

## Nordic Standard for Audits of Small Entities

### Illustrative Questions and Answers

Below are some of the questions that have been received during the development of the Draft Standard with corresponding answers to help your understanding of the standard.

1. Can you explain the main differences with this standard compared to the ISAs?

*The purpose of developing the SASE standard was to establish a high quality, principles based, stand-alone audit standard, tailored specifically to audits of small entities.*

*The standard is built using the same core audit principles (obtain knowledge of the audited entity, identify audit risk (incl. internal control), determine materiality, gather sufficient appropriate audit evidence and reasonable assurance) as in most audit standards used today. The standard has more generic documentation requirements than the ISAs but must demonstrate sufficient and appropriate evidence as the basis for the auditor's report; and evidence that the audit was planned and performed in accordance with this standard and applicable legal and regulatory requirements.*

*This standard has less detailed requirements than the ISAs and puts greater emphasis on the use of the auditor's professional judgement, this was done as part of developing a principles based standard tailored for small entities. This is reflected in the standard with more generic requirements and that the auditor will have to consider certain specific circumstances when designing audit procedures rather than having to perform specific predefined procedure.*

*Examples of areas where this standard places greater emphasis on the use of professional judgement;*

- *Attendance at inventory count*  
*In this standard attendance at the inventory count is not mandated, it is left up to the auditor's professional judgement to decide which procedures are most effective and efficient to address the risks identified. This may include attendance at the inventory count but based on judgement and not because of requirements.*
- *Management representation letter*  
*Rather than always requiring a management representation letter the standard requires the auditor to evaluate the need to obtain written representation to confirm certain matters or to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements. In addition, the auditor is given considerations to help perform this evaluation.*
- *Revenue recognition*  
*As revenue recognition may not always be a risk for all audits it is not a presumed risk. Instead, the auditor shall as part of the risk assessment, evaluate existence of fraud relating to revenue recognition.*

2. What kind of audits is the standard designed for?

*The SASE standard has been developed for audits of financial statements of small entities. Characteristics of entities that are below the mandatory audit threshold in the EU auditing directive have served as a baseline when developing the standard. Some of these characteristics are normally reflected by less complex business models and operations, informal internal controls, few and not complex IT-systems and few owners. These characteristics do not limit the use of the standard but have been used to develop the requirements and tailor the standard.*

3. How does this standard deal with ethical requirements and the firm's responsibility for quality control?

*When applying the SASEs standard the auditor shall comply with relevant ethical requirements (for example IESBA code of ethics), including those pertaining to independence, relating to financial statement audit engagements. In addition, the International Standards on Quality Control (ISQCs) must be applied for audits performed in accordance with this standard.*

4. Is this standard ISA compliant?

*The SASE standard is an audit standard that has as a goal to provide an audit report with reasonable assurance, in the same way as the ISAs. The ISAs have not served as a starting point for developing the standard. The starting point has been to identify the requirements that are necessary to perform an audit of high quality for small entities.*

*The standard is based on the same core risk based audit principles that support ISAs. Therefore the standard can be said to be ISA compatible, but not ISA compliant. The SASE standard is tailored for audit of small entities and therefore does not have specific requirements that are considered to be not relevant for those entities. Instead, this standard is more principles based and gives the auditor more room for professional judgement in performing the audit.*

5. How does this standard deal with important issues where there is an expectation that the auditor applies independent actions and procedures? For example: Fraud, going concern and estimates.

*The SASE standard is, as the ISAs, risk based but is more conceptual than in the ISAs and tailored specifically for small entities. Therefore, instead of requiring specific procedures to identify risks the auditor shall perform "Those procedures deemed necessary, using professional judgment to be able to identify risk...". When it comes to designing the specific procedures responding to identified risk, the auditor is given considerations to aid the design of such procedures, together with use of professional judgement in designing the most effective and efficient procedures.*

Example – Fraud

**Risk Assessment**

*"... The risk assessment procedures shall include those procedures deemed necessary, using professional judgment, to be able to; identify potential fraud risk, including the*

*risk of management override of controls also when no fraud risk factors have been identified”*

***Considerations when designing substantive procedures to address fraud risks:***

- *“the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements, and consider the need to test journal entries in the general ledger and other adjustments made throughout the period,*
- *The business rationales for significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.”*

6. The SASE standard appears to be biased towards use of substantive procedures compared to test of controls, why?

*As part of tailoring the standard to audits of small entities and their characteristics, less focus has been put on internal controls, since these in many cases are fewer and less formal. The standard is therefore built on the assumption that substantive procedures in most cases will be the auditor’s response to the identified risk. However, this does not restrict use of tests of controls. The decision on whether to test controls or to perform substantive procedures, or a combination of both, is up to the auditor’s professional judgement, based on the risk assessment and understanding of the entity. The audit shall be designed, planned and performed to ensure that identified risk is reduced to an acceptable level.*

7. Why is the audit report different than the one we use today?

*The illustrative audit report for the SASE standard is tailored specifically to audits of small entities and the users of their financial statement. The audit report is based on the minimum requirements in the EU directive and may be modified for specific national requirements.*