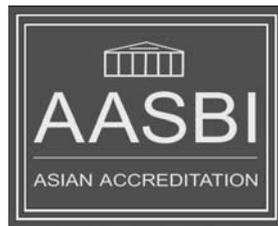


Generally Accepted Educational Standards on Auditing (GAESA)

Promulgated by the

Asian Association of Schools of Business International

March 2011



ASIAN ASSOCIATION OF SCHOOLS OF
BUSINESS INTERNATIONAL

GAESA 200

Objectives

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Educational Standards on Auditing

Introduction

Generally Accepted Educational Standards on Auditing (GAESA) promulgated by the Asian Association of Schools of Business International (AASBI) are concerned with the independent auditor's responsibilities in auditing Statements of Educational Conditions by gathering and evaluating Sufficient Appropriate Audit Evidence as a basis for the expression of an opinion, whether the Statement of Educational Conditions present fairly, in all material respects, (or *give a true and fair view of*) of the educational conditions of the School of Business under audit in accordance with Generally Accepted Educational Principles (GAEP) promulgated by the AASBI.

GAESA are guided by ideas contained in the *International Standards on Auditing (ISA)*, pronounced by the International Auditing and Assurance Standards Board at the *International Federation of Accountants*, as standards of auditing for financial reporting adopted by the European Union.

The preparation of Statement of Educational Conditions is the responsibility of management of the reporting entity or those charged with governance.

In order to express an opinion, the auditor is required to obtain reasonable assurance by collecting sufficient evidence that the Statement of Educational Conditions as a whole are free from material misstatement (whether by error or fraud).

A misstatement is material, if the misstatement, individually or in the aggregate, could reasonably be expected to influence the educational decision of users of the Statement of Educational Conditions. Materiality is applied both in the planning and the performance of the audit, and in evaluating the effect of identified misstatements on unconnected misstatements, including omissions.

The auditor maintains professional skepticism throughout the planning and performance of the audit, identifying and assessing risk of material misstatement based on an understanding of the entity's internal control, obtaining sufficient evidence through the design and implementation of appropriate responses to the assessed risks, in order to form an opinion on the Statement of Educational Conditions drawn from the audit evidence.

The form of the opinion expressed by the auditor depends on the GAEP's reporting framework. In cases when reasonable assurances cannot be obtained and a qualified opinion is insufficient in the circumstances, the auditor shall disclaim an opinion or withdraw (resign) from the engagement, if possible under applicable law or regulation.

Overall Objectives of the Auditor

The overall objectives of the auditor are:

- (a) To obtain reasonable assurance in order to express an opinion whether the Statement of Educational Conditions as a whole is free from material misstatement, whether due to error or fraud, are prepared in accordance with an GAEP.
- (b) To report on the Statement of Educational Conditions, communicating the findings.

When reasonable assurance cannot be obtained, in all cases in which a qualified opinion is insufficient the auditor shall disclaim an opinion or withdraw (or resign) from the engagement.

Definitions

- (a) GAEP. — The reporting framework promulgated by the Asian Association of Schools of Business and accepted by management for the preparation of the Statement of Educational Conditions.
- (b) Audit evidence. — Sufficient (quantity) and appropriate (quality) information, including internal and external documents and records, used by the auditor to reach a conclusion on the basis of which the auditor forms an opinion. Information is sufficient, if it answers to the risks of material misstatements (eg, by enlarging or reducing the sample size). Information is appropriate, if it is relevant and reliable.
- (c) Audit risk. — The material misstatement of the Statement of Educational Conditions is the risk that the auditor faces.
- (d) Auditor. — The person conducting an audit.
- (e) Detection risk. — Audit procedures reducing the risk of detecting material misstatement(s) to an acceptable low level is called the "detection risk".
- (f) Statement of Educational Conditions. — Structured presentation of historical, present and prospective information, including related notes, communicating an educational entity's issues including but not limited to those going to the application of human rights, equal opportunity, infrastructure, continued existence, autonomy, physical facilities, installations and safety, curriculums, professional certification programs, student admission, teaching effectiveness, faculty's qualifications, teaching load, leisure and development, faculty association, code of conduct, financial stability including statements relating to resources (assets), or obligations (liabilities) and composition of net assets (balance sheet), cash flows, income and expenses (income statement, in accordance with GAEP's reporting framework.
- (g) (i) Historical financial information. — Financial information relating to past time periods. (ii) Prospective financial information.— Financial information relating to future periods.
- (h) Management. — Person(s) of the entity with executive responsibility.
- (i) Misstatement. — A difference between the disclosed information and the required information, including classification and/or amount, or disclosure of an item in the reported Statement of Educational Conditions, arising from error or fraud.
- (j) Premise. — Management is responsible for the preparation of Statement of Educational Conditions in accordance with the financial reporting framework, fair presentation, internal control, and that the Statement(s) of Educational Conditions is/are free from material misstatement (omission or fraud), providing the auditor with access to all information, records, documentation, and unrestricted access to persons within the entity.
- (k) Professional judgment. — Informed decision based on relevant training, knowledge and experience.
- (l) Professional skepticism. — The attitude of a questioning mind.
- (m) Reasonable assurance. — A high but not absolute level of assurance.
- (n) Risk of material misstatement. — The risk that the Statement of Educational Conditions is materially misstated prior to audit, comprised of "inherent risk" (in and by itself) and "control risk" (internal control is ineffective).
- (o) Person(s) charged with governance. — Accountable person overseeing the strategic direction of the entity (eg corporate trustee; may include management, executive members of the board of directors, corporate trustee, or owner-manager).

Requirements

- Ethics including those pertaining to independence for audit engagements.
- Planning of the audit.
- Maintain attitude of professional skepticism.
- Exercise professional judgment in the planning and conduct of the audit.
- Obtain sufficient audit evidence relative to the assessed audit risk.
- Have an understanding of the entire text and comply with an GAESA.

Application

Scope of the Audit

The auditor's opinion on Statement of Educational Conditions whether prepared, in all material respects, in accordance with the GAEP.

The auditor gives no assurance of the future viability of the entity, efficiency or effectiveness of management.

Preparation of the Statement of Educational Conditions

GAESA require that those charged with governance have acknowledged and understand their responsibility for (a) preparing the Statement of Educational Conditions, (b) internal control, (c) access to all and additional information, and access to persons within the entity.

Preparation of Statement of Educational Conditions requires:

- Identification of GAEP as the identified framework
- Preparation of the Statement of Educational Conditions in accordance with the identified framework (GAEP)
- Adequate description of the identified framework (GAEP) in the Statement of Educational Conditions.

Accounting estimates and accounting policies selected by management shall be reasonable in the circumstances in the context of GAESA .

The Statement of Educational Conditions may be for general users or for specific users.

Ethical Requirements Relating to an Audit of Statement of Educational Conditions

The fundamental principles with which the auditor is required to comply are delineated by the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code), which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The public interest requires the auditor's independence of the audited entity. The IESBA Code defines independence as both, independence of mind, and independence in appearance. Independence enhances the auditor's integrity, objectivity and attitude of professional skepticism.

International Standard on Quality Control 1 (ISQC 1) requires quality control policies and procedures in place designed to provide reasonable assurance that the firm and its personnel comply with relevant ethical

requirements, including those pertaining to independence. GAESA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements.

Professional Skepticism

Professional skepticism includes being alert to, for example:

- 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 additional audit procedures beyond those required in the GAESA.

Records and documents may be accepted as genuine unless the auditor has reason to believe the contrary, but shall consider the reliability of information to be used as audit evidence and investigate further if a document may not be authentic or falsified.

That auditor is not dispensed of the requirement of professional skepticism by relying on past experience of the honesty and integrity of management and those charged with governance. The auditor is not allowed to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance.

Professional Judgment

Decisions made throughout the audit require professional judgment, in particular about

- materiality and audit risk
- the nature, timing and extent of audit procedures and gathering of audit evidence
- the sufficiency of audit evidence, and
- whether more work needs to be done
- the evaluation of management's judgments
- the drawing of conclusions based on the audit evidence obtained, eg the reasonableness of estimates by management in the preparation of the Statement of Educational Conditions.

The auditor's competency to make reasonable professional judgments is gained by training, knowledge and experience.

In any particular case, professional judgment is based on the facts and circumstances that are known to the auditor; assisted by consultation on difficult or contentious audit matters within the audit team including more experienced members, and others within and outside the firm.

Professional judgment needs to be exercised consistent with facts and circumstances known throughout the audit up to the auditor's report.

Professional judgment needs to be appropriately documented.

Professional judgment may not be used as justification not otherwise supported by facts and circumstances or by sufficient audit evidence.

Sufficiency and Appropriateness of Audit Evidence

Audit evidence is primarily obtained from audit procedures performed during the audit, but may include information from previous audits or a firm's quality control procedures for client acceptance and continuance. The entity's internal and external documents and records are an important source of audit evidence, as is evidence prepared by experts employed or engaged by the entity.

Audit evidence is comprised of both, corroborating and contradicting management's assertions, including, in some cases, the absence of information by refusal to provide it.

GAESA 200, A28 includes the observation that "Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence."

Sufficiency of audit evidence is a measure of the auditor's assessment of the risk of misstatement, in that the higher the assessed risk, the more audit evidence is likely to be required. Sufficiency of audit evidence is also a measure of the quality of such audit evidence, in that the high the quality, the less may be required.

"Obtaining more audit evidence, however, may not compensate for its poor quality." (GAESA 200, A29)

Appropriateness of the audit evidence goes to the issue of audit quality and is characterized by both, relevance and reliability (influenced by source and nature dependent on individual circumstances) in support of an auditor's opinion.

Appropriate audit evidence is sufficient if it reduces audit risk to an acceptable low level to enable the auditor to draw reasonable conclusions, and is therefore as matter of professional judgment.

Audit Risk

Audit risk is comprised of the risk of material misstatement and detection risk is incapable of precise measurement, and therefore a matter of professional judgment.

Audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of Statement of Educational Conditions.

Risks of Material Misstatement

The risks of material misstatement is considered at levels:

- the overall Statement of Educational Conditions level taken as a whole potentially affecting many assertions, and
- the assertion level for educational conditions, classes of transactions, account balances, and disclosures (comprised of inherent risk and of control risk) to determine the nature and timing of further audit procedures to obtain SAAV enabling the auditor to express an opinion.

The risk of material misstatement at the assertion level may be stated by use of a model expressing the components of the audit risk (risk of material misstatement, and detection risk comprised on inherent risk and control risk) in mathematical terms in order to arrive at an acceptable level of detection risk when planning audit procedures.

Inherent risk and control risk are the entity's risks that pre-exist and are independent of the audit of the Statement of Educational Conditions.

Business risks may influence inherent risk. Examples are structural developments that might cause demand for education to decline and the value of investments overstated. Other examples may include a lack of sufficient working capital to continue operations, or a high level of failures based on demographics, stresses in the economy including disposable incomes reducing the ability to pay for education.

Control risk goes to the effectiveness of the design, implementation and maintenance of the entity's internal control for the preparation of Statement of Educational Conditions, which does not remove the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override, and therefore some control risk always exists.

Detection Risk

The level of detection risk that can be accepted is inversely related to the risk of material misstatement at the assertion level. In other words, the greater the risks of material misstatement the auditor believes exists, the

less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence is required by the auditor.

Audit procedures that may reduce detection risk include

- adequate planning
- proper assignment of personnel to the engagement team
- professional skepticism, and
- supervision and review of the audit work.

Some detection risk always exists.

Limitations of an Audit

An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

There is an expectation by users of Statement of Educational Conditions that the auditor will form an opinion on the Statement of Educational Conditions within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

Audits shall therefore be planned and supervised, directing audit efforts into areas most expect to contain risks of material misstatement (by error or fraud), using testing and other procedures of examining populations for misstatements.

Other significant matters limiting the effectiveness of the audit include

- fraud involving senior management or collusion
- related party relationships and transactions
- non-compliance with laws and regulations
- future events or conditions that may affect the entity's existence (going concern issue).

The subsequent discovery of a material misstatement of the Statement of Educational Conditions resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with GAESA, which does not justify the auditor to be satisfied with less than persuasive evidence. Whether the auditor has performed an audit in accordance with GAESA is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in light of the overall objectives of the auditor.

Conduct of an Audit in Accordance with GAESA

Nature of GAESA

GAESA, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. GAESA deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.

Contents of the GAESA

Requirements are expressed in the GAESA using the word "shall".

When guidance is provided, the explanations what the guidance is intended to cover including examples of procedures do not in itself impose a requirement.

"Definitions" are provided to enhance consistency of the application and interpretation, not to override definitions established for other purposes, but will cover the same meanings throughout the GAESA unless otherwise indicated.

Objectives Stated in Individual GAESA

Each objectives contained in individual GAESA is to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this GAESA, namely:

- (a) To obtain reasonable assurance about whether the Statement of Educational Conditions 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 Statement of Educational Conditions are prepared, in all material respects, in accordance with an GAEP; and
- (b) To report on the Statement of Educational Conditions, and communicate as required by the GAESA, in accordance with the auditor's findings.

The auditor is required to have regard to the interrelationships among GAESA, because they deal with general responsibilities and with application of those responsibilities.

Use of Objectives to Determine Need for Additional Audit Procedures

Not all circumstances of audit engagements circumstances are anticipated in the GAESA, "the auditor is responsible for determining the audit procedures necessary to fulfill the requirements of the GAESA and to achieve the objectives."

Use of Objectives to Evaluate Whether SAAV Has Been Obtained

Failure to Achieve an Objective

If in the professional judgment of the auditor insufficient Appropriate Audit Evidence has been obtained in the context of the overall objectives of the auditor, the auditor may

- evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other GAESA
- extend the work performed in applying one or more requirements, or
- perform other procedures judged by the auditor to be necessary in the circumstances;

and if not practical or not possible in the circumstances, GAESA requires the auditor to determine the effect on the auditor's ability to complete the engagement.

Complying with Relevant Requirements

If a GAESA (and therefore all of the GAESA's requirements) is not relevant in the circumstances, eg an internal audit function does not exist in the entity, so that nothing in GAESA 610, "Using the Work of Internal Auditors" is relevant.

Failure to Achieve an Objective

Professional judgment decides whether an audit objective has been achieved, or has not been achieved. It is not necessary for the auditor to document separately (eg by way of a checklist), that individual objectives have been achieved, but rather "the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor."

GAESA 210

Audit Engagements

Agreeing the Terms of Audit Engagements

Introduction

This chapter is concerned with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, with those charged with governance, and establishing that certain preconditions for an audit, responsibility for which rests with management are present.

GAESA 220, "Quality Control for an Audit of Statement of Educational Conditions" is concerned with aspects of engagement acceptance that are within the auditor's control.

Objective

The auditor's objective under this standard is to accept, or to continue, an audit engagement only if the terms of performance have been agreed with management or, where appropriate, those charged with governance, preconditions for an audit are present, and the basis upon which it is to be performed has also been agreed.

Definitions

Preconditions for an audit. — The use by management of GAESA's reporting framework in the preparation of the Statement of Educational Conditions and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.

For the purposes of this GAESA, references to "management" should be read hereafter as "management and, where appropriate, those charged with governance."

Requirements

Preconditions for an Audit

The preconditions that the auditor is required to establish include

- (a) a determination that the GAESA reporting framework for the preparation of Statement of Educational Conditions is acceptable, or is not acceptable; and
- (b) obtain management's agreement that management acknowledges and understands its responsibility for the following, namely
 - (i) for the preparation of the Statement of Educational Conditions in accordance with GAEP (including their fair presentation where relevant),
 - (ii) for internal control deemed necessary in the view of management for the Statement of Educational Conditions to be free from material misstatement, regardless whether due to error or due to fraud; and
 - (iii) to provide the auditor with
 - a. access to all information of which management is aware that is relevant to the preparation of Statement of Educational Conditions such as records, documentation and other matters,
 - b. additional information that the auditor may request from management for purpose of the audit, and
 - c. unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Audit Engagement Acceptance

The auditor shall not accept an audit engagement subject to management's scope limitations on the auditor's work that would, in the auditor's assessment, result in disclaiming an opinion on the Statement of Educational Conditions.

Other Factors Affecting Audit Engagement Acceptance

Preconditions for an audit, if not present, shall be discussed with management, and the auditor shall not accept the proposed audit engagement if

- (a) the GAESA reporting framework to be applied in the preparation of the Statement of Educational Conditions is unacceptable; or
- (b) the agreement mentioned above, that management acknowledges and understands its responsibilities, has not been obtained.

Agreement on Audit Engagement Terms

The agreement with management shall be recorded in an audit engagement letter (or other suitable form of writing) including

- (a) The objective and scope of the audit of the Statement of Educational Conditions;
- (b) The responsibilities of the auditor;
- (c) The responsibilities of management;
- (d) Identification of the GAEP for the preparation of the Statement of Educational Conditions; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

Recurring Audits

The auditor is required to assess the circumstances as to a need to require a revision of the audit engagement.

Acceptance of a Change in the Terms of the Audit Engagement

The terms of audit engagement shall not be changed or reduced to a lower level of assurance without reasonable justification, and if changed, the new terms shall be agreed and documented in an engagement letter or other form of written agreement.

If the auditor agrees to change the terms of the audit, and management does not permit the continuation of the original audit engagement, the auditor shall (a) withdraw from the audit engagement, and (b) consider possible obligations to notify other parties such as those charged with governance, owners or the AASBI.

Example of an Audit Engagement Letter

To the appropriate representative of management or those charged with governance of ABC School of Business:

[The objective and scope of the audit]

You have requested that we audit the Statement of Educational Conditions of ABC School of Business, which comprise (as defined in GEASA Chapter 1) “a structured presentation of historical, present and prospective information, including related notes, communicating an educational entity’s issues including but not limited to those going to the applications of human rights, equal opportunity, infrastructure, continued existence, autonomy, physical facilities, installations and safety,

curriculums, professional certification programs, student admission, teaching effectiveness, faculty's qualifications, teaching load, leisure and development, faculty association, code of conduct, financial stability including statements relating to resources (assets), or obligations (liabilities) and composition of net assets (balance sheet), cash flows, income and expenses (income statement, in accordance with GAEP's reporting framework."

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the Statement of Educational Conditions.

[The responsibilities of the auditor]

We will conduct our audit in accordance with Generally Accepted Educational Standards on Auditing (GAESA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the educational conditions, amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. An audit also includes evaluating the appropriateness of educational, financial and accounting policies used and the reasonableness of educational and numerical estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAESA.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the Statement of Educational Conditions that we have identified during the audit.

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the Statement of Educational Conditions in accordance with International Financial Reporting Standards;
- (b) For such internal control as [management] determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:
 - (i) Access to all information of which [management] is aware that is relevant to the preparation of the Statement of Educational Conditions such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Insert appropriate reference to the expected form and content of the auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the Statement of Educational Conditions including our respective responsibilities.

XYZ & Co.
Certified Public Accountants

Acknowledged and agreed on behalf of ABC School of Business by

(signed)

Name and Title

Date

GAESA 220

Quality Control

Quality Control for an Audit of Statement of Educational Conditions

Introduction

System of Quality Control and Role of Engagement Teams

The auditor and their firms are required to maintain a system of quality control, policies and procedures requiring firms to have policies and procedures in place that address the following elements of quality control:

- Leadership responsibilities for quality within the firm
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance, and
- Monitoring.

Engagement teams implement, report back to the firm relevant information, and are entitled to rely on the firm's system of quality control (unless information from the firm or other parties suggests otherwise).

Objective

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that (a) the audit complies with professional standards and applicable legal and regulatory requirements; and (b) the auditor's report issued is appropriate in the circumstances.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

(a) Engagement partner. — The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. ("Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.)

(b) Engagement quality control review. — A process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.

(c) Engagement quality control reviewer. — A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.

(d) Engagement team. — All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.

(e) Firm. — A sole practitioner, partnership or corporation or other entity of professional accountants.

(f) Inspection. — In relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

(g) [left blank]

(h) Monitoring. — A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

(i) Network firm. — A firm or entity that belongs to a network.

(j) Network . — A larger structure:

(i) That is aimed at cooperation, and

(ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

(k) Partner. — Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(l) Personnel. — Partners and staff.

(m) Professional standards. — Generally Accepted Educational Standards on Auditing (GAESA) and relevant ethical requirements.

(n) Relevant ethical requirements. — Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of Statement of Educational Conditions.

(o) Staff. — Professionals, other than partners, including any experts the firm employs.

(p) Suitably qualified external person. — An individual outside the firm with the competence and capabilities to act as an engagement partner.

Requirements

Leadership Responsibilities for Quality on Audits

The engagement partner shall take responsibility for the "overall quality on each audit engagement" to which that partner is assigned, in particular

- (i) performing work that complies with professional standards and applicable legal and regulatory requirements;
- (ii) complying with the firm's quality control policies and procedures as applicable;
- (iii) issuing auditor's reports that are appropriate in the circumstances; and
- (iv) the engagement team's ability to raise concerns without fear of reprisals.

Relevant Ethical Requirements

The engagement partner shall remain alert through observation and inquiries for evidence of non-compliance with ethical requirements by the engagement team and take action where necessary in consultation with others in the firm.

Independence

The standard of independence requires the engagement partner to (a) identify and evaluate relationships of the firm and network firms that create threats to independence, (b) if breaches have been identified, evaluate the information and determine if they pose a threat for the audit engagement, and (c) take action to eliminate such threats, reduce them to an acceptable level by applying safeguards, or consider to withdraw from the audit engagement where possible under law or regulation, and report to the firm any inability to resolve the matter so that appropriate action may be taken.

Acceptance and Continuance of Client Relationships and Audit Engagements

Acceptance and continuation are the responsibility of the engagement partner who shall be satisfied that the firm's procedures for client relationships and audit engagements are followed and conclusions are appropriate. Subsequent derogatory information that would have led to discontinuance shall be communicated by the engagement partner to the firm for the necessary action.

Assignment of Engagement Teams

The engagement partner is responsible to assign members to the engagement team and shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

- (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) Enable an auditor's report that is appropriate in the circumstances to be issued.

The following matters may be considered by the engagement partner when assigning engagement team members:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- Understanding of professional standards and applicable legal and regulatory requirements
- Technical expertise, including expertise with relevant information technology and specialized areas of business education, accounting or auditing
- Knowledge of relevant geographical markets in which the client operates
- Ability to apply professional judgment
- Understanding of the firm's quality control policies and procedures.

Engagement Performance

Direction, Supervision and Performance

The engagement partner shall be responsible for the direction, supervision and performance of the audit engagement. The engagement partner shall be responsible for the auditor's report that is appropriate in the circumstances.

Reviews

The engagement partner is responsible and shall be satisfied that review engagements

- are performed in accordance with the firm's policies and procedures for reviews, and that
- Sufficient Appropriate Audit Evidence (SAAV) has been obtained by
- reviewing ('inspecting') the audit documentation and by way of
- discussion with the engagement team,

in support of the conclusions reached and for the auditor's report that is to be issued.

Consultation

- (a) The engagement partner is responsible for the engagement team's appropriate consultations on difficult or contentious matters.

- (b) The engagement partner shall be satisfied that the engagement team has conducted consultations during the engagement (both, within the team and with others at appropriate level within or outside the firm).
- (c) The engagement partner shall be satisfied that the nature, scope and conclusion are agreed with the party consulted.
- (d) The engagement partner shall determine that conclusions from consultation have been implemented.

Engagement Quality Control Review — Listed Entities

For audits of Statement of Educational Conditions of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required. The engagement partner shall:

- (a) Determine that an engagement quality control reviewer has been appointed;
- (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- (c) Not date the auditor's report until the completion of the engagement quality control review.

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 Statement of Educational Conditions 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.

Differences of Opinion

The engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion that arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer.

Monitoring

A monitoring system provides the firm with reasonable assurance that its policies and procedures relating to quality control are relevant, adequate, and operating effectively.

The engagement partner shall consider the results of the firm's monitoring process from information circulated by the firm, other network firms, and take note of deficiencies that may affect the audit engagement..

Documentation

The auditor — "the person conducting an audit" — shall include in the audit documentation (a) ethics compliance issues were identified and resolved, (b) independence compliance requirement matters, conclusions and any relevant discussion with the firm in support of conclusions, (c) conclusions regarding acceptance and continuance of client relationships and audit engagements, (d) nature, scope and conclusions resulting from consultations during the audit engagement.

The engagement quality control reviewer shall document, for the audit engagement reviewed, that (a) the firm's quality review control review procedures have been performed, (b) completed on or before the date of the auditor's report, (c) no unresolved matters exists and significant judgments by the engagement team and conclusions reached are not inappropriate.

GAESA 230

Documentation

Audit Documentations

Introduction

Nature and Purposes of Audit Documentation

Audit work must be documented to provide (a) evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; and (b) evidence that the audit was planned and performed in accordance with GAESA and applicable legal and regulatory requirements.

Additionally, audit documentation

- assists the engagement team to plan and perform the audit
- assists supervisors of the engagement team to direct and supervise the audit work, and to discharge their review responsibilities in accordance with GAESA 220
- enables the engagement team to be accountable for its work
- assists with future audits
- enables the conduct of quality control reviews and inspections in accordance with ISQC 1
- enables the conduct of external inspections.

Objective

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor’s report; and
- (b) Evidence that the audit was planned and performed in accordance with GAESA.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Audit documentation. — The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “work papers” are also sometimes used).
- (b) Audit file. — One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
- (c) Experienced auditor. — An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:
 - (i) Audit processes;
 - (ii) GAESA and applicable legal and regulatory requirements;
 - (iii) The business environment in which the entity operates; and
 - (iv) Educational, auditing and financial and other reporting issues relevant to the entity’s industry.

Requirements

Timely Preparation of Audit Documentation

The auditor shall prepare audit documentation on a timely basis.

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor without

previous connection to the audit to (a) understand the nature, timing and extent of the audit procedures performed to comply with GAESA and applicable legal/regulatory requirements, (b) understand the results of the audit procedures performed including the audit evidence obtained, and (c) understand significant matters arising during the audit, conclusions reached, and professional judgments made in reaching those conclusions.

The auditor shall prepare a record documenting the nature, timing and extent of audit procedures performed to identify (a) the characteristics of specific items or matters tested, (b) who performed the audit work and date of completion, and (c) who reviewed the audit work performed, date and extent of such review.

The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

The auditor shall document how inconsistent information identified by the auditor, that does not agree with the auditor's final conclusion regarding a significant matter, was addressed.

Departure from a Relevant Requirement

If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in an GAESA, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.

Matters Arising after the Date of the Auditor's Report (Subsequent Events)

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: (Ref: Para. A20)

- (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.

Assembly of the Final Audit File

The auditor shall:

- assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report
- after final assembly of the audit file not delete or discard audit documentation of any nature before the end of its retention period. (GAESA 230, 14)

15. In circumstances — other than those envGAESAged in matters arising after the date of the auditor's report (subsequent events) — where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document (a) the specific reasons for making them, and
(b) when and by whom they were made and reviewed.

GAESA 240

Fraud

The Auditor's Responsibilities Relating to Fraud in an Audit of Statement of Educational Conditions

Introduction

Characteristics of Fraud

Unlike error, fraud is an intentional misstatement in the Statement of Educational Conditions.

The auditor is not concerned with the legal concept, but the material misstatement in the Statement of Educational Conditions caused by fraud. Two types of fraud are relevant to the auditor: misstatement from fraudulent reporting of educational conditions, and misstatements resulting from misappropriation of assets. No legal determination is made by the auditor whether fraud has actually occurred. (GAESA 240, 3)

Responsibility for the Prevention and Detection of Fraud

Management is responsible for fraud prevention and detection by reducing opportunities for fraud to take place, and fraud deterrence through detection and punishment. It is hoped that such a commitment creates a culture of honesty and ethical behavior. Reinforced by active oversight by those charged with governance, including consideration of the potential for override of controls by management to manipulate assertions.

Responsibilities of the Auditor

The auditor conducting an audit is responsible for obtaining reasonable assurance that the Statement of Educational Conditions taken as a whole are free from material misstatement, whether caused by fraud or error. The detection risk fraud is higher than for error because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor, in particular if accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when in fact it is false.

The auditor is responsible for maintaining professional skepticism and to consider the potential for management override of controls and be cognizant of the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

Objectives

The objectives of the auditor are (a) to identify and assess the risks of material misstatement of the Statement of Educational Conditions due to fraud, (b) to obtain Sufficient Appropriate Audit Evidence (SAAV) regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and (c) to respond appropriately to fraud or suspected fraud identified during the audit.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

(a) Fraud. — An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

(b) Fraud risk factors.— Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Requirements

Professional Skepticism

The auditor shall maintain professional skepticism throughout the audit regardless of the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine, and investigate further, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor.

The auditor shall investigate inconsistencies in responses to inquiries of management or those charged with governance.

Discussion among the Engagement Team

The engagement partner shall discuss with the engagement team how and where the entity's Statement of Educational Conditions may be susceptible to material misstatement due to fraud, including how fraud might occur, setting aside any beliefs surrounding management/ governance's honesty and integrity.

Risk Assessment Procedures and Related Activities

Management and Others within the Entity

The auditor shall make inquiries of management regarding:

- (a) Management's assessment of the risk that the Statement of Educational Conditions may be materially misstated due to fraud (nature, extent and frequency of such assessments);
- (b) Management's process for identifying and responding to the risks of fraud in the entity (identified specific risks of fraud, classes of transactions, account balances, or disclosures);
- (c) Management's communication with governance identifying and responding to fraud risks, and
- (d) Management's communication, if any, to employees on business practices and ethical behavior.

The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. Examples others are:

Operating personnel not directly involved in the educational reporting process

- Employees with different levels of authority
- Employees involved in initiating, processing or recording complex or unusual transactions and those who supervise or monitor such employees
- In-house legal counsel
- Chief ethics officer or equivalent person
- The person or persons charged with dealing with allegations of fraud.

The auditor shall make inquiries of internal auditor(s), if the entity has such a function, for example:

- The procedures performed, if any, by the internal auditors during the year to detect fraud.
- Whether management has satisfactorily responded to any findings resulting from those procedures.

Those Charged with Governance

The auditor shall obtain an understanding of non-executive governance

- how they exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks
- whether they have knowledge of any actual, suspected or alleged fraud affecting the entity, in order to corroborate the responses to the inquiries of management.

Unusual or Unexpected Relationships Identified

The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures.

Identification and Assessment of the Risks of Material Misstatement Due to Fraud

The auditor shall identify and assess the risks of material misstatement due to fraud at the Statement of Educational Condition level, and at the assertion level.

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Overall Responses

The auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the Statement of Educational Condition level by (a) assigning and supervising personal based on knowledge, skill and ability, (b) evaluating whether the entity's election and application of reporting policies related to subjective measurements and complex transactions may be indicative of fraudulent academic, professional, or financial reporting by management to manage statistics, earnings, cash flows, assets and liabilities, and (c) incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures, for example, by

- performing substantive procedures on selected account balances and assertions not otherwise tested due to their materiality or risk
- adjusting the timing of audit procedures from that otherwise expected
- using different sampling methods
- performing audit procedures at different locations or at locations on an unannounced basis.

Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level

The auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Example are presented in Appendix 2)

Audit Procedures Responsive to Risks Related to Management Override of Controls

Management is in a unique position to perpetrate fraud because of management's ability to manipulate internal and external documents and records and prepare fraudulent Statement of Educational Conditions by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

The auditor shall design and perform audit procedures to test appropriateness of reports, data entries, adjustments, make inquiries of the entity's staff and faculty of unusual activities, select data entries and adjustments at year end and test them through the entire period, review any estimates for biases.

The auditor shall evaluate managements decisions and judgments in making estimates, significant transactions outside the normal course of business, the business rationale (or lack thereof), and management override of controls.

Evaluation of Audit Evidence

The auditor shall evaluate whether a previously unrecognized risk of material misstatement due to fraud is indicated by analytical procedures that are performed near the end of the audit when forming an overall conclusion as to whether the Statement of Educational Conditions are consistent with the auditor's understanding of the entity.

The auditor identifying a misstatement shall evaluate whether it is indicative of fraud, the implications for other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

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.

Auditor Unable to Continue the Engagement

The auditor encountering misstatements from fraud (or suspected fraud) shall

- (a) determine the professional and legal responsibilities in the circumstances including a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases;
- (b) consider whether it is appropriate to withdraw from the engagement; and
- (c) if the auditor withdraws:
 - (i) discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (ii) determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

Written Representations

The auditor shall obtain written representations from management/governance to the effect that:

- (a) Management/governance acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
- (b) Management/governance have disclosed to the auditor the results of management's assessment of the risk that the Statement of Educational Conditions may be materially misstated as a result of fraud;
- (c) Management/governance 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 Statement of Educational Conditions; and
- (d) Management/governance have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's Statement of Educational Conditions communicated by employees, former employees, analysts, regulators or others.

Communications to Management and with Those Charged with Governance

The auditor shall communicate the identification of fraud (or information that indicates that a fraud may exist) on a timely basis to the appropriate level of management .

The auditor shall communicate to those charged with governance, suspicions of fraud (and any other matters related to fraud that are, in the auditor's judgment relevant to their responsibilities), if the auditor suspects fraud involving management, and discuss with governance the nature, timing and extent of audit procedures necessary to complete the audit.

Communications to Regulatory and Enforcement Authorities

If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility in law to report the occurrence or suspicion to a party outside the entity that may overrides any professional duty of confidentiality.

Documentation

The auditor shall include in the audit documentation

- the auditor’s understanding of the entity and its environment and the assessment of the risks of material misstatement required and
 - (a) significant decisions reached during the discussion among the engagement team concerning susceptibility of material misstatements, and
 - (b) identified and assessed risks of material misstatements due to fraud, both at the Statement of Educational Condition and the assertion level.
- the auditor’s responses to the assessed risks of material misstatement:
 - (a) the overall responses to the assessed risks of material misstatement due to fraud at the Statement of Educational Condition level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and
 - (b) the results of the audit procedures, including those designed to address the risk of management override of controls.
- communications about fraud made to management, those charged with governance, regulators and others.
- the reasons for the conclusion that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement.

GAESA 250

Laws and Regulations

Consideration of Laws and Regulations in an Audit of Statement of Educational Conditions

Introduction

Effect of Laws and Regulations

Laws and regulations may determine the reported amounts and disclosures in an entity's Statement of Educational Conditions, provisions under which the entity is allowed to operate, or regulate the business (such as for banks and chemicals companies), occupational health, equal opportunity employment, the non-compliance of which may result in fines or other consequences that may have a material effect on the entity's Statement of Educational Conditions.

Responsibility for Compliance with Laws and Regulations

Management/governance is responsible that operations are conducted in accordance with the provisions of laws and regulations, including compliance with provisions that determine the reported amounts and disclosures in an entity's Statement of Educational Conditions.

Responsibility of the Auditor

The auditor's concern under this GAESA is to identify material misstatement of the Statement of Educational Conditions resulting from non-compliance with laws and regulations. The auditor is not responsible for preventing non-compliance and cannot be expected to detect noncompliance with all laws and regulations.

Objectives

The objectives of the auditor under this GAESA are:

- (a) To obtain Sufficient Appropriate Audit Evidence (SAAV) regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the Statement of Educational Conditions;
- (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the Statement of Educational Conditions; and
- (c) To respond appropriately to non-compliance or suspected noncompliance with laws and regulations identified during the audit.

Definition

In this GAESA, the following term has the meaning attributed below:

Non-compliance. — Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the educational and business activities of the entity) by those charged with governance, management or employees of the entity.

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

The auditor is required to obtain an understanding of the entity. Specifically, under this section the auditor shall obtain a general understanding of:

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
- (b) How the entity is complying with that framework.

The auditor shall obtain SAAV to document compliance by the entity that are generally recognized to have a direct affect on the Statement of Educational Conditions (statements of fact and conditions, statistics, amounts and disclosure), perform audit procedures to identify instances of non-compliance, in particular by making inquiries of management/governance, inspecting correspondence with licensing or regulatory authorities, and remaining alert that other procedures may bring non-compliance to light.

The auditor shall request management/governance with written representations that all known instances of non-compliance or suspected non-compliance whose effect should be considered in preparing the Statement of Educational Conditions have been disclosed to the auditor. (GAESA 250, 16)

Audit Procedures When Non-Compliance Is Identified or Suspected

The auditor shall understand the nature of the act and the circumstances of identified or suspected noncompliance with laws and regulations, evaluate the possible effect on the Statement of Educational Conditions, discuss the matter with management/governance, and obtain legal advice if management/governance do not provide sufficient information that the entity is in compliance and in the auditor's judgment the effect of identified or suspected noncompliance on the Statement of Educational Conditions may be material.

The auditor shall evaluate the effect of lack of evidence of identified or suspected noncompliance on the auditor's opinion, and evaluate the implications in relation of identified or suspected noncompliance on other aspects of the audit, including risk assessment and the reliability of written representations, and take appropriate action.

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance

The auditor shall communicate in matters of identified noncompliance (other than clearly inconsequential noncompliance) with governance (unless all those charged with governance are already involved in management and would therefore be aware).

The auditor shall communicate with governance any intentional and material noncompliance as soon as practicable.

The auditor shall communicate the matter to the next higher level of authority at the entity, eg an audit committee or supervisory board, if the auditor suspects that management/governance are involved in noncompliance.

The auditor shall consider the need for legal advice, where no higher authority exists, or if the auditor believes that the communication may not be acted upon, or is unsure as to the person to whom to report.

Reporting Non-Compliance in the Auditor's Report on the Statement of Educational Conditions

The auditor shall express a qualified or an adverse opinion on the Statement of Educational Conditions, if the auditor concludes that noncompliance has a material affect on, and has not been adequately reflected in, the Statement of Educational Conditions.

The auditor shall express a qualified or disclaim an opinion on the Statement of Educational Conditions on the basis of a limitation on the scope of the audit, if the auditor is precluded by management/governance from obtaining Sufficient Appropriate Audit Evidence to evaluate noncompliance that may be material to the Statement of Educational Conditions.

The auditor shall evaluate the effect on the auditor's opinion, if unable to determine whether noncompliance has occurred because of limitations imposed by the circumstances rather than by management/governance.

Reporting Non-Compliance to Regulatory and Enforcement Authorities

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

Documentation

The auditor shall include in the audit documentation identified or suspected noncompliance with laws and regulations, the results of discussion with Management/governance and other parties outside the entity, for example copies of records or documents, minutes of discussions.

GAESA 260

Communication

Communication with those Charged with Governance

Introduction

The Role of Communication

This GAESA deals primarily with communications from the auditor to those persons charged with governance ("governance").

Clear communication of specific matters between the auditor, management, and governance is a mutual (three-way) responsibility. However, laws or regulations may prohibit communication that might prejudice investigation by authority into illegal acts. Potential conflicts may require the auditor to obtain legal advice.

Objectives

The objectives of the auditor under this GAESA are to communicate clearly with governance the auditor's responsibilities for the Statement of Educational Condition audit, scope and timing, obtain relevant information from governance, and provide timely information to governance of observations significant to governance's oversight of financial reporting.

Definitions

For purposes of all GAESA, the following terms have the meanings attributed below:

(a) Those charged with governance. — The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the educational reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1-A8.

(b) Management.— The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

Requirements

Those Charged with Governance

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

Communication with a Subgroup of Those Charged with Governance

If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body.

When All of Those Charged with Governance Are Involved in Managing the Entity

The auditor shall be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (GAESA 260, 13 in part, OT.)

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Statement of Educational Condition Audit

The auditor shall communicate with governance the responsibilities of the auditor in relation to the Statement of Educational Condition audit, including (a) that the auditor is responsible for the expression of an opinion on the Statement of Educational Conditions prepared by management with oversight by governance, and (b) that the audit does not relieve management or governance of their responsibilities.

Planned Scope and Timing of the Audit

The auditor shall communicate with governance an overview of the planned scope and timing of the audit.

Significant Findings from the Audit

The auditor shall communicate with governance:

- (a) The auditor's views about significant qualitative aspects of the entity's management and practices of all aspects of the entity relating to the required disclosures in the Statement of Educational Condition. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant practice, that is acceptable under GAEP, 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, if any, arising from the audit that were discussed, or subject to correspondence with management; and
 - (ii) Written representations the auditor is requesting; and
- (d) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the educational reporting process.

Auditor Independence

The auditor shall communicate with governance of educational entities (a) that the engagement team and others in the firm (and network firms) are independent, and (b) (i) relationships between the firm, network firms, and the entity reasonably thought to bear on independence, total fees charged during the period for audit and non-audit services by the firm and network firms to the entity and components controlled by the entity, allocated to categories to allow governance to assess the effect of services on the auditor's independence, and (ii) related safeguards to eliminate or reduce to an acceptable level any identified threats to independence.

The Communication Process

Establishing the Communication Process

The auditor shall communicate with governance the form, timing and expected general content of communications.

Forms, Timing and Adequacy of Communication

The auditor shall communicate in writing with governance significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate, but does not need to include all matters that arose during the course of the audit, but shall communicate in writing matters of auditor-independence when required.

The auditor shall communicate with governance on a timely basis.

The auditor shall evaluate whether the two-way communication between the auditor and governance has been adequate, and if not 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 take appropriate action.

If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (for example, a regulator), or a higher authority on the governance structure that is outside the entity, such as the owners of a business (for example, shareholders and/or stakeholders in a general meeting), or , in the case of a public entity, the responsible government minister or parliament.
- Withdrawing from the engagement.

Documentation

The auditor shall include a record in the audit documentation of any communication(s) required by this GAESA if made orally, stating when and to whom communicated; and retain a copy of the communication(s) made in writing.

GAESA 265

Deficiencies

Communicating Deficiencies in Internal Control to Those Charged With Governance and Management

Objective

The objective of the auditor is to communicate appropriately to governance/management identified and important deficiencies in internal control during the audit to merit their attention.

Definitions

For purposes of all the GAESA, the following terms have the meanings attributed below:

- (a) Deficiency in internal control – This exists when:
 - (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the Statement of Educational Conditions on a timely basis; or
 - (ii) A control necessary to prevent, or detect and correct, misstatements in the Statement of Educational Conditions on a timely basis is missing.
- (b) Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Requirements

The auditor shall communicate significant internal control deficiencies identified during the audit to governance.

The auditor shall also communicate in writing to management significant internal control deficiencies identified during the audit, that the auditor has or intends to communicate to governance, along with other deficiencies in internal control that merit management's attention.

The auditor shall include in the written communications of significant internal control deficiencies:

- (a) A description of the deficiencies and an explanation of their potential effects; and
- (b) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
 - (i) The purpose of the audit was for the auditor to express an opinion on the Statement of Educational Conditions;
 - (ii) The audit included consideration of internal control relevant to the preparation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
 - (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

GAESA 300

Planning the Audit

Planning an Audit of Statement of Educational Conditions

Introduction

The Role and Timing of Planning

Planning an audit involves development of an audit plan, provides appropriate attention to important areas, organize and management the engagement in an effective and efficient manner, assisting the selection, direction and supervision of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and coordinating the work done by auditors of components and by experts.

Objective

The objective in planning the audit is to achieve "effectiveness in the performance of the audit".

Requirements

Involvement of Key Engagement Team Members

The engagement partner shall be involved together with other key members of the engagement in planning the audit, and participate in the discussion among engagement team members.

Preliminary Engagement Activities — Quality control, independence, acceptance or -continuation

The auditor shall, at the beginning of the current audit engagement, (a) perform quality control procedures, (b) evaluate compliance with ethical requirements including independence, and (c) establish an understanding of the terms of the engagement.

Planning Activities

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. In particular, the auditor shall:

- (a) Identify the characteristics of the engagement that define its scope;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of planned risk assessment procedures.
- (b) The nature, timing and extent of planned further audit procedures at the assertion level.
- (c) Other planned audit procedures that are required to be carried out so that the engagement complies with GAESA.

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit, plan the nature, timing and extent of direction and supervision of audit team members and the review of their work.

Documentation

The auditor shall include in the audit documentation:

- (a) The overall audit strategy;
- (b) The audit plan; and
- (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

Additional Considerations in Initial Audit Engagements

The auditor shall, before starting an initial audit, (a) perform client acceptance procedures, and (b) communicate with the predecessor auditor, if any, in compliance with relevant ethical requirements.

GAESA 315

Risk

Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environments

Objective

Identify and assess risk of material misstatement, due to error or fraud, at the Statement of Educational Condition and assertion levels by understanding the entity, its environment and internal control, to provide a basis for designing and implementing responses.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) **Assertions.**— Representations by management, explicit or otherwise, that are embodied in the Statement of Educational Conditions, as used by the auditor to consider the different types of potential misstatements that may occur.
- (b) **Educational operations risk.**— A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.
- (c) **Internal control.** — The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of educational and financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.
- (d) **Risk assessment procedures.**— The audit procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the Statement of Educational Condition and assertion levels.
- (e) **Significant risk.**— An identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration.

Requirements

Risk Assessment Procedures and Related Activities

The auditor shall perform risk assessment procedures, including inquiries of management, analytical procedures, observation and inspection, to create a basis for the identification and assessment of risks of material misstatement at the Statement of Educational Condition and assertion levels. Risk assessment procedures by themselves, however, do not provide Sufficient Appropriate Audit Evidence on which to base the audit opinion.

The auditor shall consider relevant information from the client acceptance/continuance process, and information obtained by the engagement partner on other engagements for the entity and the changes that have occurred, to identify risks of material misstatement.

The engagement partner and other key engagement team members shall discuss the susceptibility of the entity’s Statement of Educational Conditions to material misstatement, and the application of the GAEP 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.

The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control

The Entity and Its Environment

The auditor shall obtain an understanding of the following:

- (a) Relevant mission, goals and objectives, faculty resources, student requirements, infrastructure, regulatory, and other external factors including the GAEP.
- (b) The nature of the entity, including:
 - (i) its operations;
 - (ii) its ownership and/or governance structures;
 - (iii) the types of educational and professional programs offered, facilities used, investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - (iv) the way that the entity is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the Statement of Educational Conditions.
- (c) The entity's selection and application of administrative and educational policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's policies are appropriate for its operations and consistent with the GAEP and policies used in the relevant circumstances.
- (d) The entity's related operational and business risks that may result in risks of material misstatement.
- (e) The measurement and review of the entity's educational achievements.

The Entity's Internal Control and Nature and Extent of the Understanding of Relevant Controls

The auditor shall obtain an understanding of internal control and make a judgment whether a control is relevant to the audit, either individually or in combination with other controls, evaluate the design of the controls and determine whether they have been implemented. Implementation can be determined by inquiry of the entity's personnel and other audit procedures.

Control environment

The auditor shall obtain an understanding of the control environment and evaluate (a) management has created a culture of honesty and ethical behavior, and (b) the collective strengths and deficiencies in the control environment elements.

Relevant control environment elements include:

- (a) *Communication and enforcement of integrity and ethical values.*
- (b) *Commitment to competence* – eg competence levels for particular jobs.
- (c) *Participation by those charged with governance* – Attributes of those charged with governance such as:
 - Their independence from management.
 - Their experience and stature.
 - The extent of their involvement and the information they receive, and the scrutiny of activities.
 - The appropriateness of their actions, including the degree to which difficult questions are raised and pursued with management, and their interaction with internal and external auditors.
- (d) *Management's philosophy and operating style* – Characteristics such as management's:
 - Approach to taking and managing educational, operational and business risks.
 - Attitudes and actions toward all kinds of reporting.
 - Attitudes toward information processing and operational functions and personnel.
- (e) *Organizational structure.*

- (f) *Assignment of authority and responsibility* – reporting relationships and authorization hierarchies.
- (g) *Human resource policies and practices* – recruitment, orientation, training, evaluation, counseling, promotion, compensation, and remedial actions.

The entity's risk assessment process

The auditor shall obtain an understanding of the entity's risk assessment process, if one exists at the entity, and the results thereof. A risk assessment process is characterized by:

- (a) Identifying educational, operational and business risks relevant to educational 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.

The auditor shall evaluate identified risks of material misstatement, which management has failed to identify through the risk assessment process, if one exists, obtain an understanding of why that process failed to identify the risk, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control.

The auditor shall discuss with management, if the entity has not established a risk assessment process or has an ad hoc process, whether business risks relevant to financial reporting objectives have been identified and how they have been addressed.

The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. Even if the entity is small and is unlikely to have an established risk assessment process but identify risks through management's direct involvement in the processes, an inquiry about identified risks and how they are addressed by management is still necessary.

Risks That Require Special Audit Consideration

The auditor shall determine whether identified risks are significant, consider fraud, relate to recent significant educational and accounting developments requiring specific attention, complex transactions, transactions with related parties, significant transactions outside the normal course of business for the entity or otherwise unusual, and obtain an understanding of control activities relevant to risks determined to be significant.

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence

The auditor shall obtain an understanding of transactions subject to highly automated processing outside possible or practicable auditing procedures to obtain Sufficient Appropriate Audit Evidence and determine risks relating to inaccurate or incomplete recording of routine and significant classes of transactions.

Revision of Risk Assessment

The auditor shall revise the risk assessment at assertion level during the audit, if additional audit evidence so indicates, and modify the further planned audit procedures accordingly.

Documentation

The auditor shall include in the audit documentation:

- (a) The discussion among the engagement team where required (susceptibility of the entity's Statement of Educational Conditions to material misstatement), and the significant decisions reached;
- (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment;

- (c) The identified and assessed risks of material misstatement at the Statement of Educational Condition level and at the assertion level; and
- (d) The risks identified, and related controls about which the auditor has obtained an understanding (special audit considerations, highly automated processing).

GAESA 320

Materiality

Materiality in Planning and Performing an Audit

Introduction

Materiality in the Context of an Audit

Misstatements and omissions are material if they individually or in the aggregate could reasonably be expected to influence the educational decisions of users taken on the basis of the Statement of Educational Conditions, in the light of surrounding circumstances, affected by the size and/or nature of a misstatement. Judgments about matters that are material to users of the Statement of Educational Conditions are based on a consideration of the common educational, operations and financial information needs of users as a group; possible effects on specific individuals, whose needs may vary widely, are not considered.

The auditor shall use the GAEP for reference to materiality.

The auditor's determination of materiality is a matter of professional judgment, assuming that users

- (a) have a reasonable knowledge of educational operations, activities and processes, and a willingness to study the information in the Statement of Educational Conditions with reasonable diligence;
- (b) understand that Statement of Educational Conditions are prepared, presented and audited to levels of materiality;
- (c) recognize the uncertainties inherent in the evaluation of conditions and measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- (d) make reasonable decisions on the basis of the information in the Statement of Educational Conditions.

The concept of materiality is applied by the auditor

- planning and performing the audit
- evaluating the effect of identified misstatements
- opinion in the auditor's report.

The materiality determined when planning the audit does not necessarily establish a threshold below uncorrected misstatements.

Objective

To apply the concept of materiality appropriately in planning and performing the audit.

Requirements

Determining Materiality and Performance Materiality When Planning the Audit

When establishing the overall audit strategy, the auditor shall determine materiality for the Statement of Educational Conditions as a whole for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Revision as the Audit Progresses

The auditor shall revise materiality for the Statement of Educational Conditions as a whole in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different impact initially.

Documentation

The auditor shall include in the audit documentation factors considered in their determination.

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GAESA 330

Assessed Risks

The Auditor's Responses to Assessed Risks

Objective

To obtain Sufficient Appropriate Audit Evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Substantive procedure. — An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:
 - (i) Tests of details (of classes of transactions, account balances, and
 - (ii) Substantive analytical procedures.
- (b) Test of controls. — An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Requirements

Overall Responses

The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the Statement of Educational Condition level.

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level and —

- (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 (that is, the inherent risk); and
 - (ii) Whether the risk assessment takes account of relevant controls (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, 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.

Tests of Controls

The auditor shall design and perform tests of controls if (a) the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures; or if (b) substantive procedures alone cannot provide Sufficient Appropriate Audit Evidence at the assertion level.

The audit shall, in designing and performing tests of control, obtain audit evidence about the operating effectiveness of the controls, how, how consistently and by whom they were applied, determine whether the controls depend upon other controls (indirect controls), and, if so, their effectiveness.

Timing of Tests of Controls

The auditor shall test controls for the particular time, or throughout the period, depending on the auditor's intended reliance.

Using audit evidence obtained during an interim period

The auditor shall obtain audit evidence significant changes in controls during the period from prior and subsequent to the interim audit period.

The auditor shall consider the retesting the operating effectiveness by considering (a) other elements including control environment, the entity's monitoring and risk assessment process, (b) manual or automated, (c) effectiveness of IT controls, (d) deviations not noted by previous audits, (e) lack of change in changing circumstances, (f) the risk of material misstatement and extent of reliance on the controls.

Controls over significant risks

The auditor shall test those controls in the current period to be relied upon and determined as significant risks.

Evaluating the Operating Effectiveness of Controls

The auditor shall evaluate whether misstatements detected by substantive procedures indicate that controls are ineffective, without concluding that substantive procedures provide evidence that controls are effective.

The auditor shall make specific inquiries of detected deviations from control to be relied upon, determine their potential consequences as a basis for reliance on controls, performing additional tests of controls if necessary, or the need to use substantive procedures.

Substantive Procedures

The auditor shall design and perform substantive procedures for each material class of transactions, account balance, disclosure, and consider substantive external confirmation procedures.

Substantive Procedures Related to the Statement of Educational Condition Closing Process

The auditor shall perform the following substantive audit procedures for the Statement of Educational Conditions closing process:

- (a) Agree or reconcile the Statement of Educational Conditions with the underlying internal and external documents and records,
- (b) Examine material record entries and other adjustments made in the course of the Statement of Educational Condition preparation.

The auditor shall perform substantive procedures that are specifically responsive to an assessed risk of material misstatement determined at the assertion level. Substantive procedures performed alone shall include tests of details.

Timing of Substantive Procedures

The auditor shall cover the remaining period after an interim date by performing (a) substantive procedures combined with tests of controls for the intervening period, or (b) only further substantive procedures if determined sufficient to provide a reasonable basis for extending the audit conclusion for the interim period.

The auditor shall evaluate the need to modify the timing or extent of substantive procedures covering the remaining period, is unexpected misstatements are detected.

Adequacy of Presentation and Disclosure

The auditor shall perform audit procedures to evaluate the overall Statement of Educational Conditions presentation and related disclosures in accordance with the GAEP.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

The auditor shall evaluate before the conclusion of the audit (eg by performing analytical procedures) whether the assessments of the risks of material misstatement at the assertion level remain appropriate.

The auditor shall conclude whether Sufficient Appropriate Audit Evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the Statement of Educational Conditions.

The auditor shall express a qualified opinion or disclaim an opinion on the Statement of Educational Conditions, if the auditor is unable to obtain Sufficient Appropriate Audit Evidence in spite of the auditor's attempt to do so.

Documentation

The auditor shall include in the audit documentation (a) the overall responses to the assessed risks of material misstatement at the Statement of Educational Condition level, and the nature, timing and extent of the further audit procedures performed; (b) the linkage of those procedures with the assessed risks at the assertion level; and (c) results of the audit procedures, including the conclusions where these are not otherwise clear.

The auditor shall include in the audit documentation the conclusion reached about relying on the operating effectiveness of controls obtained and tested in previous audits.

The auditor's documentation shall demonstrate that the Statement of Educational Conditions agree or reconcile with the underlying internal and external documents and records.

GAESA 402

Entity Using a Service Organization

Audit Considerations Relating to an Entity Using a Service Organization

Objectives

The objectives of the user auditor, when the user entity uses the services of a service organization, are:

- (a) To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
- (b) To design and perform audit procedures responsive to those risks.

Requirements

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

The auditor shall obtain an understanding of how the user entity uses a service organization in its operations, including:

- (a) The nature of the services provided by the service organization and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;
- (b) The nature and materiality of the transactions processed or accounts or educational reporting processes affected by the service organization;
- (c) The degree of interaction between the activities of the service organization and those of the user entity; and
- (d) The nature of the relationship between the user entity and the service organization, including the relevant contractual terms for the activities undertaken by the service organization.

Responding to the Assessed Risks of Material Misstatement

The user auditor shall, in responding to assessed risks

- (a) Determine whether Sufficient Appropriate Audit Evidence concerning the relevant Statement of Educational Condition assertions is available from records held at the user entity; and, if not,
- (b) Perform further audit procedures to obtain Sufficient Appropriate Audit Evidence or use another auditor to perform those procedures at the service organization on the user auditor's behalf. (GAESA 402, 15)

Reporting by the User Auditor

The user auditor shall modify the opinion in the user auditor's report if the user auditor is unable to obtain Sufficient Appropriate Audit Evidence regarding the services provided by the service organization.

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion; and if to do so, indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.

GAESA 450

Misstatements

Evaluation of Misstatements Identified During the Audit

Objective

The objective of the auditor is to evaluate (a) the effect of identified misstatements on the audit; and (b) the effect of uncorrected misstatements, if any, on the Statement of Educational Conditions.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) **Misstatement.**— A difference between the disclosure, classification, presentation, evaluation, number, value or amount of a reported fact or prospect in a Statement of Educational Condition item or items and the disclosure, classification, presentation, evaluation, number, value or amount. Amount or value that is required for the item(s) in accordance with the GAEP. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the Statement of Educational Conditions are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments to the disclosure, of classification, presentation, evaluation, number, value or amount amounts, classifications, presentation, or disclosures that, in the auditor’s judgment, are necessary for the Statement of Educational Conditions to be presented fairly, in all material respects, or to give a true and fair view.

- (b) **Uncorrected misstatements** – Misstatements that the auditor has accumulated during the audit and that have not been corrected.

Misstatements may result from:

- (a) An inaccuracy in gathering or processing data from which the Statement of Educational Conditions are prepared;
- (b) An omission of a presentation, evaluation, number, value or amount or disclosure;
- (c) An incorrect estimate arising from overlooking, or clear misinterpretation of, facts; and
- (d) Judgments of management concerning estimates that the auditor considers unreasonable or the selection and application of educational, administrative and business policies that the auditor considers inappropriate in the circumstances.

Requirements

Accumulation of Identified Misstatements

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

To assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and those charged with governance, it may be useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements.

- Factual misstatements are misstatements about which there is no doubt.
- Judgmental misstatements are differences arising from the judgments of management concerning , for example but not limited to, evaluations and estimates that the auditor considers unreasonable, or the selection or application of policies and practices that the auditor considers inappropriate in accordance with GAEP.

- Projected misstatements are the auditor’s best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

Consideration of Identified Misstatements as the Audit Progresses

The auditor shall determine whether the overall audit strategy and the 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 GAESA’s Statement on “Materiality”.

The auditor shall perform additional audit procedures to determine whether misstatements remain, if, at the auditor’s request, management has examined a class of transactions, account balance or disclosure and corrected detected misstatements.

Communication and Correction of Misstatements

The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management and request management to correct those misstatements.

The auditor shall obtain an understanding of management's reasons if management refuses to correct the misstatements communicated by the auditor and take that understanding into account when evaluating whether the Statement of Educational Conditions as a whole are free from material misstatement.

Evaluating the Effect of Uncorrected Misstatements

The auditor shall reassess materiality determined in accordance with GAESA Statement on "Materiality" prior to evaluating the effect of uncorrected misstatements to confirm whether it remains appropriate in the context of the entity’s actual and projected conditions in accordance with GAESA.

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, in relation to particular disclosures, classifications, presentations, evaluations, numbers, values or amounts of a reported fact or prospect or disclosures and the Statement of Educational Conditions as a whole, and the particular circumstances of their occurrence; and
- (b) The effect of uncorrected misstatements, related to prior periods on the relevant disclosures, classifications, presentations, evaluations, numbers, values or amounts, and the Statement of Educational Conditions as a whole.

The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the Statement of Educational Conditions as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- Affects compliance with regulatory requirements;
- Affects compliance with debt covenants or other contractual requirements;
- Relates to the incorrect selection or application of a policy and/or practice that has an immaterial effect on the current period’s Statement of Educational Conditions but is likely to have a material effect on future periods’ Statement of Educational Conditions;
- Masks a change in educational, financial or other relevant conditions or trends;
- Affects ratios used, for example but not limited to, the evaluation of the entity’s performance, prospective performance, conditions and positions, results of earnings and cash flows;
- Has the effect of increasing management compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;

- Is significant having regard to the auditor’s understanding of known previous communications to users;
- Relates to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity’s management);
- Is an omission of information not specifically required by the GAEP but which, in the judgment of the auditor, is important to the users’ understanding of the condition, prospective condition, position, performance of the entity; or
- Affects other information that will be communicated in documents containing the audited Statement of Educational Conditions (for example, information to be included in a “Management Discussion and Analysis” or an “Operating and Financial Review”) that may reasonably be expected to influence the educational decisions of the users of the Statement of Educational Conditions.

These circumstances are only examples; not all are likely to be present in all audits nor is the list necessarily complete. The existence of any circumstances such as these does not necessarily lead to a conclusion that the misstatement is material.

Communication with Those Charged with Governance

The auditor shall communicate with governance uncorrected misstatements and the effect that they individually or in the 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.

The auditor shall also communicate with governance the effect of uncorrected misstatements of prior periods related to disclosures, classifications, presentations, evaluations, numbers, values or amounts, and the Statement of Educational Conditions as a whole.

Written Representations

The auditor shall request a written representation from management and, where appropriate, governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the Statement of Educational Conditions as a whole, including or attaching a summary of such items to the written representation.

Documentation

The auditor shall include in the audit documentation:

- (a) The auditor’s description of a threshold below which misstatements would be regarded as clearly trivial;
- (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 the aggregate, and the basis for that conclusion.

GAESA 500 Evidence

Audit Evidence

Objective

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain Sufficient Appropriate Audit Evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Internal and external documents and records – The records of initial entries and supporting records in all forms (paper, electronic or other medium) and formats (including notes, memorandums, communications of any kind, and reports) relating to relevant information that may be considered, should be considered, and/or is considered or used for the preparation of the Statement of Educational Conditions.
- (b) Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.
- (c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the internal and external documents and records underlying the Statement of Educational Conditions and other information.
- (d) Management's expert – An individual or organization possessing expertise to assist the entity in preparing the Statement of Educational Conditions.
- (e) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

Requirements

Sufficient Appropriate Audit Evidence

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining Sufficient Appropriate Audit Evidence.

Information to Be Used as Audit Evidence

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

The auditor shall evaluate the competence, capabilities and objectivity of a management's expert, and obtain an understanding of the work, to the extent necessary, if information to be used as audit evidence has been prepared by the expert, the accuracy and completeness of the information, evaluating whether it is sufficiently precise and detailed for the auditor's purposes.)

Selecting Items for Testing to Obtain Audit Evidence

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.

Inconsistency in, or Doubts over Reliability of, Audit Evidence

The auditor shall determine the modifications or additions to audit procedures necessary to resolve (a) inconsistent audit evidence from other sources or (b) if the auditor doubts the reliability of information to be used as audit evidence.

GAESA 505

External Confirmations

Introduction

External Confirmation Procedures to Obtain Audit Evidence

GAESA 500 includes generalizations applicable to audit evidence. Audit evidence is more reliable

- when obtained from independent sources outside the entity
- when obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference
- when in documentary form (paper, electronic or other medium).

Objective

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) External confirmation – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
- (b) Positive confirmation request – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
- (c) Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
- (d) Non-response – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
- (e) Exception – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Requirements

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, address and contain return information directly to the auditor;
and
- (d) Sending the requests including follow-up to the confirming party.

Management's Refusal to Allow the Auditor to Send a Confirmation Request

The auditor shall, if management refuses to allow direct confirmation requests (a) inquire management's reasons, (b) evaluate implications on assessment of relevant risk of material misstatement including fraud, nature, timing and extent of other auditing procedures, (c) perform alternative audit procedures to obtain relevant and reliable audit evidence.

The auditor shall communicate with governance, 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, and determine the implications for the audit and the auditor's opinion.

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests

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

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

Non-Responses

The auditor shall perform alternative audit procedures in the case of each non-response, and, if determined that a response to a positive confirmation request is necessary, obtain Sufficient Appropriate Audit Evidence if alternative audit procedures will not provide the audit evidence required, and if not obtained, determine the implications for the auditor's opinion.

Exceptions

The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements or due to timing, measurement, or clerical errors. (GAESA 505, 14, A21–A22)

Negative Confirmations

Negative confirmations provide less persuasive audit evidence than positive confirmations.

The auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present:

- (a) The auditor has assessed the risk of material misstatement as low and has obtained Sufficient Appropriate Audit Evidence regarding the operating effectiveness of controls relevant to the assertion;
- (b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions or conditions;
- (c) A very low exception rate is expected; and
- (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Evaluating the Evidence Obtained

The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, eg categorizing results as

- (a) response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception
- (b) response deemed unreliable
- (c) non-response; or
- (d) response indicating an exception, or whether further audit evidence is necessary.

GAESA 520

Analytical Procedures

Initial Audit Engagements — Opening Balances

Objectives

3. The objectives of the auditor are:

- (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (b) To design and perform analytical procedures near the end of the audit

that assist the auditor when forming an overall conclusion as to whether the Statement of Educational Conditions are consistent with the auditor's understanding of the entity.

Definition

For the purposes of the GAESA, the following term has the meanings attributed below:

Analytical procedures.— Evaluations of information through analysis of plausible relationships among all of the information — including but not limited to facts and projections reflected in indexes, historical and future trends analyses, ratios, and financial data, statements and notes — encompassing such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected results to a significant degree.

Definition of Analytical Procedures

Analytical procedures include the consideration of comparisons of the entity's information with, for example:

- Comparable information for prior periods.
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as estimations.
- Similar information for the educational sector or field, such as a comparison of the entity's ratios to averages in the sector or field or endeavor, or with other entities of comparable size in the same sector or field.

Analytical procedures also include consideration of relationships, for example:

- Among elements of information that would be expected to conform to a predictable pattern based on the entity's experience such as faculty-to-student ratios, pass rates, grades, grade point averages (GAP), tuition, financial aid and financial ratios.
- Between relevant educational information and relevant non-educational information.

Requirements

Substantive Analytical Procedures

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

- (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;
- (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 Statement of Educational Conditions to be materially misstated; and
- (d) Determine whether the amount or range of any difference of reported information, numbers, indexes and ratios from that or those expected is acceptable without further investigation.

Investigating Results of Analytical Procedures

The auditor shall investigate differences between analytical procedures performed in accordance with this GAESA and fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

The auditor shall investigate differences between analytical procedures performed under this GAESA and other relevant information, or that differ from expected values by a significant amount, by (a) inquiring of management and obtain appropriate audit evidence relevant to management's responses, and by (b) performing other audit procedures as necessary in the circumstances.

GAESA 530**Audit Sampling****Objective**

The objective of the auditor using audit sampling is to provide a reasonable basis for conclusions about the population from which the sample is selected.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Audit sampling (sampling) – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
- (b) Population – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- (c) Sampling risk – The risk that the auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:
 - (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
 - (ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.
- (d) Non-sampling risk – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
- (e) Anomaly – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
- (f) Sampling unit – The individual items constituting a population. (Ref: Para.
- (g) Statistical sampling – An approach to sampling that has the following characteristics:
 - (i) Random selection of the sample items; and
 - (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.
 A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.
- (h) Stratification – The process of dividing a population into subpopulations, each of which is a group of sampling units which have similar characteristics (often monetary value).
- (i) Tolerable misstatement – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population. (Ref: Para.A3)
- (j) Tolerable rate of deviation – A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Requirements*Sample Design, Size, and Selection of Items for Testing*

The auditor shall

- consider the purpose of the audit procedure, and the characteristics of the population from which the sample will be drawn, when designing an audit sample

- determine a sample size sufficient to reduce sampling risk to an acceptable level, and
- select items for the sample so that each sampling unit in the population has a chance of selection.

Performing Audit Procedures

The auditor shall

- perform audit procedures on each item selected that are appropriate to the purpose
- perform the procedure on a replacement item if not applicable to the selected item
- treat a selected item to which the designed audit procedure, or suitable alternative procedures, are not applicable, as a deviation from the prescribed control in the case of tests of controls, or a misstatement in the case of tests of details.

Nature and Cause of Deviations and Misstatements

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.

The auditor shall obtain a high degree of certainty in the extremely rare circumstances when considering a misstatement or deviation in a sample to be an anomaly, that such misstatement or deviation is not representative of the population by performing additional audit procedures to obtain Sufficient Appropriate Audit Evidence that the remainder of the population is not affected.

Projecting Misstatements

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

Stratification and Value-Weighted Selection

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate.

Stratification

1. Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic. The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
2. When performing tests of details, the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement. Similarly, a population may be stratified according to a particular characteristic that indicates a higher risk of misstatement, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.
3. The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population. For example, 20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor evaluates the results of this sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).
4. If a class of transactions or balance has been divided into strata, the misstatement is projected for each stratum separately. Projected misstatements for each stratum are then combined when considering the possible effect of misstatements on the total class of transactions or account balance.

Value-Weighted Selection

When performing tests of details it may be efficient to identify the sampling unit as the individual monetary units that make up the population. Having selected specific monetary units from within the population, for example, the accounts receivable balance, the auditor may then examine the particular items, for example, individual balances, that contain those monetary units. One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes. This approach may be used in conjunction with the systematic method of sample selection (described in Appendix 4) and is most efficient when selecting items using random selection.

Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

- (a) Random selection (applied through random number generators, for example, random number tables).
- (b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.
- (c) Monetary Unit Sampling is a type of value-weighted selection (as described in Appendix 1) in which sample size, selection and evaluation results in a conclusion in monetary amounts.
- (d) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.
- (e) Block selection involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

GAESA 540

Estimates

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Objective

To obtain Sufficient Appropriate Audit Evidence to determine whether estimates, including fair value accounting estimates, in the Statement of Educational Conditions recognized or disclosed are reasonable, and related disclosures in the Statement of Educational Conditions are adequate, in the context of the GAEP. (GAESA 540, 6)

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below: (GAESA 540, 7 OT:)

- (a) Estimate.— An approximation of a number of amount in the absence of a precise means of measurement.
- (b) Auditor’s point estimate or auditor’s range .— The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate.
- (c) Estimation uncertainty.— The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
- (d) Management bias.— A lack of neutrality by management in the preparation of information.
- (e) Management’s point estimate.— The amount selected by management for recognition or disclosure in the Statement of Educational Conditions as an accounting estimate.
- (f) Outcome of an accounting estimate.— The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.

Written Representations

The auditor shall obtain written representations from management and, where appropriate from governance, whether they believe significant assumptions used in making accounting estimates are reasonable.

Documentation

The auditor shall include in the audit documentation:

- (a) The basis for the auditor’s conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and
- (b) Indicators of possible management bias, if any.

GAESA 550

Related Parties

Introduction

Nature of Related Party Relationships and Transactions

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Responsibilities of the Auditor

Because related parties are not independent of each other, the auditor has a responsibility to audit, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for and disclose related party relationships, transactions or balance in accordance with the requirements of the framework.

The auditor needs to understand related party relationships and transactions, even if the GAEP has minimal or no related requirements, sufficient to conclude whether the Statement of Educational Conditions (a) achieve fair presentation (for fair presentation frameworks), or (b) are not misleading.

Understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by GAESA 240, section "The auditor's responsibilities relating to fraud in an audit of Statement of Educational Conditions" because fraud may be more easily committed through related parties.

Management may be unaware of the existence of all related party relationships and transactions, particularly if the GAEP does not establish related party requirements.

Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.

Planning and performing the audit with professional skepticism.

Objectives

The objectives of the auditor are:

- (a) Irrespective of whether the GAEP establishes related party requirements
 - (i) To recognize fraud risk factors, and
 - (ii) To conclude, whether the Statement of Educational Conditions
 - a. Achieve fair presentation (for fair presentation frameworks); or
 - b. Are not misleading (for compliance frameworks); and
- (b) Related party relations and material transactions (administrative, setting and/or influencing policies and practices including voting in various bodies and committees of all levels) are disclosed in the Statement of Educational Conditions in accordance with the framework.

Definitions

10. For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Arm's length transaction – A transaction conducted on such terms and conditions as between willing participants who are unrelated and are acting independently of each other and pursuing their own best interests and/or those of their principal(s) or representee(s).
 - (b) Related party – A party that is either:
 - (i) A related party as defined in the GAEP; or
 - (ii) Where the GAEP establishes minimal or no related party requirements:
 - a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c. Another entity that is under common control with the reporting entity through having:
 - i. Common controlling ownership;
 - ii. Owners who are close family members; or
 - iii. Common key management.
- However, entities that are under common control by a state (that is, a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

Requirements

Risk Assessment Procedures and Related Activities

The auditor shall perform the audit procedures and activities set out under *Understanding the Entity's Related Party Relationships and Transactions*" and *Maintaining Alertness for Related Party Information When Reviewing Records or Documents*" below as part of the risk assessment procedures.

Understanding the Entity's Related Party Relationships and Transactions

The engagement team discussion shall include the susceptibility of the Statement of Educational Conditions to material misstatement due to fraud or error from the entity's related party relationships and transactions.

The auditor shall inquire of management (a) the identity of the entity's related parties, including changes from the prior period, (b) the nature of the relationships between the entity and these related parties, and (c) any transactions with these related parties during the period and, if so, the type and purpose of the transactions.

The auditor shall inquire of management and others within the entity, and perform other appropriate risk assessment procedures, to obtain an understanding of the controls, if any, that management has established to

- (a) identify, account for, and disclose related party relationships and transactions in accordance with the GAEP;
- (b) authorize and approve significant transactions and arrangements with related parties; and
- (c) authorize and approve significant transactions and arrangements outside the normal course of business.

Maintaining Alertness for Related Party Information When Reviewing Records or Documents

The auditor shall remain alert during the audit when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

The auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

- (a) Legal confirmations obtained as part of the auditor's procedures, including financial institutions and entities acting in a position of trust for the related parties, if known;
- (b) Minutes of meetings of shareholders and of those charged with governance; and

- (c) Such other records or documents as the auditor considers necessary in the circumstances of the entity.

The auditor shall inquire of management (a) the nature of identified significant transactions outside the normal course of activity and/or business, and (b) whether related parties could be involved.

Sharing Related Party Information with the Engagement Team

The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

The auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks, treating identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.

The auditor shall consider identified related party fraud risk factors in accordance with GAESA 240, "Fraud".

Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions

The auditor shall, if related parties or significant related party transactions are identified, that management has not previously identified or disclosed to the auditor:

- (a) Promptly communicate the relevant information to the other members of the engagement team;
- (b) Where GAEP establishes related party requirements:
 - (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
 - (ii) 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;
- (c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions;
- (d) 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
- (e) 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.

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

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

- (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 activities including 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 GAESA reporting framework; and

- (b) Obtain audit evidence that the transactions have been appropriately authorized and approved.

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction

The auditor shall obtain Sufficient Appropriate Audit Evidence about the assertion by management in the Statement of Educational Conditions to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions

The auditor shall evaluate in accordance with GAESA 700, 12 "Forming an opinion on the Statement of Educational Conditions":

- (a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with GAEP; and
- (b) Whether the effects of the related party relationships and transactions:
 - (i) Prevent the Statement of Educational Conditions from achieving fair presentation (for fair presentation frameworks); or
 - (ii) Cause the Statement of Educational Conditions to be misleading (for compliance frameworks).

Written Representations

The auditor shall obtain written representations from management and, where appropriate, governance, where the GAEP establishes related party Requirements, 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.

Communication with Those Charged with Governance

The auditor shall communicate with non-executive governance significant matters arising during the audit in connection with the entity's related parties.

Documentation

The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships.

GAESA 560

Subsequent Events

Introduction

Subsequent Events

GAESA reporting frameworks ordinarily identify two types of events:

- (a) Those that provide evidence of conditions that existed at the date of the Statement of Educational Conditions; and
- (b) Those that provide evidence of conditions that arose after the date of the Statement of Educational Conditions.

GAESA's Statement "Forming an Opinion and Reporting on Statement of Educational Conditions" explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

Objectives

The objectives of the auditor are:

- (a) To obtain Sufficient Appropriate Audit Evidence about whether events occurring between the date of the Statement of Educational Conditions and the date of the auditor's report that require adjustment of, or disclosure in, the Statement of Educational Conditions are appropriately reflected in those Statement of Educational Conditions in accordance with the GAEP; and
- (b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Definitions

For purposes of the GAESA, the terms below have the following meaning:

- (a) Date of the Statement of Educational Conditions.— The date of the end of the latest period covered by the Statement of Educational Conditions.
- (b) Date of approval of the Statement of Educational Conditions.— The date on which all the statements that comprise the Statement of Educational Conditions, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those Statement of Educational Conditions.
- (c) Date of the auditor's report.— The date the auditor dates the report on the Statement of Educational Conditions.
- (d) Date the Statement of Educational Conditions are issued.— The date that the auditor's report and audited Statement of Educational Conditions are made available to third parties.
- (e) Subsequent events .— Events occurring between the date of the Statement of Educational Conditions and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Requirements

Events Occurring between the Date of the Statement of Educational Conditions and the Date of the Auditor's Report

The auditor shall perform audit procedures that all events occurring between the date of the Statement of Educational Conditions and the date of the auditor's report that require adjustment of, or disclosure in, the Statement of Educational Conditions have been identified, but the auditor is not expected to re-perform audit procedures that have provided satisfactory conclusions.

The auditor shall perform the 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, governance whether any subsequent events have occurred which might affect the Statement of Educational Conditions.
- (c) Reading minutes, if any, of the meetings of the entity's owners, management/governance held after the date of the Statement of Educational Conditions and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- (d) Reading the entity's latest subsequent interim Statement of Educational Conditions, if any.

Written Representations

The auditor shall request management and, where appropriate, governance, to provide a written representation that all events occurring subsequent to the date of the Statement of Educational Conditions and for which the GAEP requires adjustment or disclosure have been adjusted or disclosed.

Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Statement of Educational Conditions Are Issued

The auditor has no obligation to perform any audit procedures regarding the Statement of Educational Conditions after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the Statement of Educational Conditions are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, with governance;
- (b) Determine whether the Statement of Educational Conditions need amendment and, if so,
- (c) Inquire how management intends to address the matter in the Statement of Educational Conditions.

If management amends the Statement of Educational Conditions, the auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
 - (i) Extend the audit procedures referred to above under *Events Occurring between the Date of the Statement of Educational Conditions and the Date of the Auditor's Report* to the date of the new auditor's report; and
 - (ii) Provide a new auditor's report on the amended Statement of Educational Conditions. The new auditor's report shall not be dated earlier than the date of approval of the amended Statement of Educational Conditions.

However, if management does not amend the Statement of Educational Conditions in circumstances where the auditor believes they need to be amended, then:

- (a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion and then provide the auditor's report; or
- (b) If the auditor's report has already been provided to the entity, the auditor shall notify management and non-executive governance not to issue the Statement of Educational Conditions to third parties before the necessary amendments have been made. If the Statement of Educational Conditions are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

Facts Which Become Known to the Auditor after the Statement of Educational Conditions Have Been Issued

After the Statement of Educational Conditions have been issued, the auditor has no obligation to perform any audit procedures regarding such Statement of Educational Conditions.

However, if, after the Statement of Educational Conditions have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, those charged with governance;
- (b) Determine whether the Statement of Educational Conditions need amendment; and, if so,
- (c) Inquire how management intends to address the matter in the Statement of Educational Conditions.

If management amends the Statement of Educational Conditions, the auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
- (b) Review the steps taken by management to ensure that anyone in receipt of the previously issued Statement of Educational Conditions together with the auditor's report thereon is informed of the situation.
- (c) (i) Extend the audit procedures referred to above under *Events Occurring between the Date of the Statement of Educational Conditions and the Date of the Auditor's Report* to the date of the new auditor's report, and date the new auditor's report no earlier than the date of approval of the amended Statement of Educational Conditions; and
(ii) Provide a new auditor's report on the amended Statement of Educational Conditions.

The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the Statement of Educational Conditions that more extensively discusses the reason for the amendment of the previously issued Statement of Educational Conditions and to the earlier report provided by the auditor.

If management does not take the necessary steps to ensure that anyone in receipt of the previously issued Statement of Educational Conditions is informed of the situation and does not amend the Statement of Educational Conditions in circumstances where the auditor believes they need to be amended, the auditor shall notify management and non-executive governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

Where the auditor believes that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on Statement of Educational Conditions previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance, the auditor's course of action depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

GAESA 570

Going Concern

Introduction

Going Concern Assumption

For purposes of GAEP, the auditor considers the going concern assumption of the entity's educational conditions including license requirements, supply and demand opportunities for the entity's services, values of assets and liabilities, on the basis that the entity will be able to continue its operations in the foreseeable future, and realize its assets and discharge its liabilities in the normal course of business.

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

The preparation of the Statement of Educational Conditions requires management to assess the entity's ability to continue as a going concern even if the GAESA reporting framework does not include an explicit requirement to do so, making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions concerning the following relevant factors:

- The degree of uncertainty increases with the extension of time, and GAEP's reporting frameworks that require an explicit management assessment may specify the period of time for which management is required to take into account all available information.
- The size and complexity of the entity, nature and condition of its operational, business and external factors affect the judgment.
- Any judgment about the future is based on information available at the time at which the judgment is made.

Responsibilities of the Auditor

The auditor's responsibility — independent of GAESA reporting framework requirements — is to obtain Sufficient Appropriate Audit Evidence of management's use of the going concern assumption in the preparation of the Statement of Educational Conditions and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.

The inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions, and the absence of any reference to going concern uncertainty in an auditor's report is not a guarantee as to the entity's ability to continue as a going concern.

Objectives

The objectives of the auditor are (a) to obtain Sufficient Appropriate Audit Evidence regarding management's use of the going concern assumption in the preparation of the Statement of Educational Conditions, (b) to conclude whether a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern, and (c) to determine the implications for the auditor's report.

Requirements

Risk Assessment Procedures and Related Activities

The auditor shall consider, when performing risk assessment procedures, whether there are events or conditions casting significant doubt on the entity's ability to continue as a going concern, and determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern.

- (a) The auditor shall discuss the assessment with management, if one has been made, and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
- (b) The auditor shall discuss with management, if such an assessment has not yet been performed, the basis for the intended going concern assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

The auditor shall remain alert for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating Management's Assessment

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern, covering the same period as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.

If management's assessment covers less than twelve months from the date of the Statement of Educational Conditions, the auditor shall request management to extend its assessment period to at least twelve months from that date.

Period beyond Management's Assessment

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.

Additional Audit Procedures When Events or Conditions Are Identified

The auditor shall obtain Sufficient Appropriate Audit Evidence if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, to determine whether or not a material uncertainty exists by performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Requesting management to make its assessment, if not yet done.
- (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) Analysis of the cash flow forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action, (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 any additional facts or information available after the date of management's assessment.
- (e) Requesting written representations from management and, where appropriate, governance, regarding their plans for future action and the feasibility of these plans.

Audit Conclusions and Reporting

The auditor shall conclude, based on the audit evidence, whether 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 (or "significant 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 GAESA reporting framework, the fair presentation of the Statement of Educational Conditions, or
- (b) In the case of a compliance framework, the Statement of Educational Conditions not to be misleading.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine, if the going concern assumption is appropriate but a material uncertainty exists, whether the Statement of Educational Conditions:

- (a) Adequately describe 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.

If adequate disclosure is made in the Statement of Educational Conditions, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

- (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and
- (b) Draw attention to the place of the note in the Statement of Educational Conditions that discloses the matters.

The auditor shall express a qualified opinion, if adequate disclosure is not made in the Statement of Educational Conditions. The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

Use of Going Concern Assumption Inappropriate

The auditor shall express an adverse opinion, if the Statement of Educational Conditions has been prepared on a going concern basis but, in the auditor's judgment is inappropriate, whether or not the Statement of Educational Conditions include disclosure of the inappropriateness of management's use of the going concern assumption.

If the entity's management is required, or elects, to prepare a Statement of Educational Conditions when the use of the going concern assumption is not appropriate in the circumstances, the Statement of Educational Conditions are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of a Statement of Educational Conditions provided that the auditor determines that the alternative basis is an acceptable GAESA reporting framework in the circumstances. The auditor may be able to express an unmodified opinion on such a Statement of Educational Conditions, provided there is adequate disclosure therein but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Management Unwilling to Make or Extend Its Assessment

The auditor shall consider implications for the audit report, if management is unwilling to make or extend its assessment when requested to do so by the auditor.

Communication with Those Charged with Governance

The auditor shall communicate with non-executive governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern including the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether the use of the going concern assumption is appropriate in the preparation of the Statement of Educational Conditions; and
- (c) The adequacy of related disclosures in the Statement of Educational Conditions.

Significant Delay in the Approval of Statement of Educational Conditions

The auditor shall inquire as to the reasons, if there is significant delay in the approval of the Statement of Educational Conditions by management/governance.

If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described above under *Audit Conclusions and Reporting*.

GAESA 580

Written Representations

Introduction

Written Representations as Audit Evidence

Written representations are part of the audit evidence, although not Sufficient Appropriate Audit Evidence *per se*, on which the auditor relies to arrive at conclusions as the basis for the auditor's opinion.

Objectives

The objectives of the auditor are:

- (a) To obtain written representations from management and, where appropriate, governance, that they believe having fulfilled their responsibility for the preparation of the Statement of Educational Conditions and completeness information provided to the auditor;
- (b) To support other audit evidence in the Statement of Educational Conditions; and
- (c) To respond appropriately, or if management or governance do not provide the written representations requested by the auditor.

Definitions

For purposes of the GAESA, the following term has the meaning attributed below:

Written representation.— A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include the Statement of Educational Conditions, the assertions therein, or supporting books and records.

For purposes of this GAESA, references to “management” should be read as “management and, where appropriate, those charged with governance.” Furthermore, in the case of a fair presentation framework, management is responsible for the preparation and *fair* presentation of the Statement of Educational Conditions in accordance with GAEP; or the preparation of Statement of Educational Conditions *that give a true and fair view* in accordance with the GAEP.

Requirements

Management from Whom Written Representations Requested

The auditor shall request written representations from management with appropriate responsibilities for the Statement of Educational Conditions and knowledge of the matters concerned.

In some cases, however, management may decide to make inquiries of those who participate in preparing and presenting the Statement of Educational Conditions and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include:

- An actuary responsible for actuarially determined accounting measurements.
- Staff engineers who may have responsibility for and specialized knowledge about environmental liability measurements.
- Internal counsel who may provide information essential to provisions for legal claims.

In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.

Written Representations about Management's Responsibilities

Preparation of the Statement of Educational Conditions

The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the Statement of Educational Conditions in accordance with GAEP, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.

Communication with governance of the written representations requested of management.

GAESA require the auditor to communicate with those charged with governance the written representations which the auditor has requested from management.

Information Provided and Completeness of Transactions

The auditor shall request management to provide the auditor with 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 relevant educational conditions as required by GAEP and transactions are recorded and are reflected in the Statement of Educational Conditions.

Description of Management's Responsibilities in the Written Representations

Management's responsibilities shall be described in the written representations requested by the auditor as required by the two preceding paragraphs in the manner in which these responsibilities are described in the terms of the audit engagement.

Other Written Representations

The auditor shall request such other written representations if determined necessary to support other audit evidence relevant to the Statement of Educational Conditions.

Date of and Period(s) Covered by Written Representations

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 Statement of Educational Conditions. The written representations shall be for all Statement of Educational Conditions and period(s) referred to in the auditor's report.

Form of Written Representations

The written representations shall be in the form of a representation letter addressed to the auditor, except to the extent already included in a statement. (GAESA 580, 15)

Doubt as to the Reliability of Written Representations

The auditor shall determine the effect of concerns on the reliability of representations (oral or written) and audit evidence in general, that the auditor may have concerning the competence, integrity, ethical values or diligence of management.

The auditor shall perform audit procedures to attempt to resolve inconsistencies of written representations with other audit evidence, and if remaining unresolved, consider the assessment of the competence, integrity, ethical values or diligence of management, or its commitment to or enforcement of these to determine the effect on the reliability of representations (oral or written) and audit evidence in general.

The auditor shall take appropriate action if the auditor concludes that the written representations are not reliable, determining the possible effect on the auditor's opinion.

Requested Written Representations Not Provided

The auditor shall — if management does not provide one or more requested written representations

- (a) discuss the issue with management
- (b) re-evaluate 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.

Written Representations about Management's Responsibilities

The auditor shall disclaim an opinion on the Statement of Educational Conditions if:

- (a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable; or
- (b) Management does not provide the written representations required.

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other GAESA in effect for audits of Statement of Educational Conditions. It is assumed in this illustration that "Going Concern" is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity's Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with your audit of the Statement of Educational Conditions of ABC School of Business for the year ended 31, 20XX [Note: Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.] for the purpose of expressing an opinion as to whether the Statement of Educational Conditions are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with Generally Accepted Education Principles.

We confirm that (, *to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

Statement of Educational Conditions

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the Statement of Educational Conditions in accordance with Generally Accepted Education Principles; in particular the Statement of Educational Conditions are fairly presented (or *give a true and fair view*) in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Generally Accepted Education Principles.
- All events subsequent to the date of the Statement of Educational Conditions and for which Generally Accepted Education Principles require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Educational Conditions as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the Statement of Educational Conditions, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the internal and external documents and records and are reflected in the Statement of Educational Conditions.
- We have disclosed to you the results of our assessment of the risk that the Statement of Educational Conditions may be materially misstated as a result of fraud. (GAESA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the Statement of Educational Conditions.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Statement of Educational Conditions communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Educational Conditions.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

(signature)

Management

(signature)

Management

GAESA 610

Using the Work of Internal Auditors

Introduction

Relationship between the Internal Audit Function and the External Auditor

The objectives of the internal audit function are determined by management and, where applicable, governance with different objectives as external audit, but some of the functions may be similar.

The external auditor is solely responsible for the audit opinion, which is not reduced by using the work of the internal auditor, irrespective of the degree of autonomy and objectivity of the internal audit function.

Objectives

The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are:

- (a) To determine whether, and to what extent, to use specific work of the internal auditors; and
- (b) If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

(a) Internal audit function.— An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

(b) Internal auditors.— Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

Requirements

Determining Whether and to What Extent to Use the Work of the Internal Auditors

The external auditor shall determine (a) the internal auditor's adequacy for purposes of the audit, and, if so, (b) the planned effect of the nature, timing or extent of the external auditor's procedures.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:

- (a) The objectivity of the internal audit function;
- (b) The technical competence of the internal auditors;
- (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
- (d) Whether there is likely to be effective communication between the internal auditors and the external auditor.

The external auditor shall consider in determining the planned effects on the nature, timing and extent of the internal auditor's work:

- (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
- (b) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
- (c) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

Using Specific Work of the Internal Auditors

The external auditor shall evaluate and perform audit procedures on specific work of the internal auditor to determine its adequacy for the external auditor's purposes.

The external auditor shall evaluate the adequacy of the specific work of the internal auditors for the external auditor's purposes:

- (a) The work was performed by internal auditors having adequate technical training and proficiency;
- (b) The work was properly supervised, reviewed and documented;
- (c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
- (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
- (e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

Documentation

The external auditor shall include in the audit documentation the conclusions reached in evaluating the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work.

GAESA 620

Using the Work of an Expert

Introduction

The Auditor's Responsibility for the Audit Opinion

The auditor's sole responsibility for the audit opinion expressed is not reduced by the auditor's use of the work of an auditor's expert, although the auditor may accept the expert's findings or conclusions in the expert's field as appropriate audit evidence.

Objectives

The objectives of the auditor are (a) to determine whether to use the work of an auditor's expert, and (b) if so, to determine whether that work is adequate for the auditor's purposes.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Auditor's expert.— An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining Sufficient Appropriate Audit Evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.
- (b) Expertise.— Skills, knowledge and experience in a particular field.
- (c) Management's expert.— An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the Statement of Educational Conditions.

Requirements

Determining the Need for an Auditor's Expert

The auditor shall determine whether to use the work of an auditor, if expertise in a field other than accounting or auditing is necessary to obtain Sufficient Appropriate Audit Evidence.

Nature, Timing and Extent of Audit Procedures

The auditor shall consider the nature, timing and extent of procedures involving the auditor's expert including:

- (a) The nature of the matter to which that expert's work relates;
- (b) The risks of material misstatement in the matter to which that expert's work relates;
- (c) The significance of that expert's work in the context of the audit;
- (d) The auditor's knowledge of and experience with previous work performed by that expert; and
- (e) Whether that expert is subject to the auditor's firm's quality control policies and procedures.

The Competence, Capabilities and Objectivity of the Auditor's Expert

The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes, including an inquiry regarding interests and relationships that may create a threat [eg, bias] to that expert's objectivity.

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert

The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to (a) determine the nature, scope and objectives of the expert's work, and (b) evaluate the adequacy of the expert's work.

Agreement with the Auditor's Expert

The auditor shall agree in writing, when appropriate, with the auditor's expert on the following matters:

- (a) nature, scope and objectives of that expert's work;
- (b) respective roles and responsibilities of the auditor and the expert;
- (c) nature, timing and extent of communication between the auditor and the expert, including the form of any report to be provided by the expert, and
- (d) confidentiality requirements.

Evaluating the Adequacy of the Auditor's Expert's Work

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including

- (a) relevance and reasonableness of the expert's findings or conclusions, and their consistency with other audit evidence;
- (b) use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- (c) use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

The auditor shall

- (a) agree with the expert on the nature and extent of further work to be performed by the expert, or
- (b) perform additional audit procedures appropriate to the circumstances, if the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes.

Reference to the Auditor's Expert in the Auditor's Report

The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion, and if required indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

The auditor shall indicate in the auditor's report that reference the work of an auditor's expert in the auditor's report — relevant to an understanding of a modification to the auditor's opinion — does not reduce the auditor's responsibility for that opinion.

Considerations for Agreement between the Auditor and an Auditor's External Expert

The following list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this GAESA. Whether to include particular matters in the agreement depends on the circumstances of the engagement. The list may also be of assistance in considering the matters to be included in an agreement with an auditor's internal expert.

Nature, Scope and Objectives of the Auditor's External Expert's Work

- The nature and scope of the procedures to be performed by the auditor's external expert.
- The objectives of the auditor's external expert's work in the context of materiality and risk considerations concerning the matter to which the auditor's external expert's work relates, and, when relevant, the GAEP.
- Any relevant technical performance standards or other professional or industry requirements the auditor's external expert will follow.

- The assumptions and methods, including models where applicable, the auditor's external expert will use, and their authority.
- The effective date of, or when applicable the testing period for, the subject matter of the auditor's external expert's work, and requirements regarding subsequent events.

The Respective Roles and Responsibilities of the Auditor and the Auditor's External Expert

- Relevant educational standards, and relevant regulatory or legal requirements.
- The auditor's external expert's consent to the auditor's intended use of that expert's report, including any reference to it, or disclosure of it, to others, for example, reference to it in the basis for a modified opinion in the auditor's report, if necessary, or disclosure of it to management or an audit committee.
- The nature and extent of the auditor's review of the auditor's external expert's work.
- Whether the auditor or the auditor's external expert will test source data.
- The auditor's external expert's access to the entity's records, files, personnel and to experts engaged by the entity.
- Procedures for communication between the auditor's external expert and the entity.
- The auditor's and the auditor's external expert's access to each other's working papers.
- Ownership and control of working papers during and after the engagement, including any file retention requirements.
- The auditor's external expert's responsibility to perform work with due skill and care.
- The auditor's external expert's competence and capability to perform the work.
- The expectation that the auditor's external expert will use all knowledge that expert has that is relevant to the audit or, if not, will inform the auditor.
- Any restriction on the auditor's external expert's association with the auditor's report.
- Any agreement to inform the auditor's external expert of the auditor's conclusions concerning that expert's work.

Communications and Reporting

- Methods and frequency of communications, including:
 - o How the auditor's external expert's findings or conclusions will be reported (for example, written report, oral report, ongoing input to the engagement team).
 - o Identification of specific persons within the engagement team who will liaise with the auditor's external expert.
- When the auditor's external expert will complete the work and report findings or conclusions to the auditor.
- The auditor's external expert's responsibility to communicate promptly any potential delay in completing the work, and any potential reservation or limitation on that expert's findings or conclusions.
- The auditor's external expert's responsibility to communicate promptly instances in which the entity restricts that expert's access to records, files, personnel or experts engaged by the entity.
- The auditor's external expert's responsibility to communicate to the auditor all information that expert believes may be relevant to the audit, including any changes in circumstances previously communicated.
- The auditor's external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, and any relevant safeguards that may eliminate or reduce such threats to an acceptable level.

Confidentiality

- The need for the auditor's expert to observe confidentiality requirements, including:
 - o The confidentiality provisions of relevant ethical requirements that apply to the auditor.
 - o Additional requirements that may be imposed by law or regulation, if any.
 - o Specific confidentiality provisions requested by the entity, if any.

GAESA 700

Forming the Opinion

Forming an Opinion and Reporting on Statement of Educational Conditions

Illustrations of Auditors' Reports on Statement of Educational Conditions

Objectives

The objectives of the auditor are:

- (a) To form an opinion on the Statement of Educational Conditions based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) To express clearly that opinion through a written report that also describes the

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) General purpose Statement of Educational Conditions.— Statement of Educational Conditions prepared in accordance with a general purpose framework.
- (b) General purpose framework.— A GAESA reporting framework designed to meet the common educational information needs of a wide range of users.
- (c) Unmodified opinion.— The opinion expressed by the auditor when the auditor concludes that the Statement of Educational Conditions are prepared, in all material respects, in accordance with the GAEP. (Paragraphs 35–36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.)

Reference to “Statement of Educational Conditions” in this GAESA means “a complete set of general purpose Statement of Educational Conditions, including the related notes.”

Related notes ordinarily comprise a summary of significant educational policies and practices and other explanatory information.

“Generally Accepted Education Principles” in this GAESA means those issued by the Asian Association of Schools of Business International.

Requirements

Forming an Opinion on the Statement of Educational Conditions

The auditor shall form an opinion, whether the Statement of Educational Conditions are prepared, in all material respects, in accordance with the GAEP.

To form that opinion, the auditor shall conclude whether reasonable assurance has been obtained that the Statement of Educational Conditions as a whole are free from material misstatement, whether due to fraud or error. The auditor shall take into account

- (a) the auditor's conclusion, whether Sufficient Appropriate Audit Evidence has been obtained,
- (b) the auditor's conclusion whether uncorrected misstatements are material, individually or in aggregate,.

The auditor shall evaluate whether the Statement of Educational Conditions are prepared, in all material respects, in accordance with the requirements of the GAEP. This evaluation shall include consideration

of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

In particular, the auditor shall evaluate whether, in view of the requirements of the GAEP:

- (a) The Statement of Educational Conditions adequately disclose the significant educational and accounting policies and practices, selected and applied;
- (b) The educational policies selected and applied are consistent with the GAEP and are appropriate;
- (c) The accounting and reporting standard selected and are consistent with the standard and are appropriate;
- (c) The estimates made by management are reasonable;
- (d) The information presented in the Statement of Educational Conditions is relevant, reliable, comparable, and understandable;
- (e) The Statement of Educational Conditions provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the Statement of Educational Conditions; and
- (f) The terminology used in the Statement of Educational Conditions, including the title of each Statement of Educational Condition, is appropriate.

Form of Opinion

The auditor shall express an unmodified opinion when concluding that the Statement of Educational Conditions are prepared, in all material respects, in accordance with the GAEP.

The auditor shall modify the opinion in the auditor's report, if the auditor:

- (a) concludes that, based on the audit evidence obtained, the Statement of Educational Conditions as a whole are not free from material misstatement; or
- (b) is unable to obtain Sufficient Appropriate Audit Evidence to conclude that the Statement of Educational Conditions as a whole are free from material misstatement.

The auditor shall discuss the matter with management if Statement of Educational Conditions prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, and, depending on the requirements of the GAEP and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report.

Auditor's Report

The auditor's report shall be in writing in hard copy format or an electronic medium.

Auditor's Report for Audits Conducted in Accordance with Generally Accepted Educational Standards on Auditing

Title

The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor, for example, "Independent Auditor's Report".

Addressee

The auditor's report shall be addressed as required by the circumstances of the engagement.

Introductory Paragraph

The introductory paragraph in the auditor's report shall:

- (a) Identify the entity whose Statement of Educational Conditions have been audited;
- (b) State that the Statement of Educational Conditions have been audited;
- (c) Refer to the summary of significant accounting policies and other explanatory information; and
- (e) Specify the date or period covered by each Statement of Educational Condition

comprising the Statement of Educational Conditions.

Management's Responsibility for the Statement of Educational Conditions

The auditor's report shall use the term for those that in the organization who are responsible for the preparation of the Statement of Educational Conditions that is appropriate in the context of the legal framework in the particular jurisdiction, which does not need to be "management". In some instances, the appropriate reference may be to those charged with governance.

The auditor's report shall include a section with the heading "Management's [or other appropriate term] Responsibility for the Statement of Educational Conditions."

The auditor's report shall describe management's responsibility for the preparation of the Statement of Educational Conditions. The description shall include an explanation that management is responsible for the preparation of the Statement of Educational Conditions in accordance with the GAEP, and for such internal control as it determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

The explanation of management's responsibility for the Statement of Educational Conditions prepared in accordance with a fair presentation framework shall refer in the auditor's report to

- "the preparation and fair presentation of these Statement of Educational Conditions" or
- "the preparation of Statement of Educational Conditions that give a true and fair view," as appropriate in the circumstances.

Auditor's Responsibility

The auditor's report shall include a section with the heading "Auditor's Responsibility."

The auditor's report shall state that the responsibility of the auditor is to express an opinion on the Statement of Educational Conditions based on the audit.

The auditor's report shall state that the audit was conducted in accordance with Generally Accepted Educational Standards on Auditing (GAESA).

The auditor's report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions are free from material misstatement.

The auditor's report shall describe an audit by stating that:

- (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions;
- (b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error.
- (c) In making those risk assessments referred to in (b) above, the auditor considers internal control relevant to the entity's preparation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement of Educational Conditions, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
- (c) An audit also includes evaluating the appropriateness of the educational policies and practices policies used, and whether the educational policies and practices used are in accordance with GAEP, and the reasonableness of estimates including accounting estimates made by management, as well as the overall presentation of the Statement of Educational Conditions.

The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Auditor's Opinion

The auditor's report shall include a section with the heading "Opinion." The auditor's opinion shall use, when expressing an unmodified opinion on fair presentation framework Statement of Educational Conditions, one of the following phrases, which are regarded as being equivalent, unless otherwise required by law or regulation:

- (a) The Statement of Educational Conditions present fairly, in all material respects, ... in accordance with GAEP; or
- (b) The Statement of Educational Conditions give a true and fair view of ... in accordance with GAEP.

Other Reporting Responsibilities

Other reporting responsibilities shall be addressed in a separate section in the auditor's report, that shall be subtitled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, if the auditor addresses other reporting responsibilities in the auditor's report on the Statement of Educational Conditions that are in addition to the auditor's responsibility under the GAESA to report on the Statement of Educational Conditions.

The auditor's report that contains a separate section on other reporting responsibilities, the headings, statements and explanations shall be under the sub-title "Report on the Statement of Educational Conditions." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Statement of Educational Conditions."

Signature of the Auditor

The auditor's report shall be signed.

Date of the Auditor's Report

The auditor's report shall be dated no earlier than the date on which the auditor has obtained Sufficient Appropriate Audit Evidence on which to base the auditor's opinion on the Statement of Educational Conditions, including evidence that:

- (a) All the statements that comprise the Statement of Educational Conditions, including the related notes, have been prepared; and
- (b) Those with the recognized authority have asserted that they have taken responsibility for those Statement of Educational Conditions.

Auditor's Address

The auditor's report shall name the location in the jurisdiction where the auditor practices.

Supplementary Information Presented with the Statement of Educational Conditions

The auditor's opinion shall cover supplementary information that is not required by the GAEP but is nevertheless an integral part of the Statement of Educational Conditions because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented.

Illustration 1

Illustrations of Auditors' Unmodified Report on Statement of Educational Conditions

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management's Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit. We conducted our audit in accordance with Generally Accepted Educational Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of educational policies and practices, and whether these educational policies and practices are in accordance with Generally Accepted Education Principles, including accounting policies used, and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement of Educational Conditions of ABC School of Business present fairly, in all material respects, (or *give a true and fair view of*) the educational conditions of ABC School of Business as at July 31, 20X1, and (*of*) its results of operation, including financial performance, for the year then ended in accordance with Generally Accepted Education Principles promulgated by the Asian Association of Schools of Business International.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

GAESA 705

Modifications to the Opinion

Modifications to the Opinion in the Independent Auditor's Report

Introduction

Types of Modified Opinions

The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The point that turns the issue giving rise to the modification goes to question of (i) whether the Statement of Educational Conditions are materially misstated or, (ii) in the case of an inability to obtain Sufficient Appropriate Audit Evidence, may be materially misstated; and
- (b) The auditor’s judgment about the pervasiveness of the effects or possible effects on the fairness of presentation of the Statement of Educational Conditions.

Types of Modified Opinions

The table below illustrates how the auditor’s judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the Statement of Educational Conditions, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Statement of Educational Conditions	
	Material but Not Pervasive	Material and Pervasive
Statement of Educational Conditions is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain Sufficient Appropriate Audit Evidence	Qualified opinion	Disclaimer of opinion

Objective

The objective of the auditor is to express clearly an appropriately modified opinion on the Statement of Educational Conditions when

- (a) the auditor concludes, based on the audit evidence obtained, that the Statement of Educational Conditions as a whole are not free from material misstatement, or
- (b) the auditor is unable to obtain Sufficient Appropriate Audit Evidence to conclude that the Statement of Educational Conditions as a whole are free from material misstatement.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

- (a) Pervasive.— A term used, in the context of misstatements, to describe the effects on the Statement of Educational Conditions of misstatements, or the possible effects on the Statement of Educational Conditions of misstatements, if any, that are undetected due to an inability to obtain Sufficient Appropriate Audit Evidence.

Pervasive effects on the Statement of Educational Conditions are those that, in the auditor's judgment:

- (i) Are not confined to specific categories, elements or items of conditions of the Statement of Educational Conditions;
- (ii) If so confined, represent or could represent a substantial proportion of the Statement of Educational Conditions; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the Statement of Educational Conditions.

(b) Modified opinion.— A qualified opinion, an adverse opinion or a disclaimer of opinion.

Requirements

Circumstances When a Modification to the Auditor's Opinion Is Required

The auditor shall modify the opinion in the auditor's report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the Statement of Educational Conditions as a whole are not free from material misstatement; or (Ref: Para. A2–A7)
- (b) The auditor is unable to obtain Sufficient Appropriate Audit Evidence to conclude that the Statement of Educational Conditions as a whole are free from material misstatement.

Qualified Opinion

The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained Sufficient Appropriate Audit Evidence concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the Statement of Educational Conditions; or
- (b) The auditor is unable to obtain Sufficient Appropriate Audit Evidence on which to base the opinion, but the auditor concludes that the possible effects on the Statement of Educational Conditions of undetected misstatements, if any could be material but not pervasive.

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained Sufficient Appropriate Audit Evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the Statement of Educational Conditions.

Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain Sufficient Appropriate Audit Evidence on which to base the opinion, and the auditor concludes that the possible effects on the Statement of Educational Conditions of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained Sufficient Appropriate Audit Evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the Statement of Educational Conditions due to the potential interaction of the uncertainties and their possible cumulative effect on the Statement of Educational Conditions.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

The auditor shall request that management remove the limitation imposed by management on the scope of the audit that the auditor has become aware of after accepting the engagement, and that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the Statement of Educational Conditions.

The auditor shall communicate the matter to non-executive governance, if management refuses to remove the limitation referred to in the preceding paragraph, and determine whether it is possible to perform alternative procedures to obtain Sufficient Appropriate Audit Evidence.

If the auditor is unable to obtain Sufficient Appropriate Audit Evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the Statement of Educational Conditions of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the Statement of Educational Conditions of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the Statement of Educational Conditions.

If the auditor withdraws, 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.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the Statement of Educational Conditions as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same GAESA reporting framework on a single Statement of Educational Condition or one or more specific elements, accounts or items of a Statement of Educational Condition. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the Statement of Educational Conditions as a whole.

Form and Content of the Auditor's Report When the Opinion Is Modified

Basis for Modification Paragraph

When the auditor modifies the opinion on the Statement of Educational Conditions, the auditor shall, in addition to the specific elements, include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate.

If there is a material misstatement of the Statement of Educational Conditions that relates to specific conditions, including but not limited to numbers, indexes, ratios or amounts in the Statement of Educational Conditions (including qualitative and quantitative disclosures), the auditor shall include in the basis for modification paragraph a description and quantification of the educational and financial effects of the misstatement, if practical. If it is not practicable to qualify or quantify the financial effects, the auditor shall so state with reasons in the basis for modification paragraph.

If there is a material misstatement of the Statement of Educational Conditions that relates to narrative disclosures, the auditor shall include in the basis for modification paragraph an explanation of how the disclosures are misstated.

If there is a material misstatement of the Statement of Educational Conditions that relates to the non-disclosure of information required to be disclosed, the auditor shall:

- (a) Discuss the non-disclosure with those charged with governance;
- (b) Describe in the basis for modification paragraph the nature of the omitted information; and
- (c) Include the omitted disclosures, provided it is practicable to do so and the auditor has obtained Sufficient Appropriate Audit Evidence about the omitted information.

If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the basis for modification paragraph the reasons for that inability.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the Statement of Educational Conditions, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

Opinion Paragraph

When the auditor modifies the audit opinion, the auditor shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the opinion paragraph.

The auditor shall state in the opinion paragraph, when expressing a qualified opinion due to a material misstatement in the Statement of Educational Conditions, that, in the auditor’s opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph

- the Statement of Educational Conditions present fairly, in all material respects (or give a true and fair view) in accordance with the GAEP.

When the modification arises from an inability to obtain Sufficient Appropriate Audit Evidence, the auditor shall use the corresponding phrase “except for the possible effects of the matter(s) ...” for the modified opinion.

The audit shall state in the opinion paragraph, when expressing an adverse opinion, that, in the auditor’s opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph

- the Statement of Educational Conditions do not present fairly (or give a true and fair view) in accordance with the GAEP.

The auditor shall state in the opinion paragraph, when disclaiming an opinion due to an inability to obtain Sufficient Appropriate Audit Evidence that:

- (a) Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor has not been able to obtain Sufficient Appropriate Audit Evidence to provide a basis for an audit opinion; and, accordingly,
- (b) The auditor does not express an opinion on the Statement of Educational Conditions.

Description of Auditor’s Responsibility When the Auditor Expresses a Qualified or Adverse Opinion

The auditor shall amend the description of the auditor’s responsibility, when expressing a qualified or adverse opinion, to state that the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s modified audit opinion. (GAESA 705, 26)

Description of Auditor’s Responsibility When the Auditor Disclaims an Opinion

The auditor shall amend the introductory paragraph of the auditor’s report to state that the auditor was engaged to audit the Statement of Educational Conditions, when the auditor disclaims an opinion due to an inability to obtain Sufficient Appropriate Audit Evidence, and also amend the description of the auditor’s responsibility and the description of the scope of the audit to state only the following:

“Our responsibility is to express an opinion on the Statement of Educational Conditions based on conducting the audit in accordance with Generally Accepted Educational Standards on Auditing. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain Sufficient Appropriate Audit Evidence to provide a basis for an audit opinion.”

Communication with Those Charged with Governance

The auditor shall communicate with governance the circumstances that led to the expected modification and the proposed wording of the modification, when the auditor expects to modify the opinion in the auditor's report.

Illustrations of Auditors' Reports with Modifications to the Opinion

- **Illustration 2:** An auditor's report containing a **qualified opinion** due to a material misstatement of the Statement of Educational Conditions.
- **Illustration 3:** An auditor's report containing an **adverse opinion** due to a material misstatement of the Statement of Educational Conditions.
- **Illustration 4:** An auditor's report containing a **qualified opinion** due to the auditor's inability to obtain Sufficient Appropriate Audit Evidence.
- **Illustration 5:** An auditor's report containing a **disclaimer of opinion** due to the auditor's inability to obtain Sufficient Appropriate Audit Evidence about a **single element** of the Statement of Educational Conditions.

Illustration 2: An auditor’s report containing a qualified opinion due to a material misstatement of the Statement of Educational Conditions.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management’s Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit. We conducted our audit in accordance with Generally Accepted Educational Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of educational policies and practices, and whether these educational policies and practices are in accordance with Generally Accepted Education Principles, including accounting policies used, and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Faculty Association has presented that the required course load at the School of Business exceeds three courses per semester, or six courses in the academic year, because of a shortage of faculty members in violation of GAEP with no attempts on the part of the School’s management taken bring the Schools within GAEP. The Faculty Association states that the average course load is 4½ courses without any award of overtime. Moreover, the Faculty Association states that certain faculty members have been dismissed for their criticism of management’s disrespect of generally accepted educational principles.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Educational Conditions of ABC Schools of Business present fairly, in all material respects, (or *give a true and fair view of*) the educational conditions of ABC School of Business as at July 31, 20X1, and (of) its results of operation, including financial performance, for the year then

ended in accordance with Generally Accepted Education Principles promulgated by the Asian Association of Schools of Business International.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

Illustration 3: An auditor’s report containing an adverse opinion due to a material misstatement of the Statement of Educational Conditions.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management’s Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit. We conducted our audit in accordance with Generally Accepted Educational Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of educational policies and practices, and whether these educational policies and practices are in accordance with Generally Accepted Education Principles, including accounting policies used, and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion

As explained in Note X, the School of Business’s educational licenses from the Ministry of Education has been suspended on September 1, 20XX [in previous year] on grounds that the School of Business undergraduate curriculum for accounting programs is deemed to be inadequate, and at the graduate level that all master’s programs fail to comply with Departmental regulations requiring the preparation of master’s thesis with the public being invited to the defense. The School of Business is resisting the Ministry of Education’s demands and has commenced legal action, lost at Federal Court of first instance and has filed an appeal to the Federal Court of Appeal. Under Generally Accepted Education Principles, the School should be in possession of all of the required licenses of its jurisdiction at all times, and if suspended, that suspension should be seen as temporary while the School makes all possible efforts to

comply which does not appear the case in the present situation as positions on both sides appear to have hardened, and there is a reasonable expectation that the Schools educational license will be withdrawn putting the entity's position as a going concern in doubt.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the Statement of Educational Conditions do not present fairly, in all material respects, (or *do not give a true and fair view of*) the educational conditions of ABC School of Business as at July 31, 20X1, and (*of*) its results of operation, including financial performance, for the year then ended in accordance with Generally Accepted Education Principles promulgated by the Asian Association of Schools of Business International.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 4: An auditor’s report containing a qualified opinion due to the auditor’s inability to obtain Sufficient Appropriate Audit Evidence.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management’s Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit. We conducted our audit in accordance with Generally Accepted Educational Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of educational policies and practices, and whether these educational policies and practices are in accordance with Generally Accepted Education Principles, including accounting policies used, and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

ABC School of Business’s investment in XYZ School of Business, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at July 31, 20X1, and ABC’s share of XYZ’s net income of xxx is included in ABC’s income for the year then ended. We were unable to obtain Sufficient Appropriate Audit Evidence about the carrying amount of ABC’s investment in XYZ as at July 31, 20X1 and ABC’s share of XYZ’s net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Educational Conditions of ABC Schools of Business present fairly, in all material respects, (or *give a true and fair view of*) the educational conditions of ABC School of Business

as at July 31, 20X1, and (of) its results of operation, including financial performance, for the year then ended in accordance with Generally Accepted Education Principles promulgated by the Asian Association of Schools of Business International.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 5: An auditor’s report containing a disclaimer of opinion due to the auditor’s inability to obtain Sufficient Appropriate Audit Evidence about a single element of the Statement of Educational Conditions.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management’s Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit in accordance with Generally Accepted Educational Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain Sufficient Appropriate Audit Evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The School of Business’s investment in its joint venture XYZ (Country X) School of Business is carried at xxx on the School of Business’s statement of financial position, which represents over 90% of the School of Business’s net assets as at July 31, 20X1. We were not allowed access to the management and the auditors of XYZ, including XYZ’s auditors’ audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the School of Business’s proportional share of XYZ’s assets that it controls jointly, its proportional share of XYZ’s liabilities for which it is jointly responsible, its proportional share of XYZ’s income and expenses for the year, and the elements making up cash flow and net assets (equity).

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph above, we have not been able to obtain Sufficient Appropriate Audit Evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Statement of Educational Conditions.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

GAESA 706

Emphasis of Matter Paragraphs

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Objective

The objective of the auditor who has formed an opinion on the Statement of Educational Conditions is to draw users' attention by way of clear additional communication in the auditor's report

- (a) to a matter, although appropriately presented or disclosed in the Statement of Educational Conditions, that is of such importance that it is fundamental to users' understanding of the Statement of Educational Conditions; or
- (b) as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

For purposes of the GAESA, the following terms have the meanings attributed below:

(a) **Emphasis of Matter paragraph.**— A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the Statement of Educational Conditions that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the Statement of Educational Conditions.

(b) **Other Matter paragraph.**— A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the Statement of Educational Conditions that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirements

Emphasis of Matter Paragraphs in the Auditor's Report

The auditor shall include an Emphasis of Matter paragraph in the auditor's report, provided the auditor has obtained Sufficient Appropriate Audit Evidence that the matter is not materially misstated in the Statement of Educational Conditions, if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the Statement of Educational Conditions that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the Statement of Educational Conditions. Such a paragraph shall refer only to information presented or disclosed in the Statement of Educational Conditions.

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the Statement of Educational Conditions in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

A regular use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication of such matters. In other words, to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the Statement of Educational Conditions may imply that the

matter has not been appropriately presented or disclosed; therefore, the use of an Emphasis of Matter paragraph should be limited to matters presented or disclosed in the Statement of Educational Conditions.

The auditor shall, when including an Emphasis of Matter paragraph in the auditor's Report,

- (a) include the Emphasis Matter paragraph immediately after the Opinion paragraph in the auditor's report;
- (b) use the heading "Emphasis of Matter," or other appropriate heading;
- (c) include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the Statement of Educational Conditions; and
- (d) indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Other Matter Paragraphs in the Auditor's Report

The auditor shall communicate a matter other than those that are presented or disclosed in the Statement of Educational Conditions that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, in a paragraph in the auditor's report, with the heading "Other Matter," or other appropriate heading, if the auditor considers it necessary to do so.

The auditor shall include this "Other Matter" paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.

Communication with Those Charged with Governance

The auditor shall communicate with governance regarding this expectation and the proposed wording of this paragraph, if the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report.

Appendix

To Emphasis of Matter Paragraph

Illustration 6

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Statement of Educational Conditions

We have audited the accompanying Statement of Educational Conditions of ABC School of Business as at July 31, 20X1, for the year then ended, and a summary of significant educational policies, practices and other explanatory information.

Management’s Responsibility for the Statement of Educational Conditions

Management is responsible for the preparation and fair presentation of this Statement of Educational Conditions in accordance with Generally Accepted Education Principles, and for such internal control as management determines is necessary to enable the preparation of Statement of Educational Conditions that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this Statement of Educational Conditions based on our audit. We conducted our audit in accordance with Generally Accepted Educational Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Educational Conditions is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Educational Conditions. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statement of Educational Conditions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Statement of Educational Conditions in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of educational policies and practices, and whether these educational policies and practices are in accordance with Generally Accepted Education Principles, including accounting policies used, and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Statement of Educational Conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The School of Business’s short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from Generally Accepted Education Principles. The School of Business’s records indicate that had management marked the marketable securities to market, the School of Business would have recognized an unrealized loss of xxx in the statement of income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at July 31, 20X1, and income tax, net income and net assets (equity) would have been reduced by xxx, xxx and xxx, respectively.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Educational Conditions of ABC Schools of Business present fairly, in all material respects, (or *give a true and fair view of*) the educational conditions of ABC School of Business as at July 31, 20X1, and (of) its results of operation, including financial performance, for the year then ended in accordance with Generally Accepted Education Principles promulgated by the Asian Association of Schools of Business International.

Emphasis of Matter

We draw attention to Note X to the Statement of Educational Conditions which describes the Uncertainty related to the outcome of the lawsuit filed against the School of Business by XYZ School of Business. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

GAESA 720

Other Information

The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Statement of Educational Conditions

Objective

The objective of the auditor is to prevent undermining the credibility of the Statement of Educational Conditions and the auditor's report by responding appropriately when documents containing audited Statement of Educational Conditions and the auditor's report thereon include other information.

Definitions

For purposes of the GAESA the following terms have the meanings attributed below:

- (a) Other information.— Educational, financial and non-financial information (other than the Statement of Educational Conditions and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited Statement of Educational Conditions and the auditor's report thereon.
- (b) Inconsistency.— Other information that contradicts information contained in the audited Statement of Educational Conditions. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the Statement of Educational Conditions.
- (c) Misstatement of fact.— Other information that is unrelated to matters appearing in the audited Statement of Educational Conditions that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited Statement of Educational Conditions.

Requirements

Reading Other Information

The auditor shall read the other information to identify material inconsistencies, if any, with the audited Statement of Educational Conditions.

The auditor shall make appropriate arrangements with management or governance to obtain the other information prior to the date of the auditor's report and read it as soon as practicable.

Material Inconsistencies

The auditor shall determine whether the audited Statement of Educational Conditions or the other information needs to be revised, if, on reading the other information, the auditor identifies a material inconsistency.

Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report

The auditor shall modify the opinion in the auditor's report in accordance with GAESA, "Modifications to the Opinion in the Independent Auditor's Report", if revision of the audited Statement of Educational Conditions is necessary and management refuses to make the revision.

The auditor shall communicate with non-executive governance, if revision of the other information is necessary and management refuses to make the revision (GAESA, “Communication with Those Charged with Governance”); and

- (a) include in the auditor’s report an Other Matter paragraph describing the material inconsistency in accordance with GAESA, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report,”
- (b) withhold the auditor’s report; or
- (c) withdraw from the engagement.

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor’s Report

The auditor shall follow the relevant requirements in GAESA 560, “Subsequent Events,” paragraphs 10–17, if revision of the audited Statement of Educational Conditions is necessary. (GAESA 720, 11)

The auditor shall carry out the procedures necessary under the circumstances, if revision of the other information is necessary and management agrees to make the revision. (GAESA 720, 12, A8 below)

The auditor shall notify non-executive governance of the auditor’s concern regarding the other information and take any further appropriate action, if revision of the other information is necessary, but management refuses to make the revision. (GAESA 720, 13, A9)

Material Misstatements of Fact

The auditor shall discuss the matter with management., if, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact.

The auditor shall request management to consult with a qualified third party such as the entity’s legal counsel, if, following discussions with management the auditor still considers that there is an apparent material misstatement of fact, and consider the advice received.

If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify non-executive governance of the auditor’s concern regarding the other information and take any further appropriate action including legal advice from the auditor’s legal counsel.

GAESA 730

Types of Prospective Information & Their Uses

Definition of Prospective Statement of Educational Conditions

Prospective Statement of Educational Conditions. — Prospective Statement of Educational Conditions are either (1) *forecasts*, or (2) *projections*, that include significant assumptions and application policies.

Definition of forecast. — A *forecast* is defined as a prospective Statement of Educational Condition that presents, to the best of the responsible party's knowledge and belief, the entity's expected (future) education condition and financial position based on the entity's reasonably objective basis for assumptions of expected conditions to exist and its expected course of action. A forecast is based on contractual conditions, facilities and programs that are currently in existence, including contractual conditions expected to be perfected, programs authorized and expected to be implemented, and facilities under construction and expected to be completed, within the forecast period.

Projection. — A *projection* is defined as prospective Statement of Educational Condition that presents, to the best of the responsible party's knowledge and belief, the entity's educational condition and financial position as in the question, "What would happen if...?" A projection(s) and/or partial presentation(s) may NOT be distributed to outside parties who will not negotiate directly with the entity ("responsible party").

General use. — The use by persons with whom the entity (the "responsible party") is not negotiating directly. (AAG-PRO 3.12)

Limited use. — The use by the entity ("responsible party") alone, or by a person(s) with whom the entity is negotiating directly, eg bank for obtain a loan.

Definition of hypothetical assumption

A hypothetical assumption is used in a projection to present a condition and/or course of action that is not necessarily expected to occur as in a response to a question, "What would happen if...?"

Definition of key factors

Key factors are basic to the entity's operations affecting, eg enrollment, delivery of educational programs and services, and financial activities, and serve as a foundation for prospective information as the bases for management's assumptions.

General Use v. Limited Use

Prospective information is either for general use or for limited use.

For General Use

General users are parties with whom the entity (referred to as the "responsible party") is not negotiating directly, eg in an offering statement of the entity's debt or equity interests.

Only forecasts are appropriate for general use, because the recipients are unable to ask the responsible party directly about the presentation of the prospective Statement of Educational Conditions.

The entity should have a reasonably objective basis for each element for its assumption (informed judgments about past and future events shared by people knowledgeable in the entity's activities and business) that require a measure of the quality of information necessary to present a forecast.

If the responsible party does not have a reasonably objective basis for its assumptions, it may be able to present *prospective financial information* for limited use.

For Limited Use

Limited users are the responsible party (or entity) itself, or are third parties with whom the responsible party is negotiating directly, eg another school of business, sponsoring organization, bank for a loan, submissions to a regulatory authority or board. Third party recipients are in a position to ask questions of the responsible party, thus the presentation may in the format of a financial forecast based on conditions that are expected to exist, or in the format of a financial projection based on one or more hypothetical ("what if") courses of action.

A financial projection(s) and/or partial presentation(s) may not be distributed outside parties who will not negotiate directly with the entity ("responsible party").

The distinction between *limited use* and *general use* is not dependent on the number of users, but on whether the user negotiates directly (limited use), or does not negotiate directly (general use) with the entity ("responsible party").

Formats

Prospective financial information for general use based on forecasts should be presented in the form of comparative information together with, and in the format of, current and historical Statement of Educational Conditions that would be issued for the period covered, unless agreement with the user(s) specifies another format.

Prospective financial information for limited use and presented separately from the annual Statement of Educational Conditions preferably should be in the format of current and historical Statement of Educational Conditions that would be issued for the period covered, unless agreement with the user(s) specifies another format.

GAESA 740

Examination Procedures for Prospective Statements

Examination Procedures for Prospective Statement of Educational Conditions, Engagement Letters and Practitioner's Examination Report

Introduction

Forecasts (for general use) and projections (for limited use) are similar in many respects so that the guidance below applies to both, unless differentiated using the term *For financial projections* to show a modification for projections.

Examination Procedures

Practitioner should establish an understanding with the reporting entity, including objectives of the engagement, documenting the responsible party's responsibilities, the practitioner's responsibilities, and the limitations of the engagement preferably in writing.

The practitioner's objective in an examination of a forecast is to accumulate sufficient appropriate evidence to limit attestation risk to a level that is, in the auditor's professional judgment, appropriate for the level of assurance, that the forecast is presented in conformity with GAEP presentation guidelines, and whether the assumptions provide a reasonable basis for management's forecast that may be imparted by the examination report.

For projection: The auditor provides assurance that the assumptions provide a reasonable basis for the financial projection, given their hypothetical nature.

The auditor should consider the following issues to determine the extent of examination procedures:

- a. Nature and materiality of the information to the forecast taken as a whole.
- b. Likelihood of misstatements.
- c. Knowledge obtained during current and previous engagements.
- d. Competence of the responsible party with respect to forecast preparation.
- e. Responsible party's judgment in selecting the assumptions used.
- f. Adequacy of responsible party's underlying data.

Prospective Period

GAEP limit the prospective period for presentation for general use (forecast) in the annual Statement of Educational Conditions to one academic year. Prospective future periods of projections for limited use do not have a limit on the time horizon.

Procedures to Evaluate Assumptions

The auditor performs those procedures deemed necessary to determine whether the assumptions are reasonable for the forecast. If the forecast contains a range, the representations should also generally contain a statement that, to the best of the responsible party's knowledge and belief, the item(s) subject to the assumption are expected to actually fall within the range, which was not selected on a biased or misleading manner. Listing all assumptions is inherently not feasible. Frequently, basic assumptions that have enormous potential impact are considered to be implicit, such as conditions of peace and the absence of natural disasters.

For projection: "As the number and significance of hypothetical assumptions increase, the auditor may not be able to satisfy himself or herself about the presentation as a whole by obtaining support for the remaining assumptions.

Development of Assumptions

Prior year Statement of Educational Condition analysis may help identify principal elements and factors on which the entity's educational conditions and results depend, including financial positions and results, relevance and overall completeness of the elements and factors identified as well as the risks inherent in the activity and business.

Support for Assumptions

Preponderance of information (the weight of available information) supports significant assumptions considered in the aggregate.

For projections: The auditor need not obtain support for the hypothetical assumptions "what if", but they must be consistent with the presentation.

Although the auditor can reach a conclusion that the assumptions provide a reasonable basis for the presentation, s/he cannot conclude that any outcome is expected because (a) realization of the projection may depend on the responsible party's intentions, which cannot be examined, (b) the substantial inherent uncertainty in the assumptions, (c) some of the information accumulated about an assumption may appear contradictory, and (d) different but similarly reasonable assumptions concerning a particular matter might be derived from common information.

Most scrutiny is required for assumptions that are

- a. material to the prospective amounts
- b. especially sensitive to variations
- c. deviations from historical trends
- d. especially uncertain.

Evaluation of assumptions should consider

- a. government and industry publications, educational forecasts, legislation (existing or proposed), changes in technology
- b. consistency of assumptions with sources
- c. consistency of assumptions among each other
- d. reliability assessed by inquiry and analytical procedures
- e. market surveys,
- f. engineering studies,
- g. general educational indicators,
- h. industry statistics, trends and patterns.

Evaluating Preparation and Presentation

The auditor's examination will provide reasonable assurance that

- a. The presentation reflects the assumptions
- b. the extensions are mathematically correct
- c. the assumptions are internally consistent
- d. educational policies and practices, and accounting principles, are consistent with those that would be used in the historical Statement of Educational Conditions for prospective period(s).

The auditor should obtain written representations from the reporting entity, signed by the highest level of authority, acknowledging its responsibility for the assumptions, stating:

Forecasts:

- That the forecast presents, to the best of the responsible party's knowledge and belief, the expected educational condition and results, financial position and results, for the forecast period.
- That the forecast reflects the responsible party's judgment, based on present circumstances, of the expected conditions and its expected course of action.
- That the assumptions on which the forecast is based are reasonable.
- That the item(s) subject to the assumption are expected to actually fall within the range (if the forecast contains a range), and that the range was not selected in a biased or misleading manner.

Projections:

- That the projection presents, to the best of the responsible party's knowledge and belief, the expected educational conditions and results, financial position, results of operations, and cash flows for the projection period given the hypothetical assumptions.
- That the projection reflects its judgment, based on present circumstances, of expected conditions and its expected course of action given the occurrence of the hypothetical events.
- Identification of the hypothetical assumptions.
- A description of the limitations of the usefulness of the presentation.
- A statement that the assumptions are appropriate.
- Indicate if the hypothetical assumptions are improbable.
- If the financial projection contains a range, a statement that
 - To the best of the responsible party's knowledge and belief, given the hypothetical assumptions
 - The item(s) subject to the hypothetical assumptions are expected to actually fall within the range,
 - And that the range was not selected in a biased or misleading manner.

Using the Work of a Specialist

The auditor may encounter matters that require the use of a specialist from the field of education with related management, planning and research experience, engineer, economist, investment banker, or architect.

Assumptions Dependent on the Actions of Users

A projection should disclose that the responsible party believes that the forecast represent the entity's expected educational conditions and results, financial position, results of operations, cash flows and net assets (equity), only if the prospective action of the parties referred to in the forecast takes place, eg relocation of main campus, educational licensing of doctoral program(s), institutional merger, acquisition, issue of debt or equity, etc.

Auditor's Report

The auditor may issue an unqualified examination report, if the assumption(s) is reasonable on its face; but if the possible outcomes are many, the auditor would be required to obtain support for the assumptions before issuing an unqualified examination report. (AAG-PRO 15.40)

Documentation

The auditor should prepare and maintain attest documentation as a record of attest procedures applied, information obtained, and conclusions or findings reached by the auditor in the engagement, the quantity, type, and content of which are matters of the auditor's professional judgment.

Examples of attest documentation in paper form, electronic form, or other media are

- Work programs
- Analyses

- Memoranda
- Letter of confirmation and representation
- Abstracts
- Copies of entity documents
- Schedules or commentaries

prepared or obtained by the auditor.

Attest documentation is the property of the auditor. The auditor should retain attest documentation for a period of time sufficient to meet the needs of his practice and legal or regulatory retention requirements, observing confidentiality requirements. (AAG-PRO 15.45 and .46)

Procedures to Evaluate the Preparation and Presentation of the Financial Forecast (AAG-PRO 15.54)

- a. Test mathematical accuracy
- b. Evaluate appropriateness of mathematical equations, statistical techniques, or modeling procedures, recomputed on a test basis, trace aggregate amounts to financial forecast
- c. Compare listed assumptions with those used in the forecast
- d. Determine that effects of each assumption on all related amounts have been reflected in the presentation
- e. Look for contradictions of assumptions
- f. Review relationship between financial and other relevant data
- g. Review adjustments made
- h. Trace indexes, numbers and amounts to documents and records of historical data if used for part of the forecast period

For financial projections: The above procedures are to be supplemented by

- g. disclosing the limitations on the usefulness of the presentation
- h. educational policies and practices, and accounting principles, used should be consistent with the purpose of the presentation
- i. The number of hypothetical assumptions should not be excessive.
- j. The hypothetical assumptions should be identified as hypothetical.