institute of Chartered Accountants of India governs the accountancy profession to provide services of high quality in the public interest which are accepted worldwide.*

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		inquiry indicates an absence of performance measurement or review, there may be an increased risk of misstatements not being detected and corrected.
Limitations of Internal control	12. The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.	A45. Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the owner-manager[3] may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties. A46. On the other hand, the owner-manager may be more able to override controls because the system of internal control is less structured. This is taken into account by the auditor when identifying the risks of material misstatement due to fraud.
Components of internal control – control environment	14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether: (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and (b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: Para. A65-A74)	A72. The control environment within small entities is likely to differ from larger entities. For example, those charged with governance in small entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are no other owners. The nature of the control environment may also influence the significance of other controls, or their absence. For example, the active involvement of an owner-manager may mitigate certain of the risks arising from a lack of segregation of duties in a small business; it may, however, increase other risks, for example, the risk of override of controls. A73. In addition, audit evidence for elements of the control environment in smaller entities may not be available in documentary form, in particular where communication between management and other personnel may be informal, yet effective. For example, small entities might not have a written code of conduct but, instead, develop a culture that emphasises the importance of integrity and ethical behavior through oral communication and by management example.

[3] *Owner-manager refers to the proprietor of an entity who is involved in running the entity on a day-to-day basis.*

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		A74. Consequently, the attitudes, awareness and actions of management or the owner-manager are of particular importance to the auditor's understanding of a smaller entity's control environment.
Components of internal control - The entity's risk assessment process	15. The auditor shall obtain an understanding of whether the entity has a process for: (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks.	A75. The entity's risk assessment process forms the basis for how management determines the risks to be managed. If that process is appropriate to the circumstances, including the nature, size and complexity of the entity, it assists the auditor in identifying risks of material misstatement. Whether the entity's risk assessment process is appropriate to the circumstances is a matter of judgment.
Components of internal control - The information system, including the related business processes, relevant to financial reporting, and communication	18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (a) The classes of transactions in the entity's operations that are significant to the financial statements; (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; (c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form; (d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements; (e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; (f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.	A81. Information systems and related business processes relevant to financial reporting in small entities are likely to be less sophisticated than in larger entities, but their role is just as significant. Small entities with active management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the entity's systems and processes may therefore be easier in an audit of smaller entities, and may be more dependent on inquiry than on review of documentation. The need to obtain an understanding, however, remains important.

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	19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (a) Communications between management and those charged with governance; and (b) External communications, such as those with regulatory authorities.	A83. Communication may be less structured and easier to achieve in a small entity than in a larger entity due to fewer levels of responsibility and management's greater visibility and availability.
Components of internal control – Control Activities relevant to audit	20. The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit requires an understanding of only those control activities related to significant class of transactions, account balance, and disclosure in the financial statements and the assertions which the auditor finds relevant in his risk assessment process.	A89. The concepts underlying control activities in small entities are likely to be similar to those in larger entities, but the formality with which they operate may vary. Further, small entities may find that certain types of control activities are not relevant because of controls applied by management. For example, management's sole authority for granting credit to customers and approving significant purchases can provide strong control over important account balances and transactions, lessening or removing the need for more detailed control activities. A90. Control activities relevant to the audit of a smaller entity are likely to relate to the main transaction cycles such as revenues, purchases and employment expenses.
Components of internal control – Monitoring of Controls	22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.	A96. Management's monitoring of control is often accomplished by management's or the owner-manager's close involvement in operations. This involvement often will identify significant variances from expectations and inaccuracies in financial data leading to remedial action to the control.
SA 320: Materiality In Planning And Performing An Audit		
Determining Materiality and Performance Materiality when Planning the Audit	10. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.	A7. When an entity's profit before tax from continuing operations is consistently nominal, as might be the case for an owner-managed business where the owner takes much of the profit before tax in the form of remuneration, a benchmark such as profit before remuneration and tax may be more relevant.

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SA 330: The Auditor's Responses To Assessed Risks		
Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level	7. In designing the further audit procedures to be performed, the auditor shall: (a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including: (i) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and (ii) Whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on 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 risk.	A18. In the case of very small entities, there may not be many control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. In some rare cases, however, the absence of control activities or of other components of control may make it impossible to obtain sufficient appropriate audit evidence.
SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures		
Understanding how management identifies the need for accounting estimates	8. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, as required by SA 315,[4] the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: …….. (b) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.	A21. Obtaining this understanding for smaller entities is often less complex as their business activities are often limited and transactions are less complex. Further, often a single person, for example the owner-manager, identifies the need to make an accounting estimate and the auditor may focus inquiries accordingly.
Understanding how management identifies the need for accounting estimates – Management's Use of Experts	8. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, as required by SA 315,[5] the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: ……	A30. In smaller entities, the circumstances requiring an accounting estimate often are such that the owner-manager is capable of making the required point estimate. In some cases, however, an expert will be needed. Discussion with the owner-manager early in the audit process about the nature of any accounting

[4] *SA 315, paragraphs 5-6 and 11-12.*
[5] *SA 315, paragraphs 5-6 and 11-12.*

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	(c) How management makes the accounting estimates, and an understanding of the data on which they are based, including: *(Ref: Para. A22-A23)* i. The method, including where applicable the model, used in making the accounting estimate; ii. Relevant controls; iii. Whether management has used an expert; iv. The assumptions underlying the accounting estimates; v. Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and vi. Whether and, if so, how management has assessed the effect of estimation uncertainty.	estimates, the completeness of the required accounting estimates, and the adequacy of the estimating process may assist the owner manager in determining the need to use an expert.
Responses to Assessed Risks of Material Misstatements – Events Occurring upto the balance sheet date	13. In responding to the assessed risks of material misstatement, as required by SA 330,[6] the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate: (a) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.	A67. When there is a longer period between the balance sheet date and the date of the auditor's report, the auditor's review of events in this period may be an effective response for accounting estimates other than fair value accounting estimates. This may particularly be the case in some smaller owner-managed entities, especially when management does not have formalised control procedures over accounting estimates.
Responses to Assessed Risks of Material Misstatements – testing how management made the accounting estimate	13. In responding to the assessed risks of material misstatement, as required by SA 330,[7] the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate: …… (b) Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether (i) The method of measurement used is appropriate in the circumstances; and (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework.	A70. In smaller entities, the process for making accounting estimates is likely to be less structured than in larger entities. Smaller entities with active management involvement may not have extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Even if the entity has no formal established process, it does not mean that management is not able to provide a basis upon which the auditor can test the accounting estimate.
Responses to Assessed Risks of Material Misstatements –Testing the Operating Effectiveness of Controls	13. In responding to the assessed risks of material misstatement, as required by SA 330,[8] the auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate: ……	A86. Controls over the process to make an accounting estimate may exist in smaller entities, but the formality with which they operate varies. Further, smaller entities may determine that certain types of controls are not necessary because of

[6] SA 330, paragraph 5.
[7] SA 330, paragraph 5.
[8] SA 330, paragraph 5.

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	(c) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.	active management involvement in the financial reporting process. In the case of very small entities, however, there may not be many controls that the auditor can identify. For this reason, the auditor's response to the assessed risks is likely to be substantive in nature, with the auditor performing one or more of the other responses in paragraph 13.
Estimation Uncertainty – Management's Consideration of Estimation Uncertainty	15. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330,[9] the auditor shall evaluate the following: (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate. ……	A106. Smaller entities may use simple means to assess the estimation uncertainty. In addition to the auditor's review of available documentation, the auditor may obtain other audit evidence of management consideration of alternative assumptions or outcomes by inquiry of management. In addition, management may not have the expertise to consider alternative outcomes or otherwise address the estimation uncertainty of the accounting estimate. In such cases, the auditor may explain to management the process or the different methods available for doing so, and the documentation thereof. This would not, however, change the responsibilities of management for the preparation and presentation of the financial statements.
SA 550: Related Parties		
Understanding The Entity's Related Party Relationships And Transactions	14. The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to: *(Ref: Para. A15-A20)* (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (b) Authorise and approve significant transactions and arrangements with related parties; and (c) Authorise and approve significant transactions and arrangements outside the normal course of business.	Considerations specific to smaller entities A20. Control environment in smaller entities is likely to be different from larger entities. In particular those charged with governance may not include an outside member, and the role of governance may be undertaken directly by the owner-manager where no other owner exists. Control activities in smaller entities are likely to be less formal and smaller entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions.

[9] *SA 330, paragraph 20.*

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		For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through inquiry of management combined with other procedures, such as observation of management's oversight and review activities, and inspection of available relevant documentation.
Identified Significant Related Party Transactions outside the Entity's Normal Course of Business – Authorisation and approval of significant related party transactions	23. For identified significant related party transactions outside the entity's normal course of business, the auditor shall: …….. (b) Obtain audit evidence that the transactions have been appropriately authorised and approved.	A41. A smaller entity may not have the same controls provided by different levels of authority and approval that may exist in a larger entity. Accordingly, when auditing a smaller entity, the auditor may rely to a lesser degree on authorisation and approval for audit evidence regarding the validity of significant related party transactions outside the entity's normal course of business. Instead, the auditor may consider performing other audit procedures such as inspecting relevant documents, confirming specific aspects of the transactions with relevant parties, or observing the owner-manager's involvement with the transactions.
SA 570: Going Concern		
The period of Management's Assessment	12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. 13. 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 SA 560,[10] the auditor shall request management to extend its assessment period to at least twelve months from that date.	A11. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this SA, the auditor needs to evaluate management's assessment of the entity's ability to continue as a 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 13 for the auditor to request management to extend its

[10] *Revised SA 560, "Subsequent Events", paragraph 5(a).*

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		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. A12. Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favour of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.
SA 720: The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements		
	2. In this SA "documents containing audited financial statements" refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor's report thereon. This SA may also be applied, adapted as necessary in the circumstances, to other documents containing audited financial statements.	A4. Unless required by law or regulation, smaller entities are less likely to issue documents containing audited financial statements. However, an example of such a document would be where a legal requirement exists for an accompanying report by those charged with governance.

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