

RMM = Risks of material misstatement.
 F/S = Financial statements.
 RAPs = Risk assessment procedures.
 TCWG = Those charged with governance.

RISK ASSESSMENT				
Objective: To identify/assess the RMM in the F/S.				
STEP 1 – PERFORM PRELIMINARY ACTIVITIES (Refer to Volume 2, Chapter 10)				
Purpose: To decide whether the firm can or should perform the engagement.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Identify/assess the engagement risks	Identify engagement risk factors, and determine whether: <ul style="list-style-type: none"> i. the engagement is permitted by firm policy ii. the engagement risks are acceptable to the firm iii. the firm has the necessary resources available at the appropriate times to perform the engagement 	10.1	405, 410	CSQC 1.26–28 CAS 220.12–13
b. Evaluate compliance with ethical requirements	Evaluate whether the firm and team are in compliance with relevant ethical requirements, including independence.	10.2	405, 410	CSQC 1.20–25 CAS 220.9–11
c. Establish the engagement preconditions	Ensure that management is using an acceptable financial reporting framework. Ensure that the engagement team has full access to relevant entity documentation and personnel.	10.3	405, 410	CAS 210.6–8
d. Obtain a signed engagement letter	Ensure management and the auditor understand and agree to their respective roles and responsibilities. Obtain a signed engagement letter before work commences.	10.4	AL1.1	CAS 210.3, .9–12
e. Obtain evidence about opening balances	For initial audits, obtain evidence as to whether: <ul style="list-style-type: none"> i. opening balances contain material misstatements ii. the accounting policies used are appropriate and consistently applied 	10.5	408	CAS 300.13 CAS 510
Documentation: Partner sign-off acknowledging that the engagement risks are acceptable to the firm, an assessment of compliance with ethics/independence rules, evidence obtained on opening balances and a signed engagement letter.				
STEP 2 – DETERMINE MATERIALITY (Refer to Volume 2, Chapter 11)				
Purpose: To establish the amount of misstatements that, if exceeded, would influence the economic decisions of F/S users.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Determine overall materiality	Determine materiality for the F/S as a whole (i.e., overall materiality) based on the level of misstatement that, if exceeded, would influence F/S users.	11.1	420	CAS 320.10 CAS 600.21–23
b. Determine performance materiality	Determine performance materiality based on the known risks of misstatement. This could be one amount overall or by individual F/S area and disclosure as required.	11.2	420	CAS 320.11
c. Determine any specific materiality	Determine specific materiality in the rare instance where amounts less than overall materiality would influence F/S users.	11.3	420	CAS 320.10–11
Documentation: Descriptions of F/S users and how overall and performance materiality amounts were determined.				

RISK ASSESSMENT				
STEP 3 – PLAN THE ENGAGEMENT (Including RAPs) (Refer to Volume 2, Chapter 12)				
Purpose: To develop an audit strategy/plan that sets out the scope, timing and direction of the audit.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Identify material F/S areas and disclosures	Identify all the material or potentially material F/S areas and disclosures (including qualitative disclosures) that will be subject to further audit procedures.	12.1	590-2 AL	CAS 320.A1 CAS 330.18
b. Perform preparatory procedures	<ul style="list-style-type: none"> i. Select the engagement team, including: <ul style="list-style-type: none"> A. auditor's experts and consultants B. engagement quality control reviewer C. component auditor(s) as necessary ii. Document information obtained from client acceptance and continuance procedures (such as in Step 1) or from other engagements performed for the client that may indicate a possible RMM. iii. Identify areas where management could assist by preparing schedules or account analysis. 	12.2	405, 410, 428, 445 405, 410 440, AL4.2	CAS 220.14, .18–21 CAS 600.19–20 CAS 620.7 CAS 315.7–8
c. Prepare the overall audit strategy	Prepare an overall audit strategy that specifies the following: <ul style="list-style-type: none"> i. reporting objectives ii. time frames, resources and team composition iii. scope, timing and direction of the audit iv. significant factors to direct the team's efforts 	12.3	430	CAS 300.2, .7–8, appendix
d. Plan the RAPs	<ul style="list-style-type: none"> i. Determine the nature, timing and extent of RAPs to be performed. Include preliminary analytical review, inquiries of management and observation/inspections. ii. Ensure the planned RAPs include those specified in the Canadian Auditing Standards, including: <ul style="list-style-type: none"> A. fraud B. compliance with laws and regulations C. estimates D. related parties E. going concern 	12.4	455, 500, 501, 505 506 505, 510 513, 514 515 525	CAS 300.9 CAS 315.5–6 CAS 240 CAS 250 CAS 540 CAS 550 CAS 570
e. Hold team discussions	Hold a team discussion (now and/or at the end of the risk assessment phase) involving the engagement partner and key team members to discuss the following: <ul style="list-style-type: none"> i. The application of the applicable financial reporting framework. ii. The susceptibility of the F/S and disclosures to material misstatement, including fraud. This includes considering how fraud might occur. iii. The overall audit strategy, including the audit plan and key audit matters (if applicable). 	12.5	436 436 325, 430, 500, 505	CAS 240.16 CAS 300.5, .7 CAS 315.10 CAS 315.10 CAS 240.17 CAS 315.10 CAS 300.7–8 CAS 701
Documentation: The engagement team, possible risk factors from previous work, overall audit strategy, team discussion minutes, details of planned RAPs and requests for management assistance in preparing schedules.				

RISK ASSESSMENT

STEP 4 – PERFORM RISK ASSESSMENT PROCEDURES (Refer to Volume 2, Chapter 13)

Purpose: To identify/assess the RMM (fraud or error) at the F/S and assertion levels.

Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Identify potential inherent risk factors	<p>Perform the planned RAPs to identify and document inherent risks (i.e., risks before being treated by controls). Consider risks identified from the following:</p> <ul style="list-style-type: none"> i. Perform analytical procedures as risk assessment procedures to identify relationships that are unusual, unexpected or inconsistent with other information. Evaluate whether there are indicators of fraud. ii. Inquire about major changes, events and trends during the period. Address external factors, nature of the entity, accounting policies, objectives and strategies, and performance indicators. iii. Make inquiries of management/TCWG regarding actual or suspected frauds and risks of fraud. iv. Gain an understanding of the risks inherent in: <ul style="list-style-type: none"> A. the control environment B. the entity's risk assessment process C. information systems and communication, including financial reporting D. the major business processes (i.e., transactional risks) E. monitoring of controls v. Inquire about the use of accounting estimates as a result of: <ul style="list-style-type: none"> A. transactions and other events/conditions B. requirements of the AFRF C. relevant regulatory factors D. the nature of estimates and expected disclosures in the F/S 	13.1	500, 501 500, 505, 510, 515, 525 436, 506 530, 540 to 560	CAS 240.23 CAS 315.6(b) CAS 240.17 CAS 315.5–9, .11 CAS 240.18–22 CAS 315.6(a) CAS 315.14–19, .22–24
b. Assess inherent risk	<ul style="list-style-type: none"> i. For each risk factor identified, determine what could go wrong (e.g., risk of misstatements occurring) that would impact: <ul style="list-style-type: none"> A. the F/S as a whole or multiple assertions (i.e., pervasive risks) B. individual F/S areas and disclosures that impact specific assertions ii. Assess the inherent risks by considering: <ul style="list-style-type: none"> A. the likelihood (probability) of the risk occurring B. the magnitude of the risk (in relation to performance materiality) iii. For each accounting estimate identified, assess the inherent risk relating to: <ul style="list-style-type: none"> A. estimation uncertainty B. the complexity, subjectivity or other risks involved in the: <ul style="list-style-type: none"> • selection/application of the method • assumptions and data used • selection of management's point estimate or range 	13.2	520, 522, 530, 540 to 560 520, 522 521	CAS 240.25 CAS 315.26 CAS 240.27–28 CAS 315.26(d), .27–28 CAS 540.16

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	iv. Evaluate whether any of the assessed risks (business, fraud or accounting estimates) are significant risks.		520, 521, 522	CAS 315.27 CAS 540.17
c. Assess control risk	i. Inquire about the entity's internal controls at the financial statement level and determine the impact of control deficiencies on the audit.	13.3	530	CAS 315.12, .14–19 CAS 540.13(e)–(h)(i)
	ii. Identify and document relevant internal controls for each identified risk.		513, 520, 522, 565 to 582	CAS 315.20–21, .26(a) CAS 540.13(e)
	iii. Perform the following steps for each relevant control:		513, 520, 522, 565 to 582	CAS 315.13
	A. Evaluate the effectiveness of management's control design (to prevent, or detect and correct, material misstatements). B. Obtain evidence, at a point in time, that the control has been implemented (i.e., exists and is in regular use). iv. Assess the control risk for accounting estimates separately from inherent risk.		521	CAS 540.16
Documentation: Details of procedures performed, identified/assessed risks, design and implementation of relevant controls, assessed control risk for accounting estimates and details of control deficiencies.				
STEP 5 – CONCLUDE RISK ASSESSMENT (Refer to Volume 2, Chapter 14)				
Purpose: To provide the foundation of understanding for designing appropriate risk responses.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Assess the RMM for each risk identified	For each risk identified, combine the inherent and control risk assessments (Steps 4b and 4c) to assess the RMM (error/fraud).	14.1	520, 521, 522	
b. Assess the RMM at the F/S and assertion levels	Using professional judgment and the assessments made in Step 5a, determine the overall risk assessments (error/fraud) at the:	14.2		
	i. F/S level for pervasive risks, including fraud ii. assertion level for classes of transactions, account balances and disclosures		590-1 FSL 590-2 AL	CAS 240.26 CAS 315.25(a) CAS 240.26 CAS 315.25(b)
c. Communicate significant control deficiencies	Identify and then communicate (in writing) significant deficiencies in internal control to management/TCWG on a timely basis.	14.3	575, AL3.4	CAS 265.9
Documentation: Summary of assessed RMM at the F/S and assertion levels and communication of significant control deficiencies.				

RISK RESPONSE				
Objective: To obtain sufficient appropriate evidence as to whether material misstatements exist in the F/S.				
STEP 6 – DESIGN APPROPRIATE RESPONSES TO RISKS (Refer to Volume 2, Chapter 16)				
Purpose: To focus audit effort on material F/S areas and disclosures, particularly those susceptible to material misstatement.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Review the reasons for the assessed risks	<p>Consider the characteristics and reasons for the assessed risks (in Step 5a) and the most appropriate audit response. This would involve:</p> <ul style="list-style-type: none"> i. a team discussion (in addition or instead of discussion in Step 3e) ii. assigning a team member to review the assessed risks and propose appropriate responses <p>Pay particular attention to:</p> <ul style="list-style-type: none"> • matters giving rise to significant risks • complex accounting estimates • potential for fraud, including fraud scenarios • pervasive risks (such as poor accounting systems, inadequate records or incompetent staff) • unexpected risks identified • internal controls that could be tested to reduce the extent of substantive testing 	16.1	436, 590-1 FSL, 590-2 AL	CAS 300.5 CAS 330.7(a), .18
b. Design efficient and effective audit procedures	<ul style="list-style-type: none"> i. Design overall responses to the RMM at the F/S level. ii. Design further audit procedures responsive to RMM at the assertion level. <p>In particular, consider:</p> <ul style="list-style-type: none"> • nature, timing and extent of procedures • responses to significant risks • responses not biased toward evidence that may be corroborative or excludes contradictory evidence • reliance placed on general technology controls • testing of internal controls • use of substantive analytical procedures • use of unpredictable procedures for fraud risks • use of external confirmations • use of audit evidence from previous audits <ul style="list-style-type: none"> iii. Include the further procedures required in the Canadian Auditing Standards, such as: <ul style="list-style-type: none"> A. fraud risks (including use of journal entries) B. non-compliance with laws and regulations C. litigation and claims D. estimates E. related parties F. going concern G. subsequent events 	16.2	605 A to ZZ, 705 to 735 610, 614, 615, 618, 620, 630, 635 670 645 645 A to ZZ, 635, 700 to 740 666 625 650	CAS 330.5 CAS 330.6–7 CAS 540.18–29 CAS 330.8–23 CAS 520.5 CAS 540.18–29 CAS 240 CAS 250 CAS 501 CAS 540 CAS 550 CAS 570 CAS 560
Documentation: Team discussion minutes, audit procedures designed to respond to assessed risks at the F/S and assertion levels, and other required procedures to be performed.				

RISK RESPONSE				
STEP 7 – FINALIZE AUDIT PLANS (Refer to Volume 2, Chapter 17)				
Purpose: To ensure the audit is performed in an effective manner, including effective two-way communication with management/TCWG.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Update the overall audit strategy	Update the overall audit strategy started in Step 3c to reflect unexpected events, changes in conditions or changes in the audit evidence obtained.	17.1	430	CAS 300.9
b. Finalize the audit plans	i. Review the audit plans prepared in Step 6b to ensure the following: <ul style="list-style-type: none"> A. Assessed risks will be appropriately responded to at both the F/S and assertion levels. B. Work will be performed in an efficient and effective manner. ii. Approve the final audit plan, and communicate the nature, timing and extent with the audit team.	17.2	Various	CAS 330.5–7
c. Communicate the planned scope and timing	Communicate with management/TCWG (preferably in writing) an overview of the planned scope and timing of the audit. This includes the significant risks identified by the auditor.	17.3	AL3.1	CAS 260.15
Documentation: Updated overall strategy, finalized audit plans with evidence of approval and details of communications with TCWG.				
STEP 8 – PERFORM PLANNED PROCEDURES (Refer to Volume 2, Chapter 18)				
Purpose: To perform planned procedures to obtain sufficient appropriate audit evidence regarding the assessed RMM.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Perform planned procedures	Implement the overall responses, and perform the planned further audit procedures. Ensure the following: <ul style="list-style-type: none"> i. All relevant evidence has been considered, whether corroborative or contradictory. ii. Assessments of RMM and the design of audit procedures have been updated with new information. iii. Journal entries/adjustments have been tested for appropriateness. iv. Accounting estimates (particularly those with high estimation uncertainty) have been reviewed for evidence of any management bias. v. Overall F/S presentation is in accordance with the applicable financial reporting framework. vi. The F/S and disclosures agree and reconcile with the underlying accounting records and information. 	18.1	A to ZZ, 600 to 700 310 310 310, 670 635 310 310	CAS 330.5–6 CAS 330.26 CAS 540.33–34 CAS 330.25 CAS 540.33–34 CAS 240.33(a) CAS 330.20(b) CAS 240.33(b) CAS 540.32 CAS 330.24 CAS 700.12–15 CAS 330.20(a), .30
b. Document the results	Ensure the working papers contain details of the following: <ul style="list-style-type: none"> i. Results of procedures performed, supporting evidence, significant judgments and conclusions, as well as who performed the work. ii. Indicators of possible management bias (such as in accounting estimates) and an evaluation of the impact to the audit, including additional procedures performed as a result. 	18.2	A to ZZ, 700 to 740 310, 635, A to ZZ, 700 to 740	CAS 230.8–12 CAS 330.28–30 CAS 540.39 CAS 240.33(b) CAS 540.39 CAS 700.12

RISK RESPONSE				
	iii. Accumulation of identified misstatements, including qualitative disclosures.		335	CAS 450.5
	iv. Discussions of significant matters with management/TCWG, including: A. the conclusions reached B. who was present and the date(s)		330	CAS 230.10
Documentation: Work performed and conclusions reached, notes on matters discussed with management, audit findings, significant judgments made, and listing of accumulated misstatements.				
STEP 9 – EVALUATE EVIDENCE OBTAINED (Refer to Volume 2, Chapter 19)				
Purpose: To be satisfied that sufficient appropriate audit evidence has been obtained to support the audit conclusions reached.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Review the work performed	i. Ensure the work performed has been reviewed by someone other than the preparer. This could include a detailed review of the file by the manager and a general review by the partner. ii. Ensure that all required audit documentation has been included in the file. iii. Document the work reviewed, including the names of the reviewer(s) and the date performed.	19.1	310	CAS 220.17 CAS 230.9
b. Evaluate identified misstatements	i. Confirm that the initial materiality amounts remain appropriate (Step 2). ii. Evaluate the nature of identified misstatements, and consider whether other misstatements may exist (such as management bias or fraud). If so, perform additional procedures, and document the results.	19.2	335	CAS 450.6, .10–11
Documentation: Evidence of working paper review and sign-off by reviewer, evaluation of identified misstatements, and any revised/new procedures performed.				

REPORTING				
Objective: To form an audit opinion based on the evidence obtained.				
STEP 10 – COMMUNICATE THE RESULTS (Refer to Volume 2, Chapter 21)				
Purpose: To communicate audit findings with management/TCWG and promote effective two-way communication.				
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards
a. Communicate with management/TCWG	Communicate the following: i. Identified misstatements. Request that management/TCWG correct these misstatements. If not corrected, evaluate the reasons provided and the impact on the audit opinion. ii. Significant audit findings. iii. Significant deficiencies in internal control (if not already communicated) (see Step 5b).	21.1	335, 340 AL3.1 AL3.3	CAS 450.8–9, .12–13 CAS 260.16 CAS 265.9
b. Request written representations	Identify the management representations to be included in the management representation letter, and discuss with management. Then request that the letter be signed by management and, where appropriate, TCWG. The representation letter must be dated close to (but not after) the date of the audit report.	21.2	AL4.1	CAS 580.10–14
Documentation: Details of communication, matters discussed and their resolution, and management representation letter.				

REPORTING					
STEP 11 – COMPLETE THE FILE (Refer to Volume 2, Chapter 22)					
Purpose: To ensure that documentation is complete and that it supports the conclusions reached on the F/S and disclosures.					
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards	
a. Evaluate the F/S and disclosures	Read the F/S, and evaluate whether the overall presentation and disclosures:	22.1	900 series		
	i. are in accordance with the requirements of the applicable financial reporting framework			CAS 700.10	
	ii. are relevant, reliable, comparable and understandable			CAS 700.12	
	iii. do not contain information that would obscure the proper understanding by a user			CAS 700.13	
	iv. appropriately refer to or describe the applicable accounting framework			CAS 700.15	
b. Complete the final considerations	i. Perform/update subsequent events work to the date of the audit report.	22.2	650	CAS 560.6–8	
	ii. Perform final analytical procedures.		655	CAS 520.6	
	iii. Evaluate the impact of any remaining uncorrected misstatement(s) on the audit opinion.		335	CAS 450.10–11	
	iv. Evaluate whether the two-way communication between the firm and TCWG has been adequate.		100	CAS 260.22	
	v. Ensure the file reviewers (including the engagement quality control reviewer, if any) are satisfied that their review comments have been cleared.				
	vi. Obtain the signed representations from management and, where appropriate, TCWG (refer to Step 10b).		AL4.1	CAS 580.10–14	
	vii. Set the date for the final file assembly (as per the firm’s policy).		100	CAS 230.14–16	
Documentation: Evidence of F/S evaluation, subsequent events review, assessment of uncorrected misstatements, final analytical procedures and appropriate firm sign-offs to release the audit opinion.					
STEP 12 – FORM AN OPINION (Refer to Volume 2, Chapter 23)					
Purpose: To form an appropriate audit opinion based on conclusions reached from the audit evidence obtained.					
Activity	Description	Volume 2 Section	Practice Aids	Relevant Standards	
a. Draft a written report expressing the audit opinion	i. Evaluate the conclusions drawn from the audit evidence obtained, and form an opinion on the F/S.	23.1		CAS 700.16–19	
	ii. Draft an audit report that clearly expresses the audit opinion and any modifications necessary.			CAS 700.20–42	
b. Read other information (if any)	i. Prior to the date of the auditor’s report, obtain and read other information in documents containing the audited F/S (such as the annual report).	23.2		CAS 720.14–15	
	ii. Identify any material inconsistency between the other information and the audited F/S or with information obtained in the audit.			CAS 720.13(c), .16–20	
c. Date and issue the audit report	Sign/date the audit report when:	23.3			
	i. F/S, disclosures and audit documentation have been finalized			100	CAS 700.49
	ii. firm-required approvals (necessary to release the signed audit report) have been obtained			100	CAS 220.16–17

REPORTING				
	iii.	those with the recognized authority have asserted in writing that they have taken responsibility for the F/S	100	CAS 700.49
	iv.	the engagement quality control review (if any) has been completed/signed off	100	CAS 220.19(c)
Documentation: Wording of the audit report, evidence of F/S approval by a recognized authority and dating of the report.				