Small and Medium sized enterprises
Audit Approach: Risk Assessment and Responses to Risks (Practical examples)

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About Small and Medium Enterprises (SMEs)

- As per the World Bank, SMEs play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 60% of total employment and up to 40% of National Income (GDP) in emerging economies.

- India: Goal of the new government to make $5 Trillion economy by 2024 with the mantra “Sabka Saath, Sabka Vikas, Sabka Vishwas”.

- ‘SME’: As per Micro, Small and Medium Enterprises Development (MSMED) Act, 2006:

<table>
<thead>
<tr>
<th>Manufacturing Sector</th>
<th>Service Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Investment in Plant and Machinery)</td>
<td>(Investment in Equipments)</td>
</tr>
<tr>
<td>Small: &gt; ₹ 0.25 cr. &lt; ₹ 5 cr.</td>
<td>Small: &gt; ₹ 0.10 cr. &lt; ₹ 2 cr.</td>
</tr>
<tr>
<td>Medium: &gt; ₹ 5 cr. &lt; ₹ 10 cr.</td>
<td>Medium: &gt; ₹ 2 cr. &lt; ₹ 5 cr.</td>
</tr>
</tbody>
</table>

- ‘Enterprise’ means an industrial undertaking or a business concern or any other establishment, by whatever name called engaged in manufacturing and production of goods or engaged in providing or rendering of any service / services.
Small and Medium Sized Enterprises (SMEs)

- Institute of Chartered Accountants of India:
  - With respect to applicability of **Accounting Standards to Small and Medium Sized Enterprises (SMEs)**, enterprises are classified into three categories: Level I, Level II and Level III.
  - Level II and Level III are considered as SMEs
    - Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
    - which is not a bank, financial institution or an insurance company;
    - All commercial, industrial and business reporting enterprises, whose turnover (excluding other income) of immediately preceding accounting period on the basis of audited financial statements does not exceed ₹ 50 cr.,
    - Borrowings (including public deposits) at any time during the immediately preceding accounting year does not exceed ₹ 10 cr.; and
    - which is not a holding or subsidiary enterprises of any one of the above at any time during the accounting period.

<table>
<thead>
<tr>
<th>Level II</th>
<th>Level III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover:</strong> &gt; ₹ 0.40 cr. &lt; ₹ 50 cr.</td>
<td><strong>Turnover:</strong> &lt; ₹ 0.40 cr.</td>
</tr>
<tr>
<td><strong>Borrowings:</strong> &gt; ₹ 1 cr. &lt; ₹ 10 cr.</td>
<td><strong>Medium:</strong> &lt; ₹ 1 cr.</td>
</tr>
</tbody>
</table>
Small and Medium Sized Enterprises (SMEs)

- **Typical attributes:**
  - Concentration of ownership and management in small number of individual(s)
  - Few sources of income and uncomplicated activities
  - Simple and personalized record-keeping
  - Limited internal controls together with the potential of management override of controls
  - Outsourcing of activities

- **Key areas that matter:**
  - **Financial concerns** e.g. Limited Capital, liquidity and sources of funds, Credits
  - **Talent management** e.g. Skilled employees, remuneration and retention
  - **Regulatory** e.g. Taxes and hoard of compliances, evolving regulations
  - **Industry performance** e.g. NBFC’s, Real Estate sector,
  - **Strategic planning** e.g. Product mix, Geography mix, Customer mix, competition
  - **Technology** e.g. Obsolesces, new technology and expansion needs
Small and Medium Sized Enterprises (SMEs)

- Smaller clients do not necessarily mean easier audits
- Growth and Quality
- Risk of failure leading to excessive work
- Quality Client Retention
- Downward pressure on fees
- Talent Retention

“Risk of Material Misstatement due to Fraud or Error”
Auditing Standards
Auditing Standards: Overall objective of Independent Auditor... (SA 200)

- **Standard on Auditing (SA)** establishes the **independent auditor’s overall responsibilities** when conducting an audit of financial statements in accordance with the SAs.

- **SAs contain objectives, requirements and application and other explanatory material** that are designed to support the auditor in obtaining reasonable assurance.

- Require that the auditor **exercise professional judgment** and **maintain professional skepticism** throughout the planning and performance of the audit and, among other things:
  - **Identify and assess risks of material misstatement, whether due to fraud or error**, based on an understanding of the entity and its environment, including the entity’s internal control.
  - **Obtain sufficient appropriate audit evidence** about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
  - **Form an opinion on the financial statements** based on conclusions drawn from the audit evidence obtained.

- **Objective of the Auditor**: **To obtain reasonable assurance about whether the financial statements a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion...**
Audit Standard: Overall objective (SA 200)

- **Audit Risk**: The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit Risk is a function of Risk of Material Misstatement and detection risk.

- **Misstatement**: A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

- **Risk of material misstatement (ROMM)**: The risk that the financial statements are materially misstated prior to audit. Consists of two components, described as follows at the assertion level:
  (i) **Inherent risk**: The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
  (ii) **Control risk**: The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control.

- **Detection risk**: The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements. **Inverse relationship with ROMM**.
SA 200.18 complying with SAs Relevant to the Audit: The auditor shall comply with all SAs relevant to the audit. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist.

Timeliness of financial reporting and the balance between benefit and costs:
- The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
- Appropriate planning assists in making sufficient time and resources available for the conduct of the audit.
- There is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost.
Focus Areas for this Session:

- **200-299 General Principles and Responsibilities**

- **300-499 Risk Assessment and Response to Assessed Risks**
  - SA 300, Planning an Audit of Financial Statements
  - SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
  - SA 320, Materiality in Planning and Performing an Audit
  - SA 330, The Auditor’s Responses to Assessed Risks
  - SA 402, Audit Considerations Relating to an Entity Using a Service Organisation
  - SA 450, Evaluation of Misstatements Identified During the Audit

- **500-599 Audit evidence**
- **600-699 Using work of other Auditors**
- **700-799 Audit Conclusions and Reporting**
- **800-899 Specialized Areas**
- **2000-2699 Standards on review engagements (SREs)**
Audit Approach

Preliminary Engagement Activities

- Assess Engagement Risk
- Acceptance and continuance decision
- Agree the terms of the audit engagement

Understand and plan

- Obtain an understanding of the entity and its environment including entity’s internal control
- Determine Materiality
- Identify material classes of transaction, accounts balances and disclosures
- Identify and assess the risk of material misstatement, including any that are assessed as significant
- Design responses to address the assessed risk of material misstatement
- Prepare, document and communicate audit plan

Perform and Evaluate

- Perform audit procedures as planned
- Perform concluding analytical procedure
- Evaluate the sufficiency and appropriateness of audit evidences
- Evaluate the impact of misstatement identified during the audit on the overall scope and effects on the financial statements

Conclude

- Perform subsequent event review
- Obtain written representation
- Form an opinion and report on the financial statements
- Communication

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Audit Sutra:

“What Can Go Wrong ?”
Audit Planning - SA (300)

- **Involvement of Key Team Members**
  - Engagement Partner led

- **Preliminary Engagement Activities**
  - Continuance of client relationship (SA 210)
  - Evaluate ethical requirements, including Independence
  - Establish an understanding the terms of engagement (SA 210)

- **Planning activities**
  - Establishment of overall audit strategy – Scope, Time and Direction of audit
  - Development of Audit Plan – Nature time and extent of risk assessment procedures, planned further audit procedures at assertion level, other planned audit procedures.

- **Documentation** – Audit Strategy / Audit Plan and any significant changes

- **Initial Audit Engagements** – Acceptance of client engagement, communication with earlier auditor, Review Predecessor auditor’s work papers, if allowed, Procedures for opening balances.
Considerations Specific to Smaller Entities:

Audit Strategy:
- For Smaller teams, not a time consuming exercise. Subjective.
- A brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner/manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters.

Direction / Supervision and Review:
- In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Self review risks.
- It may be desirable to consult with other suitably-experienced auditors or the auditor’s professional body.

Documentation:
- Brief memorandum may serve as the documented strategy.
- For Audit Plan: Standard Audit Programs / checklists drawn up on the assumption of few relevant control activities, tailored to entity and risks.
AUDIT PLANNING ANALYTICS
IDENTIFYING RISK EARLY
You have four hours on risk assessments and your time starts now...
Risk assessment procedures

Audit procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the ROMM, whether due to fraud or error, at the financial statement / assertion level.

Continuous and dynamic process of gathering, updating and analysing information.

SME: Formal process unlikely. Risk identified through management’s involvement.

Risk assessment procedures and related activities:

Risk assessment procedures by itself do not provide appropriate audit evidence on which to base the audit opinion.

Procedures include:

Inquiries of the Management, of appropriate individuals within the internal audit function (if it exists), and of others within the entity who may have information that is likely to assist in identifying ROMM due to fraud or error.

Analytical procedures: (SMEs may not have interim / monthly information)

Observation and Inspection

Assess relevance of information during acceptance and continuance process.

Consider relevance of previous experience with Company and previous audits

Engagement Partner to discuss with Team areas of Material Misstatements
**Risk of Material Misstatement – SA (315)**

- **Understanding the entity and its environment**
  - Nature of industry, regulatory and other external factors
  - Nature of entity – operations, ownership, its investments, structure and finance
  - Selection and application of accounting policies
  - Entities Objectives and Strategies

- **Entity’s Internal Controls relevant to audit:** (SME: Less structured and simpler processes and procedures)
  - Design and implementation: Perform procedures in addition to inquiry
  - **Components of Controls:**
    - **Control environment:** Culture of Honesty and Ethical Behavior, Environment
    - **Risk Assessment Process:** Process for identification of Business Risks, likelihood and actions to address
    - **Information Systems:** Transactions, Processes (Automated / Manual), capturing other events and conditions, financial reporting process, journals
    - **Control activities:** Relevant for assessment of ROMM at assertion level and design responsive audit procedures.
    - **Monitoring of Controls:** Internal Audit Functions responsibilities, IUC’s, etc.
Considerations specific to SMEs:

- Governance – No independent or outside member, directly by owner / managers.
- Often have fewer employees: limit segregation of duties.
- Audit evidence for control environment not be documented. More informal communications and less structured.
- Information systems less sophisticated.
- Control Activities: mainly P/L items
- Owner-manager may be able to exercise more effective oversight than in a larger entity.
- However, the owner-manager may be more able to override controls because the system of internal control is less structured.
- between management and other personnel may be informal, yet effective.
- Consider this when identifying the risks of material misstatement due to fraud.
- The attitudes, awareness and actions of management or the owner-manager important to understanding control environment
"Yes! Our financial data is covered. No one will ever audit us!"
Identifying and Assessing the Risk of Material Misstatements:

- **Financial Statement level** and **Assertion level** for class of transactions, account balances and disclosures
- **Identify Risks all through out**
  - Assess the identified risks and evaluate whether pervasive to Financial Statements as a whole or potentially affect many assertions
  - Relate the identified risks to ‘**WHAT CAN GO WRONG**’ at assertion level.
  - **Consider likelihood of a Misstatement and its resulting into ROMM**

Risks that require Special Consideration:

- The auditor shall determine whether any of the risks identified are, in the auditor’s judgment, a ‘**Significant Risk**’:
  - Often relate to Non-routine or Judgement matter
  - **Consider**: whether Risk of Fraud, Risk related to significant economic, accounting or other developments, likely changes in regulatory environment etc. and requires specific attention, the Complexity of Transactions, Significant related party transactions, degree of subjectivity in measurements, transactions outside normal course of business.
- If Significant Risks exists, then obtain an understanding of Entity’s Controls / Control activities relevant to that risks.
Risk of Material Misstatement – SA (315)

- **Risk of Material Misstatements at assertion level**: Helps determine the nature, timing and extent of further audit procedures.
  - **Events for the period (Assertions):**
    - **Occurrence**: Recorded transactions or events have occurred / pertain to entity.
    - **Completeness**: All transactions and events have been recorded.
    - **Accuracy**: Amounts and other data have been recorded appropriately.
    - **Cut-off**: Transactions and events have been recorded in the correct period.
    - **Classification**: transactions and events recorded in the proper accounts.
  
- **Account balances at the period end (Assertions):**
  - **Existence**: assets, liabilities, and equity interests exist.
  - **Rights and obligations**: the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
  - **Completeness**: All items that should have been recorded have been recorded.
  - **Valuation and allocation**: All items included at appropriate amounts.

- **Presentation and disclosure (Assertions):**
  - **Occurrence and rights and obligations**: Disclosed events of entity have occurred
  - **Completeness**: all disclosures that should have been included.
  - **Classification and understandability**: Appropriate presentation / disclosure
  - **Accuracy and valuation**: Disclosed fairly and at appropriate amounts.
## Risk of Material Misstatement – SA (315)

<table>
<thead>
<tr>
<th>Account balances</th>
<th>Occurrence</th>
<th>Completeness</th>
<th>Accuracy</th>
<th>Cut-off</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Goods / Services</td>
<td>Sales backed with actual deliveries?</td>
<td>Invoiced for all deliveries, and revenue recognised?</td>
<td>Sales have been recognised correctly?</td>
<td>Revenue recognised in correct period?</td>
<td>Use of appropriate Revenue ledger account?</td>
</tr>
<tr>
<td>Materials Consumed</td>
<td>Cost recorded only for material consumed?</td>
<td>Costs for all the material consumed?</td>
<td>Material Consumption is accurately calculated and recorded?</td>
<td>Expensed in the period of actual consumption?</td>
<td>Consumption vs. Write-off vs. expensed - appropriate Account balances?</td>
</tr>
<tr>
<td>Employee costs</td>
<td>Employee expense for valid employees only?</td>
<td>Costs for all employees on rolls?</td>
<td>Accurate calculation based on agreements / other records?</td>
<td>Costs accrued in the correct period?</td>
<td>Appropriate recording of various costs components?</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>Valid expenses recorded?</td>
<td>All expenses incurred have been recorded?</td>
<td>Expenses have been correctly computed / recorded?</td>
<td>Expensed in the correct period?</td>
<td>Recorded in correct account balances. Revenue vs. Capital ensured?</td>
</tr>
<tr>
<td>Finance Costs</td>
<td>Interest / Other costs recorded for valid borrowings?</td>
<td>Costs for the period recorded?</td>
<td>Costs calculated as per contractual terms?</td>
<td>Costs recoered in correct period?</td>
<td>Recorded in correct account balances. Revenue vs. Capital ensured?</td>
</tr>
<tr>
<td>Depreciation and Amortisation</td>
<td>Depreciation recorded for all assets capitalised?</td>
<td>Depreciation recorded for the period in use?</td>
<td>Calculated using accurate useful life / Rate and correct computation?</td>
<td>Depreciation charge recorded in appropriate period?</td>
<td>Use of appropriate ledger account? Capital vs. Revenue?</td>
</tr>
</tbody>
</table>
### Risk of Material Misstatements at Assertion Level

<table>
<thead>
<tr>
<th>Account balances</th>
<th>Existence</th>
<th>Rights and Obligations</th>
<th>Completeness</th>
<th>Valuation and Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant and Equipments</td>
<td>Assets physically exists?</td>
<td>Entity has legal title of the assets?</td>
<td>All assets 'Ready to put to use' capitalised?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Investments</td>
<td>Investments exists?</td>
<td>Entity has legal title of the investments?</td>
<td>All investments are recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Inventories</td>
<td>Inventory physically exists?</td>
<td>Entity has title / Right over inventory?</td>
<td>All inventory are recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Accounts Receivables</td>
<td>Receivables are Confirmed?</td>
<td>Receivables are out of valid sales?</td>
<td>All receivable balances recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Cash and Bank Balances</td>
<td>Cash exists in physical and Bank balances confirmed?</td>
<td>Entity has right over the cash and bank account?</td>
<td>All transactions recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Loans</td>
<td>Loans exists?</td>
<td>Contractual arrangement back with Periodic confirmations?</td>
<td>All obligations have been recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Equity Share Capital</td>
<td>Equity Shares have been issued?</td>
<td>Entity has been duly issued the equity shares?</td>
<td>All approved issues and allotments have been recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Borrowings</td>
<td>Borrowings exists?</td>
<td>Valid Obligation?</td>
<td>All obligations have been recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Trade Payables</td>
<td>Goods / Services availed for which obligation recorded?</td>
<td>Is it valid obligation?</td>
<td>All obligations have been recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
<tr>
<td>Liabilities and Provisions</td>
<td>Are there any claims / conditions against which liabilities exists?</td>
<td>Is there a valid obligation to pay?</td>
<td>All obligations have been recorded?</td>
<td>Appropriately valued and adjustments recorded?</td>
</tr>
</tbody>
</table>
Risk of Material Misstatement – SA (315)

- Risks for which Substantive Procedures alone do not provide sufficient appropriate audit evidence:
  - Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing.
  - In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.

- Revision of Risk Assessment:
  - Assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.
  - Revise the assessment and modify the further planned audit procedures.

- Documentation:
  - Significant decisions reached.
  - Key elements of understanding obtained, sources of information, Risk assessment procedures performed.
  - Identified and assessed ROMM at the Financial statement / Assertion levels
  - Risks identified, and related controls for which understanding obtained.
Planned responses to Assessed Risks – SA (330)

- Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level:

- **Overall responses:**
  - Emphasizing to audit team the need to maintain professional skepticism.
  - Assign more experienced staff or those with special skills or using experts.
  - Provide more supervision
  - Incorporate unpredictability in the selection of further audit procedures
  - Make general changes to the nature, timing and extent of audit procedures.

- Assessment of ROMM at Financial Statement Level is also affected by the understanding of the Control environment.
Planned responses to Assessed Risks – SA (330)

- **Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level:**
  - **Nature, Timing** and **Extent** are based on and responsive to assessed risk.
  - **By its Purpose:** Test of Controls or Substantive procedures; **By its type:** Inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedures
  - Assessed risk affects both the type of procedures and their combination. Reasons for the assessment given to a risk are relevant in determining the nature of audit procedures.
  - **Timing:** Test controls or substantive procedures at an interim date or period end.
    - Higher the ROMM, likely to perform substantive procedures at period end
    - Alternatively, Interim procedures helps identify significant matters earlier.
  - **Extent:** Consider the materiality, the assessed risk, and the degree of assurance.
    - Use of computer-assisted audit techniques enable more extensive testing.

- **In designing the audit procedures:**
  - Consider reasons for assessment given to ROMM at the assertion level for each class of transaction, account balance and disclosure, including its likelihood and whether assessment takes into account the relevant controls.
  - Obtain more pervasive evidence the higher the assessment of Risk.
Responses to Assessed Risks – SA (330)

- **Test of Controls**: To obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, when:
  - Risk assessment includes an expectation that controls are operating effectively.
  - Substantive procedures alone cannot provide sufficient appropriate audit. Besides inquiry, check how controls are applied, its consistency, by whom and by what means they are applied.

- **Timing of Controls testing**: At a particular time or through the period

- **Using audit evidence obtained during interim period**:
  - Obtain audit evidence about subsequent changes to the interim period.
  - Obtain additional audit evidences for the remaining period.

- **Using audit evidences obtained in previous audits**:
  - Length of time period that may elapse before retesting a control
    - Consider Control environment, whether automated or manual, effectiveness of General IT Controls, effectiveness of controls and past deviations
    - Whether lack of change in a particular control poses a risk
  - Establish continuing evidence by obtaining audit evidence – Perform enquiry with observation and inspection
Responses to Assessed Risks – SA (330)

- **Substantive Procedures:**
  - **Irrespective of the assessed ROMM,** Design and Perform substantive procedures for each class of transactions, account balance and disclosure.
  - Consider whether external confirmation procedures are to be performed as Substantive Audit Procedures.

- **Substantive Procedures relating to Financial Statement Closing Process:**
  - Agreeing or reconciling the financial statements with the underlying accounting records; and
  - Examining material journal entries and other adjustments made during the course of preparing the financial statements.

- **Substantive Procedures Responsive to Significant Risks:**
  - When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

- **Timing of Substantive Procedures:**
  - When substantive procedures are performed at an interim date, the auditor shall cover the remaining period.
  - Misstatements during Interim: Reassess nature, timing and extent.
Responses to Assessed Risks – SA (330)

- **Documentation:**
  - The auditor shall document:
    (a) The overall responses to address the assessed risks of material misstatement at the financial statement 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) The results of the audit procedures, including the conclusions where these are not otherwise clear.

- If audit evidences about the operating effectiveness of controls obtained in previous audits used, then document the conclusions reached about relying on such controls that were tested in a previous audit.

- Documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.
Considerations specific to SMEs:

- Not be many control activities that could be identified by the auditor.
- Extent to which their existence or operation have been documented may be limited.
- It may be more efficient for the auditor to perform further Substantive audit procedures.
SME Audits: Future of the Audit Professionals

- Enhanced focus on Regulations, Technology and Compliances.

- Simpler businesses do not necessarily mean an easier audit:
  - Fewer financial controls, more related-party transactions, lower capacity to close the books (i.e., accuracy of accruals and provisions), and can be subject to some complex taxation requirements.
  - Fewer, more experienced professionals involved in the audit can bring many benefits and efficiencies to the audit process.

- Downward pressure on SME audit fees
  - Smaller clients ready to pay for audits that add value and good business advice.
  - How to operate with a “trusted business advisor” practice model.

- Performing excessive audit work vs. performing enough work:
  - Having complete knowledge of relevant auditing standards, coupled with experience in making good professional judgments, is essential for SME audit efficiency.

- Evolving markets and new services require to make significant investments in skills and technology and to move away from the traditional practice model and develop new ways of operating.
Questions
Thank You