Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	Sustainability – ISSA 5000	**Date:**	14 June 2023
ATG Staff:	Rene Herman	**Agenda Item:**	4

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	AUASB are requested to provide any fatal flaw comments into Proposed ISSA 5000 – refer paragraphs 3-5 below.
Question 2	AUASB members are requested to provide input into potential domestic guidance on elements of ISSA 5000 – refer paragraph 6 below.
Question 3	AUASB members are requested to provide any comments to be considered by the ATG as it relates to outreach on Proposed ISSA 5000 in the second half of 2023 – refer paragraphs 7-8 below.
Question 4	Does the AUASB support an out of session vote mid-August 2023 to issue Proposed ISSA 5000 in Australia – refer paragraph 10 below?

Background and Previous Discussions on Topic

1. In drafting ISSA 5000, the IAASB has focused on several priority areas as agreed by the IAASB in their project proposal. These are the areas of greatest challenge in sustainability assurance engagements as identified from the IAASB's information-gathering activities and stakeholder outreach.

Priority Areas	***Proposed ISSA 5000***
The difference in **work effort between limited and reasonable assurance**, including sufficiency of evidence.	➢ ISSA 5000 clearly distinguishes between Limited Assurance and Reasonable Assurance, particularly in relation to the practitioner's work effort for risk identification and assessment and responses to those risks. ➢ ISSA 5000 "signposts" certain requirements that are presented side-by-side in a table format to highlight the differences between Limited Assurance and Reasonable Assurance.

Priority Areas	*Proposed ISSA 5000*
The **suitability of the reporting criteria**, including addressing concepts such as "double materiality."	➢ The preconditions for acceptance or continuance of a sustainability assurance engagement include that the criteria to be used are suitable and will be available to the intended users. Guidance is provided on the characteristics of suitable criteria. ➢ ISSA 5000 recognises that criteria established by a Reporting Framework, may refer to double materiality - financial materiality as well as impact materiality. The concept of double materiality will be emphasised in parts of the proposed standard
The **scope** of the assurance engagement	ISSA 5000 requires an evaluation of the appropriateness of the: ➢ Scope of sustainability information to be reported (in view of the requirements of the reporting framework); and ➢ Scope of the engagement (the extent of sustainability information subject to assurance) Fundamental to these evaluations are that the entity has a reasonable basis for reporting the information and that the engagement has a rational purpose.
Evidence, including the reliability of information and what constitutes sufficient appropriate evidence	ISSA 5000 incorporates recent thinking on evidence from the IAASB's exposure draft on revisions to ISA 500[1]. Additionally, ISSA 5000 will incorporate thinking from the revised ISA 540[2].
The entity's **system of internal control** and its impact on the ability of the practitioner to obtain sufficient appropriate evidence.	ISSA 5000 requires an understanding of the entity's control environment for Limited Assurance (some components of the environment) and for Reasonable Assurance (more focus on control activities and monitoring of the system of internal control). ISSA 5000 acknowledges in the guidance material the maturity of the entity's processes and controls.
Materiality in the context of the assurance engagement, including materiality in the context of narrative and qualitative information.	ISSA 5000 recognises that professional judgments about materiality are not affected by the level of assurance. The proposed standard provides qualitative and quantitative factors to consider when setting materiality and when evaluating identified misstatements in concluding whether a material misstatement exists.

[1] Proposed ISA 500 *Audit Evidence*
[2] ISA 540 *Auditing Accounting Estimates and Related Disclosures*

2. There are additional challenge areas which the IAASB has sought to include in this overarching standard. These challenges were raised by stakeholders, including Australian stakeholders, during the IAASB's information gathering and research activities and include use of experts, estimates including forward looking information and other information.

Other Challenge Areas	*Proposed ISSA 5000*
Experts and other practitioners	ISSA 5000 clarifies which individuals form part of the engagement team and addresses the circumstances in which work of another practitioner that has already been performed for a different purpose can be used for purposes of the assurance engagement. The thinking in ISSA 5000 is aligned to the newly revised ISA 220[3]. A practitioner's external expert is not part of the engagement team. Accordingly, to be able to use the work of a practitioner's external expert, proposed ISSA 5000 requires the engagement team to be sufficiently involved in the work to be performed by such expert and brings in the concepts from ISA 620[4].
Estimates including forward looking	ISSA 5000 incorporates thinking on estimates from ISAE 3410 updated with reference to the revised ISA 540[5].
Other Information	Reflecting that the market is expecting reasonable assurance on sustainability reporting to be comparable to audits of financial statements, ISA 720[6] has been used as the basis in drafting the requirements for the practitioner's responsibilities in relation to Other Information. There are no required procedures on Other Information available after the date of the assurance report reflecting that many sustainability assurance engagements may be narrow in scope, and the other information may be voluminous.

Matters for Discussion and ATG Recommendations

Input into Proposed ISSA 5000

3. A link to the requirements of ISSA 5000 is provided [here]; a link to the application material of ISSA 5000 is provided [here]

4. Proposed ISSA 5000 will be voted out for exposure at the upcoming June 2023 IAASB meeting. While at this stage of the project it is unlikely that significant changes will be made to the Proposed standard, AUASB members are requested to provide any **Fatal Flaw** type comments.

5. It is expected to take approximately 1 year from exposure draft date to finalisation of the standard, so there is significant time for stakeholder feedback to be received and incorporated into the final standard.

[3] ISA 220 *Quality Management for an Audit of Financial Statements and Other Historical Financial Information*
[4] ISA 620 *Using the Work of an Auditor's Expert*
[5] ISA 540 *Auditing Accounting Estimates and Related Disclosures*
[6] ISA 720 *The Auditor's Responsibilities Relating to Other Information*

Domestic guidance

6. Considering the priority areas identified internationally and domestically and as referred to in paragraphs 1 and 2 above, AUASB members are asked to provide input into aspects of Proposed ISSA 5000 that may require additional guidance to operationalise the standard. AUASB members are requested to provide input into how such guidance could be developed and the form that it may take including whether such guidance should be incorporated into the Proposed ISSA 5000 (refer paragraph 5 above) or whether it is best suited to be tackled domestically.

Outreach plan

7. A detailed outreach plan on ISSA 5000 will be prepared and shared with the AUASB. Outreach will include communications regarding the released of the standard, online education, and physical roundtables. Outreach will be targeted at government, users, preparers, regulators, standard setters, practitioners (both accounting and non-accounting), professional bodies and academics.

8. An Australian roundtable, being led by Chair of the ISSA 5000 Taskforce, is expected to occur in October 2023, details are still be formulated. It is expected that the Chair of the ISSA 5000 Taskforce will also be involved in other outreach sessions in Australia, details are still to be formulated.

Next steps/Way Forward

9. The targeted date for approval of Proposed ISSA 5000 by the IAASB is 28 June 2023, with the expected publish date of 1 August 2023 for a 120-day exposure period. It is expected that the ATG would seek to release the Australian exposure draft by mid-August 2023.

10. The AUASB was provided a full draft of ISSA 5000 at the March 2023 AUASB meeting and again now for the June 2023 meeting. While there will be changes made to the Proposed ISSA 5000 at the upcoming June IAASB meeting, the ATG do not expect these changes to be substantive in nature and consider that the overall project objectives will not change. Additionally, the ATG does not expect there to be any Australian specific considerations and that releasing this exposure draft in Australia, will be a wraparound of ISSA 5000 with no additional Australian specific content. To affect this release, the ATG proposes an out of session vote via email correspondence in mid-August 2023.

11. Submissions will be due to the IAASB at the beginning of December 2023, so the ATG may need to consider the timing of an AUASB meeting to discuss the AUASB submission to the IAASB.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	LCE – proposed standard	**Date:**	5 June 2023
ATG Staff:	Rene Herman / Matthew Zappulla	**Agenda Item:**	5.0

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	From a **global perspective**, does the AUASB have any comments on updated **Authority** of the ISA for Audits of LCE's as contained in Appendix 1 to this Agenda Paper and as outlined in paragraph 4 to 7 of this Agenda Paper?	The ATG does not consider there are any fatal flaws in proposed LCE Authority, and supports the narrow scope of the Authority as currently drafted. The ATG however will seek clarity of paragraph A2 of the Authority and the implications for use of Service Organisations.
Question 2	From an **Australian perspective** and as outlined in paragraphs 9 – 12 of this Agenda Paper, preliminary AUASB views are sought in terms of **potential adoption of this Standard in Australia** including views on: • **Restrictions as a result of Laws or Regulations** • **Modifications to PIE** • **Quantitative criteria**	Refer to paragraphs 10 – 12 of this Agenda Paper. The preliminary views of the AUASB are sought on this matter. The ATG will conduct further discussion and consultation with the Regulators to obtain their positions on this matter before the IAASB are likely to approve the LCE standard in September 2023.

Background and Previous Discussions on Topic

1. In July 2021, the IAASB issued the Exposure Draft on *Auditing of Financial Statements of Less Complex entities*. The AUASB's response, compiled after extensive consultation, supported the concept of the IAASB developing a standalone standard targeted at LCE audits. However, in its current form, the AUASB considered that the proposed standard would add to the audit expectation gap, with users perceiving that the proposed standard results in a less robust audit, reduced audit effort and consequently an inappropriate expectation of reduced audit fees. The main concerns expressed by the AUASB were:

   (a) Perception that the proposed standard is a lesser quality or scaled down audit product, especially if the use of the proposed ED-ISA for LCE Standard needs to be explicitly identified in the auditor's report;

   (b) Expectation of reduced work effort being applied than would be expected under the full suite of ISAs, despite the proposed level of assurance being the same; and

(c) Perception that regulators may not accept the use of this proposed standard on audits which are required by local statutory or regulatory requirements.

2. In January 2024 based on stakeholder feedback to the initial Exposure Draft, the IAASB exposed a new Part 10 to the proposed standard, dealing with Group Audits. At its May 2023 meeting the AUASB approved a written response to this Exposure Draft supporting the IAASB's proposals to include group audits into the scope of the LCE standard, but not supporting the proposal to scope out group audits when a component auditor is used. The IAASB has yet to analyse responses to this Exposure Draft and this is expected to be discussed at a mid-quarter IAASB call in August 2023.

Matters for Discussion and ATG Recommendations

3. The Proposed LCE standard has been substantively updated by the IAASB, with a possible date to release the revised standard being September 2023. Whilst a full copy of the current version of the proposed LCE standard has been included as a reference for AUASB members in the Supplementary Board papers at **Agenda Item 5.1**, he ATG requests that the AUASB focuses on 2 areas at the June 2023 AUASB meeting:

   (a) Issues related to the development of the global standard (refer paragraphs 4-7 of this agenda paper); and

   (b) Domestic Australian considerations related to the potential application of the LCE standard in our jurisdiction (refer paragraphs 9-12 of this agenda paper).

Issues related to the development of the global standard

Authority of the Standard

4. Overall, the intent of the IAASB is to significantly narrow the usage of the proposed standard and the Authority of the standard has been designed as such. The Authority to the standard (Appendix 1 to this Agenda Item) deals with 3 distinct areas:

   (a) Specific prohibitions (paragraph A1 of Appendix 1): essentially listed entities, PIE or where law or regulation prohibits.

   (b) Qualitative characteristics (paragraph A2-A3 of Appendix 1): intended to be considered both individually and in combination –the ATG specifically draws the AUASB's attention to paragraph 5 below.

   (c) Quantitative characteristics (paragraph A4 of Appendix 1): to be determined locally but with the intent of the IAASB clearly outlined.

5. Paragraph A2 of the Authority notes that the ISA for LCE does not include any requirements addressing ''*The auditor's use of a report on the description, design, or operating effectiveness of controls at a service organization (i.e., a type 1 or type 2 report), as an auditor of a typical LCE would ordinarily not need to rely on such a report.*'' The Task Force decided not to include requirements related to the reports on the description, design, or operating effectiveness of controls at a service organisation (i.e., type 1 or type 2 reports) in the ISA for LCE. The Task Force remained of the view that type 1 or type 2 reports are not often used as audit evidence to support the auditor's understanding of the design and implementation of controls at the service organisation for an LCE audit. It is noted that the auditor may obtain a copy of the type 1 or 2 report and use it for its general understanding of the entity but that these reports are not often used as audit evidence (i.e., relied upon). This insert into Paragraph A2 will be discussed at the upcoming June 2023 IAASB meeting.

6. Impacting the decision made regarding requirements related to service organisation reports is the ability to refer to the ISAs or create modules which was discussed at the June 2022 IAASB meeting, and it was decided that the ISA for LCE should be a stand-alone standard. The issues paper being presented to the IAASB at June 2023 notes that ''the Task Force is of the view that it is not appropriate to allow for the use of ISAs or to create modules''. However, seemingly contradictory to this is that paragraph P.1B from the standard notes the following: *When an audit engagement is undertaken using this standard, the International Standards on Auditing do not apply to the engagement. They may, however, provide additional guidance in relation to an audit performed in accordance with the ISA for LCE.* The ATG will seek clarity on this area noting that it not only impacts requirements around service organisations, but for the LCE audit in general.

7. Other than the potential implications of the matter described in paragraph 5 and 6 above, the ATG does not consider there are any fatal flaws in proposed LCE Authority and supports the narrow scope of the Authority as currently drafted. From a **global perspective**, does the AUASB have any comments on updated Authority of the ISA for Audits of LCE's as contained in Appendix 1 to this Agenda Paper and as outlined in paragraph 4 to 7 of this Agenda Paper?

Other matter for AUASB information

8. Refer perception issue as noted in paragraph 1(a) of this agenda item, the auditor's report will still reference the ISA for LCE standard based on stakeholder feedback, regulator concerns and overall transparency. At the time of our outreach, our stakeholders had mixed views about the approach taken in ED-ISA for LCE Standard with regard to auditor reporting requirements (that is a statement that the audit was conducted under the ISA for LCE). However, there was a clear consensus that including the requirement in the proposed standard that the auditor's report state that the audit was conducted under a separate LCE standard means users of the auditor's report may perceive that the separate standard results in a lower level of assurance, a less robust audit approach and reduced audit effort. In turn this raised concerns about the use of the LCE standard resulting in an unintended expectation of reduced audit fees.

Domestic Australian Considerations

9. From an Australian perspective, the AUASB will need to determine whether the proposed standard will be adopted in Australia and if so, what amendments to the Authority may be required. The AUASB's preliminary views are sought on these matters.

Potential local amendments to the Authority of the Standard

10. The **specific prohibitions** to use the standard include where law or regulation prohibits or where the entity is a Public Interest Entity (PIE).

    (a) Currently Australian law (including the Corporations Act and the ACNC Act) states that where an audit is required, it is to be conducted under the AUASB standards. So, if the LCE standard was adopted in Australia, there is currently no law or regulation that would prohibit the use of the LCE Standard. Australian Regulators (for example ASIC or the ACNC) may consider whether they would impose any regulations on the usage of this standard. *The ATG will conduct further discussion and consultation with the Regulators to obtain their positions on this matter before the IAASB are likely to approve the LCE standard in September 2023*.

    (b) Currently the APESB definition of a PIE is wider than that contained within A1(c) of the proposed standard, so the *ATG recommends that the Authority will need to be amended for Australian purposes to align with the APESB's PIE definition in APES 110*.

11. Other than the matter of service organisations referred to in paragraph 5 above, which may need to be revised, the ATG does not consider any amendments to the **Qualitative characteristics** of the Authority are necessary for local purposes. The qualitative characteristics are based on the auditor's professional judgement and should not be different across different jurisdictions.

12. The **Quantitative aspects** of the Authority of the LCE standard in Australia would need to be determined by the AUASB. The ATG suggests that well established reporting thresholds are used rather than establishing a new set of criteria. There are various options available for consideration[1]. To align with local public accountability reporting requirements the ATG recommends the application of the existing Corporations Act large/small company threshold as the most appropriate base for our local LCE standard Authority.[2]

    This matter will require careful consideration as the current Australian 'large/small company' thresholds are larger than the IAASB's 'thinking' as included in A4 of the Authority (NB: the guidelines included in the Authority of the proposed IAASB standard are not prescriptive, it is indicative thinking only).

13. From an **Australian perspective**, preliminary AUASB views are sought in terms of adoption of this Standard in Australia including views on each of these matters:

    - Restrictions as a result of Laws or Regulations
    - Modifications to PIE
    - Quantitative criteria

Next steps/Way Forward

14. The ATG expects finalisation of the LCE Standard at the September 2023 IAASB meeting. After approval by the IAASB, PIOB approval will be sought. The ATG expects the final standard to be issued in Q4 2023. At this time, the AUASB will consider the adoption of the standard within Australia.

15. The ATG recommends outreach on any proposed amendments to the Authority of the LCE standard and that an Australian amended authority is exposed within Australia for public comment.

Materials Presented

Agenda Item	Description
5.1 (*SP)	Clean – Proposed ISA LCE

*SP: AUASB Supplementary Papers Pack

[1] For example, AASB Tier 1 and 2; ACNC thresholds

[2] A company is considered a Large Proprietary Company if:

- the consolidated revenue for the financial year of the company and any entities it controls is $50 million or more
- the value of the consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more, and
- the company and any entities it controls have 100 or more employees at the end of the financial year.

APPENDIX 1

Authority of the ISA for Audits of Financial Statements of Less Complex Entities

Content shaded in grey is not proposed for discussion with the Board at this time.

<u>*Content of this Part*</u>

Part A sets out the Authority for determining the appropriate use of the ISA for LCE.

The ISA for LCE is designed to enable the achievement of the overall objectives of the auditor, given the typical nature and circumstances of an LCE. There are limitations to the use of the ISA for LCE, which are designated into three categories, including specific prohibitions, qualitative characteristics, and quantitative thresholds. Part A also describes the responsibilities for legislative or regulatory authorities or relevant local bodies with standard-setting authority to support the appropriate use of this standard. For the purposes of this Part, the use of "LCE" or "entity" also refers to a group (i.e., where the audit is an audit of group financial statements).[3]

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE (i.e., they do not address complex matters or circumstances). If the ISA for LCE is used for an audit outside the intended scope of this standard, compliance with the requirements of the ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.

The Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide) provides further guidance for legislative or regulatory authorities or relevant local bodies with standard-setting authority when addressing their respective responsibilities as described in this Part. In addition, the Authority Supplemental Guide further explains matters that may be relevant for firms and auditors in the determination whether the use of the ISA for LCE is appropriate.

Limitations for Using the ISA for LCE

Limitations for using the ISA for LCE are designated into three categories:

- *Specific classes of entities for which the use of the ISA for LCE is prohibited (i.e., specific prohibitions);*
- *Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE for the audit of the financial statements of that entity; and*
- *Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.*

3 A "group" is a reporting entity for which group financial statements are prepared and "group financial statements" are financial statements that include the financial information of more than one entity or business unit through a consolidation process. The term "consolidation process" as used in the ISA for LCE is not intended to have the same meaning as "consolidation" or "consolidated financial statements" as defined or described in financial reporting frameworks. Rather, the term "consolidation process" refers more broadly to the process used to prepare group financial statements. The Glossary (**Appendix 1**) describes the meanings attributed to certain terms for the purpose of the ISA for LCE, including the meaning of group and group financial statements.

In determining the appropriate use of the ISA for LCE, all three categories are to be considered.

Specific Prohibitions

Paragraph A.1. sets out the classes of entities for which the use of this standard is specifically prohibited.

A.1. The ISA for LCE shall not be used if:

(a) Law or regulation prohibits the use of the ISA for LCE or specifies the use of auditing standards other than the ISA for LCE for an audit of financial statements in that jurisdiction.

(b) The entity is a listed entity.

(c) The entity falls into one of the following classes:

(i) An entity one of whose main functions is to take deposits from the public;

(ii) An entity one of whose main functions is to provide insurance to the public; or

(iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.

[(d) The audit is an audit of group financial statements (group audit) and:

(i) Any of the group's individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c); or

(ii) Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets).]

A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a store with multiple branches. When those business units have characteristics such as separate locations, separate management, separate general ledger and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.

In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA for LCE.

Component Auditors

A component auditor is an auditor who performs audit work related to a component[4] for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

[4] A component is an entity, business unit, function or business activity, or some combination thereof, determined by the auditor responsible for the group audit for the purposes of planning and performing audit procedures in a group audit.

Part 3 contains requirements in relation to engagement quality, including relevant ethical requirements, and the direction and supervision of the members of the engagement team, and the review of their work.

When the auditor responsible for the group audit performs audit procedures related to a component, the auditor is not considered a component auditor.

A.2. The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific sub-sets within a class to be able to use this standard or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

Qualitative Characteristics

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE.

The ISA for LCE has not been designed to address:

- *Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.*
- *Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership, corporate governance arrangements, or policies, procedures or processes established by the entity.*

Also, the ISA for LCE does not include any requirements addressing:

- *Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.*
- *When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of a typical LCE.*
- *The auditor's use of a report on the description, design, or operating effectiveness of controls at a service organization (i.e., a type 1 or type 2 report), as an auditor of a typical LCE would ordinarily not need to rely on such a report.*

A.3. The following list describes characteristics of a typical LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute, and other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination. For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units.

Business Activities, Business Model & Industry	The entity's business activities, business model or the industry in which the entity operates do not give rise to significant pervasive business risks. There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements). The entity's transactions result from few lines of business or revenue streams.
Organizational Structure and Size	The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).
Ownership Structure	The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.
Nature of Finance Function	The entity has a centralized finance function, including centralized activities related to financial reporting. There are few employees involved in financial reporting roles (e.g., 5 individuals or less).
Information Technology (IT)	The IT environment of the entity, including its IT applications and IT processes, is straightforward. The entity uses commercial software and does not have the ability to make any program changes other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds). Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations. Few formalized general IT controls are needed in the entity's circumstances.
Application of the Financial Reporting Framework and Accounting Estimates	Few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgment in applying the requirements of the financial reporting framework. The entity's financial statements ordinarily do not include accounting estimates that involve the use of complex methods or models, assumptions or data.

[Additional Characteristics Relevant for Group Audits	
For group audits, the following qualitative characteristics are to be considered in addition to those above:	
Group Structure and Activities	The group has few entities or business units (e.g., 5 or less). Group entities or business units are limited to few jurisdictions (e.g., 3 or less).
Access to Information or People	Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the auditor.
Consolidation Process	The group has a simple consolidation process. For example: • Financial information of all entities or business units has been prepared in accordance with the same accounting policies applied to the group financial statements; • All entities or business units have the same financial reporting period-end as that used for group financial reporting; • There are no sub-consolidations; and • Intercompany, or other consolidation adjustments are not complex.]

Notwithstanding that professional judgment is applied in determining whether this standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in this Authority, the use of the ISA for LCE is not appropriate.

Quantitative Thresholds

A.4. Determining quantitative thresholds assists in the consistent and appropriate use of the ISA for LCE in a jurisdiction. This section anticipates that legislative or regulatory authorities or relevant local bodies with standard setting authority will determine quantitative threshold(s) for use of the ISA for LCE in their respective jurisdictions.

Guidance on setting quantitative thresholds is described further in the Authority Supplemental Guide. Quantitative thresholds may be set, for example, for all applicable entities within the jurisdiction in general, or different thresholds may be set for entities within a specific or certain industry(ies) or for certain classes of entities. In doing so, consideration is to be given to the specific prohibitions for use of the ISA for LCE and the qualitative characteristics of a typical LCE, as set out in this Part, as well as other specific circumstances or needs that may be relevant in the jurisdiction. While complexity is not always directly relative to the size of an entity or its activities, complexity often increases when key quantitative measures (e.g., revenue, total assets, employee numbers etc.,) increase.
When determining quantitative thresholds for the use of the ISA for LCE, existing definitions or thresholds in a jurisdiction developed, which may be developed for different purposes may be considered. The IAASB discussed definitions or thresholds used in a broad range of

economies, including the:

- *European Commission's definition of a "small enterprise."*[5] *A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed EUR 10 million.*
- *National Entrepreneur and SME Development Council of Malaysia's definitions of a "small entity."*[6] *These definitions use different quantitative thresholds depending on the nature of the entity's business. For example, a small manufacturing entity is defined as an entity with revenue of less than RM 15 million or having less than 75 employees, whereas a small entity providing services or operating in other sectors is defined as an entity with revenues of less than RM 3 million or having less than 30 employees.*

The IAASB discussed that these definitions or thresholds may be appropriate examples for a jurisdiction to consider when determining quantitative thresholds, adjusted for the economic and other circumstances of the jurisdiction.

When the auditor is determining whether the ISA for LCE is appropriate to use, quantitative thresholds are to be considered in addition to the specific prohibitions in paragraph A.1. and the qualitative characteristics in paragraph A.3.

Responsibilities of Legislative or Regulatory Authorities or Relevant Local Bodies

Decisions about the required or permitted use of the IAASB's International Standards (including the International Standards on Auditing (ISAs) and the ISA for LCE) rest with legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, jurisdictional / national auditing standard setters, professional accountancy organizations or others as appropriate) in individual jurisdictions. As part of the local adoption and implementation process, it is anticipated that legislative or regulatory authorities or relevant local bodies with standard-setting authority:

- *May add or modify the classes of entities in paragraph A.1.(c) as set out in paragraph A.2.*
- *Determine quantitative thresholds described in paragraph A.4.*

In doing so, the specific prohibitions, qualitative characteristics and quantitative thresholds should be considered, as well as other specific needs that may be relevant in the jurisdiction.

[5] Source: https://single-market-economy.ec.europa.eu/smes/sme-definition_en.

[6] Source: https://smemalaysia.org/sme-definition/

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	Fraud – ISA 240	**Date:** 5 June 2023	
ATG Staff:	Rene Herman	**Agenda Item:**	6.0

Purpose of Agenda Paper

1. The purpose of this agenda paper is to:

   a. obtain AUASB member views and input in relation to the proposed ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; and

   b. provide AUASB members (no AUASB action required) with a high-level summary of the AUASB's feedback to the IAASB on the initial Discussion Paper and a status update as to how the AUASB's feedback has been incorporated (or not) into the proposed revisions to ISA 240.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members have any comments / input / suggestions in relation to the content included in Proposed ISA 240 as it relates to the areas of: • auditor's responsibilities (refer paragraph 6 of this agenda paper); • professional scepticism (refer paragraph 7 of this agenda); • communications with those charged with governance (refer paragraph 8 of this agenda paper); • risk identification and assessment (refer paragraph 9 of this agenda paper); • work requirements when a fraud is identified (refer paragraph 10 of this agenda paper); and • transparency through the auditor's report (refer paragraph 11 and Appendix 2 of this agenda paper)
Question 2	Do AUASB members have any other wider comments / input / suggestions in relation to any other aspects of Proposed ISA 240 [including in the areas of estimates (paragraphs 28, 51-52), journal entries (paragraphs 49-50 and Appendix 4) and presumption of ROMM due to fraud in revenue recognition (paragraph 41) and technology[1]]?

[1] Paragraphs A5, A9, A28, A31, A33, A35, A49A, A50, A55, A59, A80, A92, A114, A116, A117, A119A, A138, A140, A144, A147, A166

Background and Previous Discussions on Topic

2. The AUASB provided input into the initial IAASB Discussion Paper – see Appendix 1 to this Agenda Paper for a summary of AUASB input and feedback to the IAASB and a status update as to how the AUASB's feedback has been incorporated (or not) into the proposed revisions to ISA 240. NB: <u>All matters raised by the AUASB have been addressed/considered as part of the revisions to ISA 240.</u>

3. The project proposal to revise ISA 240 was agreed in December 2021 and included the following project objectives:

    a. Clarify the role and responsibilities of the auditor for fraud;

    b. Promote consistent behaviour and facilitate effective responses to identified risks of material misstatement due to fraud;

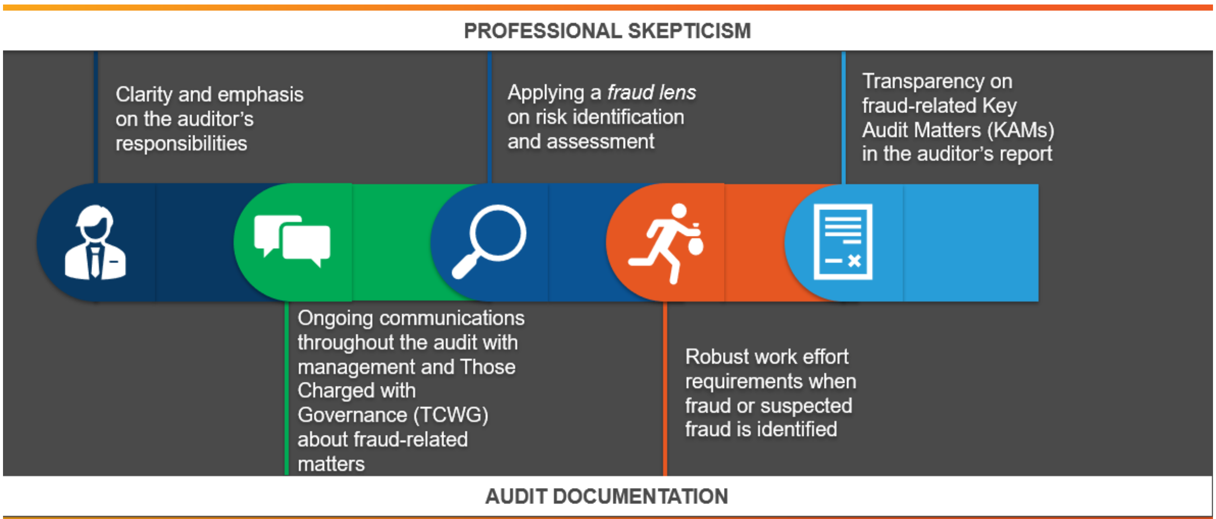
    c. Reinforce the importance, throughout the audit, of the appropriate exercise of professional scepticism; and

    d. Enhance transparency on fraud-related procedures where appropriate.

4. Proposed ISA 240 is now significantly progressed and now is the time for the AUASB to provide comments through to the IAASB to influence the development of the exposure draft, the AUASB will have another opportunity at the September 2023 AUASB meeting.

Matters for Discussion

5. The diagram below depicts and describes what the IAASB's Fraud Task Force considers to be the seven most important proposed changes addressing the key issues identified in the project proposal, which will drive consistency in practice and change in auditor behaviour. Paragraphs 6-11 below describe some of the more substantive enhancements in these sections (where the requirements are the same as extant or not substantively enhanced from extant, these have not been reflected in the summaries of paragraphs 6-11 below).



6. **Clarification and emphasis of auditor's responsibilities**

- Introduction: bringing the **focus** on the auditor's responsibilities **upfront** in the standard to **set the tone** and clearly articulate expectations [paragraph 2].
- Introduction: separate section for inherent limitations (moved out of auditor's responsibilities): reduction of ambiguity between inherent limitations of an audit and the auditor's responsibilities and isn't seen to dimmish responsibilities [paragraphs 9-11].
- *[note: there was consideration regarding commenting on others in the eco-system responsibilities – but concluded no remit, other than an outline of responsibilities of management and TCWG as outlined in paragraph 3 of Proposed ISA 240]*
- *Note: This clarification of roles and responsibilities aims to address some of the concerns around the expectation gap.*

7. **Professional Scepticism**

- Focus on authenticity of documentation [paragraph 19]
- Reinforce importance of the auditor remaining alert, especially when performing audit procedures related to fraud and explains the 'ramp up' of procedures when fraud is identified or suspected [paragraph 12, 18-21].
- Addresses considerations of auditor bias [paragraph 43]
- *Note: the changes seek to reinforce the auditor's professional scepticism needed in gathering evidence, challenging assumptions, and developing conclusions in audit areas related to fraud*

8. **Ongoing communications throughout the audit with TCWG**

- Overarching requirement to communicate throughout audit engagement [paragraph 25].
- Enhancements of inquiries when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control [paragraph 31(d)].
- Enhancements whether remediation measures are appropriate [paragraph 59(b)].
- If fraud: discuss with at least one level above those involved [paragraph 62(b)

9. **Applying a fraud lens – risk assessment**

- Explicit and robust ISA 315 fraud considerations in understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control [paragraphs 26-29]
- Significantly strengthened engagement team discussions [paragraph 29].
- Throughout the risk assessment, a focus on incentives/pressures, opportunities and attitudes including from entity's tone at the top and performance measures.
- *Note: enhanced engagement team discussions and strengthened considerations regarding the need to integrate forensic experts [paragraph A31, A32, A35, A49A, A145] is expected to greatly improve the identification of the risks of fraud most relevant to the business to then be able to drive effective measures to respond to related risks*

10. **Robust work effort when fraud or suspected fraud is identified**

- Clear requirements where the auditor determines there is a material misstatement due to fraud [paragraphs 54-63]
- Once fraud identified: Engagement partner has a responsibility to obtain a thorough understanding of the nature, timing and extent of the fraud-related matter. Significant application material addresses the understanding of the how, the extent and the evidence [paragraph 54/A150-A153].
- Determine whether additional risk assessment procedures are required [paragraph 57].
- Additional audit procedures to address [paragraph 59].
- *Note: these enhancements provide the clarity being sought by stakeholders as to how to respond to fraud/suspected fraud identified during the audit and will promote consistent practice and behaviours.*

11. **Transparency on fraud- related KAMs in the auditor's report**

- Implications for the auditor's report is through the lens of when applying ISA 701 – accordingly entities that are captured by the implications for the auditor's report are those entities that are captured by ISA 701. In Australia ASA 701 applies to audits of general purpose financial reports of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. ASA 701 also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.
- For ease of reference – Appendix 2 to this Agenda Paper contains relevant extracts from Proposed ISA 240. *The proposed changes are intended to ensure transparent, independent, rigorous, and balanced reporting on fraud*
- KAM now to include fraud related – appropriate sub-heading [paragraph 68]
- KAM filter same as ISA 701 [paragraph 66-67], with 3 areas to consider [paragraph 66]:
  - Significant ROMM due to fraud
  - Identification of fraud/suspected fraud
  - Identification of deficiencies in internal controls that are relevant to the detection and prevention of fraud
- If there are no fraud related KAM – include statement [paragraph 69] [expected to be rare – refer notes in italics below]
- *Note: it is anticipated that the # of fraud-related matters that will have required significant auditor attention will be larger due to the more robust risk assessment performed and other enhancements made in ISA 240 – very strong steer to communicate fraud related KAMs:*
  - *Paragraph A174: "fraud related matters often are matters that require significant auditor attention." The CUSP Drafting Principles and Guidelines: 'Often' is labelled as the term with the second highest likelihood of occurrence, after ordinarily.*
  - *Paragraph A179: fraud related matters that required significant auditor attention "ordinarily are matters of most significance in the audit of the financial statements of the current period and therefore are key audit matters." The CUSP Drafting Principles and Guidelines, labels 'ordinarily' as the term with the highest likelihood of occurrence.*
  - *Given the addition of the identification of deficiencies in internal control that are relevant to*

the prevention and detection of fraud in the auditor's determination of which matters required significant auditor attention (see paragraph 66), the Fraud TF is of the view that deficiencies in internal control that are relevant to the prevention and detection of fraud will be more often communicated in the auditor's report than currently is the case.

- *Paragraph A186: 'The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one fraud related key audit matter……'*

Next steps/Way Forward

12. The IAASB intend to progress the drafting of ISA 240 through the second half of 2023, in December 2023, the Fraud TF intends to present to the Board an exposure draft of proposed ISA 240 for approval.

13. Further discussion, including a full review of the Proposed ISA 240 standard, will be included on the September 2023 AUASB Agenda.

Materials Presented

Agenda Item	**Description**
6.1*	Proposed ISA 240

* In Supplementary Papers pack

Appendix 1

AUASB Feedback on IAASB Discussion Paper – mapped to IAASB responses.

	AUASB point raised in submission	IAASB response through Proposed ISA 240
1	Importance of senior team members and knowledge share and greater supervision and involvement of more senior team members in this area.	• Robust engagement team discussions and knowledge share for auditor's considerations around fraud through additional requirements and application material (paragraph 29). • Drawing in the requirements of ISA 220 in relation to collective competence and capabilities (paragraph 22) as well as EP responsibilities for supervision and review (paragraph 23).
2.	Not strong support to include forensic specialists but support to use as part of engagement team discussions and ultimately based on circumstances of the engagement.	Drawing in the requirements of ISA 220 in relation to collective competence and capabilities (paragraph 22 and associated application material)
3.	Closer links to ISA 540 *Auditing Accounting Estimates and Disclosures* and management bias for complex accounting estimates.	• Enhancements to requirements and application material to use the language of ISA 540 in terms of professional scepticism (question/challenge/mngt biases) (Paragraphs 51-52 and associated application material) • Robust requirements in relation to retrospective review of the outcome of previous significant accounting estimates (paragraph 28)
4.	Improvements to identify fraud risk factors and where fraud could occur and not just in the areas of revenue and journal entries.	• Consideration of other areas that should have increased focus, importance of risk assessment procedures to identify and assess fraud risks (robustness of linkages to ISA 315 and the risk assessment process – paragraphs 26-36). • Enhancements to make journal entry testing more robust (paragraphs 49-50 and Appendix 4). • Enhancements in relation to the presumption of the ROMM due to fraud in revenue recognition (paragraph 41), with AM paragraph A109 noting: *The significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate to rebut the presumption*

	AUASB point raised in submission	IAASB response through Proposed ISA 240
		that there are risks of material misstatement due to fraud in revenue recognition.
5.	More guidance on how unpredictable audit procedures address fraud risk	Enhancing guidance around auditor's consideration of unpredictability of procedures (paragraphs 44, A113-A116).
6.	Additional guidance as to what is required when fraud is detected and understanding the links between fraud (ISA 240) and non-compliance with laws and regulations (ISA 250)	• Clarifying the relationships between ISA 240 and ISA 250 (paragraph 13) • Enhanced linkages with ISA 260 (communications with those charged with governance) including communication of potential indicators of management bias (paragraph 72 and associated application material). • Designated section of requirements and application material to provide clarity on procedures when fraud is identified/detected (paragraphs 54-63).
7.	Considerations of use of emerging technologies	• Significant guidance/examples provides throughout the standard in terms of technology (paragraphs A5, A9, A28, A31, A33, A35, A49A, A50, A55, A59, A80, A92, A114, A116, A117, A119A, A138, A140, A144, A147, A166)
8.	Importance of corporate culture/ executive incentives/knowledge of entity/internal control environment	• Consideration of executive incentives as part of engagement team discussions (paragraph 29). • In applying ISA 315, understanding corporate culture (paragraph 31) • Strengthened understanding the components of the Entity's System of Internal Controls and risk assessment process (paragraphs 24C-24E)
9.	The AUASB would support measures that increase an entity's transparency about their governance processes and internal controls related to fraud prevention and detection. This could be either under separate reporting obligations, as part of the existing audit framework or potentially as a separate assurance engagement independent of the current financial reporting assurance process.	• Entity's transparency: outside the remit of the IAASB • Auditor's transparency through the auditor's report: Identification of deficiencies in internal controls that are relevant to the detection and prevention of fraud

	AUASB point raised in submission	IAASB response through Proposed ISA 240
10.	Mixed views about further transparency with reference to the auditor's report and management/TCWG.	• KAM now to include fraud related – appropriate sub-heading [paragraph 68] • KAM filter same as ISA 701 [paragraph 66-67], with 3 areas to consider [paragraph 66]: ○ Significant ROMM due to fraud ○ Identification of fraud/suspected fraud ○ Identification of deficiencies in internal controls that are relevant to the detection and prevention of fraud • If there are no fraud related KAM – include statement [paragraph 69]
11.	Importance of the role of education and professional training	• Not in IAASB remit
12	Complexity of language in the standards	CUSP working group project – refer Agenda Item 7.1.
13	Encouragement to consider how auditors can better employ emerging technologies to enhance auditor performance regarding fraud	Significant guidance/examples provided throughout the standard in terms of technology (paragraphs A5, A9, A28, A31, A33, A35, A49A, A50, A55, A59, A80, A92, A114, A116, A117, A119A, A138, A140, A144, A147, A166)
14	Apply professional scepticism and encourage sceptical behaviour in the right circumstances but no support for requiring a 'suspicious mindset'	• Focus on authenticity of documentation [paragraph 19] • Reinforce importance of the auditor remaining alert, especially when performing audit procedures related to fraud [paragraph 12, 18-21]. • Addresses considerations of auditor bias [paragraph 43]

Appendix 2

Extract from proposed ISA 240 – Implications for the Auditor's Report

Determining Key Audit Matters	*Determining Key Audit Matters*
66. In applying ISA 701,[2] the auditor shall determine, from the fraud related matters communicated with those charged with governance, those fraud related matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A171–A177) (a) Significant risks of material misstatement due to fraud; (b) The identification of fraud or suspected fraud; and (c) The identification of deficiencies in internal control that are relevant to the prevention and detection of fraud.	A171. ISA 701[3] requires the auditor to determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor is also required to take into account the matters as set out in paragraph 66. A172. Users of financial statements have expressed an interest in fraud related matters about which the auditor had a robust dialogue with those charged with governance and have called for additional transparency about those communications. The considerations in paragraph 66 focus on the nature of matters communicated with those charged with governance that are intended to reflect fraud related matters that may be of particular interest to intended users. A173. In addition to matters that relate to the specific required considerations in paragraph 66, there may be other fraud related matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 67.

[2] ISA 701, paragraph 9

[3] ISA 701, paragraph 9

	A174. Fraud related matters often are matters that require significant auditor attention, for example: • The identification of fraud or suspected fraud may require significant changes to the auditor's risk assessment and reevaluation of the planned audit procedures (i.e., a significant change in the audit approach). • Significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. The auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of these transactions. A175.Accounting estimates often are the most complex areas of the financial statements and may be highly dependent on management judgment. Accounting estimates that have a significant effect on the financial statements or accounting estimates that are complex may have an increased susceptibility to misstatements due to intentional management bias and therefore the auditor may identify a risk of material misstatement due to fraud in the related class of transactions, account balance or disclosure. For example, management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosures which may have had a significant effect on the auditor's overall procedures. A176. The auditor may communicate a significant deficiency in internal control to management and those charged with governance that is relevant to the prevention and detection

	of fraud. Significant deficiencies may exist even though the auditor has not identified misstatements during the audit. . For example, the lack of a whistleblower program may be indicative of weaknesses in the entity's control environment, but it may not directly relate to a risk of material misstatement due to fraud. The auditor is required to communicate significant deficiencies in internal control in accordance with ISA 265. [Previously paragraph A58C in Agenda Item 5–C December meeting material] A177. This ISA requires management override of controls to be a risk of material misstatement due to fraud (see paragraph 42) and presumes that there are risks of material misstatement due to fraud in revenue recognition (see paragraph 41). The auditor may determine these matters to be fraud related key audit matters because significant risks are often matters that require significant auditor attention. However, the auditor may determine that these risks of material misstatement did not require significant auditor attention and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 66.
67. In applying ISA 701,[4] the auditor shall determine which of the matters determined in accordance with paragraph 66 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A178–A180)	A178. As described in ISA 701,[5] the auditor's decision-making process in determining key audit matters is based on the auditor's professional judgment about which matters were of most significance in the audit of the financial statements of the current period. Significance can be considered in the context of quantitative and qualitative factors, such as

4 ISA 701, paragraph 10

5 ISA 701, paragraph 10

	relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.[6] A179. One of the considerations that may be relevant to determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users' understanding of financial statements as a whole.[7] As users of financial statements have highlighted their interest in fraud related matters, these matters ordinarily are matters of most significance in the audit of the financial statements of the current period and therefore are key audit matters. A180. ISA 701[8] includes other considerations that may be relevant to determining which fraud related matters that required significant auditor attention, were of most significance in the current period and therefore are key audit matters.
Communicating Fraud Related Key Audit Matters 68. In applying ISA 701,[9] in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A181–A183) [Previously paragraph 39A in Agenda Item 5–C December meeting material]	*Communicating Fraud Related Key Audit Matters* A181. If a fraud related matter is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may

6 ISA 701, paragraph A1

7 ISA 701, paragraph A29

8 ISA 701, paragraph A29

9 ISA 701, paragraph 11

	involve significant auditor attention with respect to revenue recognition, and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes that the matter relates to fraud. A182. Relating a matter directly to the specific circumstances of the entity may help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, revenue recognition or management override of controls may be regularly determined as fraud related key audit matters. In describing why the auditor considered the matter to be one of most significance in the audit, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods. Similarly, in describing how the fraud related key audit was addressed in the audit, it may be useful for the auditor to highlight matters directly related to the specific circumstances of the entity, while avoiding generic or standardized language. A183.ISA 701,[10] describes that management or those charged with governance may decide to include new or enhanced

[10] ISA 701, paragraph A37

	disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the identification of fraud or suspected fraud or the identification of deficiencies in internal control that are relevant to the prevention and detection of fraud.
[Previously paragraph 39C in Agenda Item 5–C December meeting material] [Deleted]	
[Previously paragraph 39D in Agenda Item 5–C December meeting material] [Deleted]	[Previously paragraph A58C in Agenda Item 5–C December meeting material] [Moved to paragraph A176] [Previously paragraph A58D in Agenda Item 5–C December meeting material] [Deleted]
[Previously paragraph 39E in Agenda Item 5–C December meeting material] [Deleted]	
69. In applying ISA 701,[11] if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no fraud related key audit matters to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report. (Ref: Para. A184–A187A)	A184. The requirement in paragraph 69 may apply in circumstances when: (a) The auditor determines in accordance with paragraph 67 that there are no fraud related key audit matters (see paragraph A187). (b) The auditor determines in accordance with paragraph 14 of ISA 701 that a fraud related key audit matter will not be communicated in the auditor's report and no

[11] ISA 701, paragraph 16

	other matters have been determined to be fraud related key audit matters (see paragraph A187). (c) The only matters determined to be fraud related key audit matters are those communicated in accordance with paragraph 15 of ISA 701. A185. The following illustrates the presentation in the auditor's report if the auditor has determined there are key audit matters to communicate but these do not include fraud related key audit matters: [Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] We have determined that there are no key audit matters related to fraud to communicate in our report. A186.The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one fraud related key audit matter. However, in certain limited circumstances, the auditor may determine that there are no fraud related matters that are key audit matters in accordance with paragraph 67. Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report A187. ISA 701, paragraph 14(b), indicates that it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report and includes

	guidance on circumstances in which a matter determined to be a key audit matter may not be communicated in the auditor's report. For example: • Law, or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. • There is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.[12] • The auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. A187A.It may be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements.[13]

[12] ISA 701, paragraphs A53–A54

[13] For example, except for certain specified circumstances, paragraph R114.2 of the IESBA Code does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	IAASB – CUSP drafting principles	**Date:**	5 May 2023
ATG Staff:	Rene Herman	**Agenda Item:**	7.1.0

Questions for the Board

Question No.	Question for the Board
Question 1	There are no targeted questions for the Board and this Agenda Paper has been prepared for Board information purposes only. While there are no actions required of the Board, AUASB members are directed to paragraph 5 of this Agenda Paper as this contains a section of particular relevance to users of the ISAs.

Background and Previous Discussions on Topic

1. The objective of this IAASB project was to develop drafting principles and guidelines to address complexity, understandability, scalability and proportionality (CUSP) in developing International Standards on Auditing (ISAs).

2. The CUSP drafting principles and guidelines aim to achieve the following:

   - Provide a common understanding to IAASB Staff, Task Forces and the IAASB about how the ISAs are drafted.
   - Establish a set of drafting principles and guidelines to promote consistency, clarity and uniformity while drafting ISAs.
   - Encourage a reflective mindset while drafting with respect to complexity, understandability, scalability and proportionality.
   - Enable a more consistent understanding and effective application of the ISAs through a focus on how the ISAs are written and presented.

3. The CUSP drafting principles and guidance cover the following elements of standard setting:

   - Basis structure of an ISA
   - Language, formatting and style
   - Scalability and proportionality in the requirements
   - Cross referencing
   - Terminology
   - Introduction section
   - Objectives
   - Definitions
   - Requirements
   - Application material
   - Documentation requirements in individual standards

4. In its April 2022 meeting, the IAASB agreed to adopt the CUSP Drafting Principles and Guidelines (included for reference in the Supplementary Papers Pack at **Agenda Item 7.1.1**)as part of its internal procedures for drafting Exposure Drafts and Standards. Since then each IAASB project is assessed for adherence to CUSP principles before being finalised.

Matters for Consideration

5. While much of the Drafting Principles and Guidelines are technical in nature and are generally targeted at IAASB and working groups, what may be of particular interest to the AUASB is the section on *Work Effort Verbs*. Words matter and the choice of verbs in a requirement signals the work effort that the IAASB intends auditors to apply. The choice of verb is important as it affects the nature and extent of work that the auditor needs to undertake to comply with the requirement. Appendix 2 in the Drafting Principles and Guidelines at **Agenda Item 7.1.1** lists many of the verbs in common use (e.g. consider, evaluate, determine), provides a summary of how they are to be used, and lists what possible work effort and documentation implications may exist.

Materials Presented

Agenda Item	Description
7.1.1 (*SP)	CUSP Drafting Principles and Guidelines

*SP: AUASB Supplementary Papers Pack

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	IAASB PIE Track 1 proposed Narrow Scope Amendments to ISA 700 & ISA 260	**Date:**	5 June 2023
ATG Staff:	Johanna Foyster	**Agenda Item:**	7.2

Recommendations and Questions for the Board

This Agenda Paper has been prepared for Board information purposes only and there are no specific questions for AUASB consideration.

Background and Previous Discussions on Topic

1. As part of the AUASB's consultation on the proposed IAASB amendments to ISA 700 and ISA 260, the AUASB on 21 July 2022, in accordance with its Due Process Framework[1], issued the IAASB Exposure Draft (ED) for comment in Australia without modification, with a wrap-around AUASB Consultation Paper to provide further information on the key IAASB proposals and how the AUASB was requesting feedback.

2. AUASB technical staff also co-hosted a joint webinar with APESB staff on 26 August 2022 to explain the IAASB's key proposals and to provide stakeholders an opportunity to provide feedback direct.

3. To meet the IAASB's deadline for comment, AUASB technical staff prepared an initial draft response to the IAASB based primarily on initial feedback from AUASB Members and consideration of an initial draft response prepared by NZAuASB staff. AUASB Members were requested to consider and provide feedback on this initial draft at its September 2022 meeting (refer to Agenda Item 10 of the September meeting).

4. The initial draft response supported the IAASB's view that the auditor's report is the most appropriate mechanism available to the IAASB to facilitate the IESBA Code's new transparency requirement. However, the AUASB's response concerns about the trend of multiple IAASB projects advocating for additional information to be included in the auditor's report.

5. At the September 2022 AUASB meeting, several Board Members expressed concern with the IAASB's proposal that the auditor's report be used as the vehicle for the new IESBA Code transparency requirement. These Board Members were not convinced that the proposed additional disclosures in the auditor's report would contribute to transparency and confidence in the audit, expressing concern that such disclosures could instead confuse users and may have unintended consequences.

6. After further discussion, the Board requested staff to update the AUASB's response to reflect AUASB feedback at the meeting, namely, that the AUASB:
   - does not support a requirement that mandates disclosure in the auditor's report;
   - requests the IAASB provides optionality (jurisdictional flexibility) for the mechanism of public disclosure;
   - encourages the IAASB to adopt a holistic approach and consider the cumulative impact of changes to the auditor's report from other IAASB projects in the pipeline; and

[1] See Part B (Process 1) of the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

- if the decision is made that this additional disclosure is to be included in the auditor's report, the IAASB consider whether such information should be disclosed in a different location in the report — that is, not in the Basis of Opinion section.

The AUASB's final submission to the IAASB on 3 October 2022 can be viewed here.

7. At the March 2022 AUASB meeting under the International Agenda update, AUASB technical staff provided a summary of the feedback received by the IAASB on the proposed Narrow Scope Amendments to ISA 700 & ISA 260, which was not consistent with the main points in the AUASB's submission. Specifically, the IAASB noted:
   - Overwhelming support for inclusion of the IESBA PIE Independence Disclosures in the auditor's report under the Basis of Opinion section.
   - Little concern that the changes will negatively impact the length, complexity and utility of the auditor's report, as only limited changes were proposed and it was not considered practical to delay the project to consider the cumulative impact of changes to the auditor's report from other IAASB projects.

Matters for AUASB Consideration

8. The objective of the IAASB discussion at its June 2023 meeting is to approve the narrow scope amendments to ISA 700 and ISA 260. If approved, the amended standards will be effective for financial statements for periods beginning on or after 15 December 2024.

9. A hyperlink to the relevant papers to be presented at the June 2023 IAASB meeting (Issues Paper and final Narrow Scope Amendments for Track 1 —clean version and changes marked-up from the ED and March 2023 version) are available [here]. Refer to Agenda Item 5 in the IAASB agenda. NB: AUASB members are not expected to review these IAASB papers – this link is provided for reference purposes only.

10. Changes made to the IAASB ED post-exposure are in response to feedback from respondents to the ED and intended to clarify, not substantively change, the original proposals. Key revisions include:
    - **Amending the requirement in paragraph 28(c) of ISA 700.28(c)** — removing the term 'differential' from the requirement, to address concerns that this term is not a commonly understood term and therefore may cause misunderstanding.
    - **Including a new general requirement in paragraph 16A of ISA 260** which will apply to all audits (not differential), to address explicit communication with Those Charged with Governance (TCWG) about the independence requirements applied for the audit. The current requirement in paragraph 17 to communicate with TCWG about compliance with independence requirements applies only to listed entities.
    - Enhancements to further improve understanding and to align with CUSP Drafting Principles and Guidelines.

11. Whilst the final changes subject to IAASB approval in June 2023 are not fully aligned to the submission the AUASB provided on this issue last year, the matter is not considered significant enough for any further deliberations on the topic. Regardless of the AUASB's views, the IAASB is unlikely to consider further significant changes to the proposed amendments.

Next steps/Way Forward

12. Subject to IAASB approval, AUASB technical staff will table the equivalent Australian Amending Standard at the September 2023 AUASB meeting for AUASB consideration and approval to issue in Australia, in accordance with our AUASB Due Process Framework.

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AUASB Agenda Paper

Title:	PIOB Update	**Date:**	31 May 2023
ATG Staff:	Matthew Zappulla	**Agenda Item:**	8.0

Questions for the Board

Question No.	Question for the Board
Question 1	Do Board members have any feedback or questions on the material to be presented by our guest, Robert Buchanan, PIOB member, presented at **Agenda Items 8.1 and 8.2**.

Background and Previous Discussions on Topic

1. At the June 2023 AUASB meeting we will be joined by Robert Buchanan, who is a member of the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB. Robert is also the immediate past Chair of the NZAuASB and thus a former AUASB member.

2. Robert's presentation will inform AUASB members of the PIOB's role, update the AUASB on global standard setting reforms and highlight the current PIOB list of 'Public Interest Issues' at **Agenda Item 8.2** for discussion.

Materials Presented

Agenda Item	Description
8.0	PIOB Update Agenda Paper
8.1 (*SP)	PIOB Update Presentation
8.2 (*SP)	PIOB's Public Interest issues: IAASB projects

*SP: AUASB Supplementary Papers Pack

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AUASB Agenda Paper

Title:	AUASB Technical Work Plan Update	**Date:**	31 May 2023
ATG Staff:	Matthew Zappulla	**Agenda Item:**	9.0

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Does the AUASB have any feedback on the details of AUASB priorities and projects/tasks outlined in the AUASB Technical Work Program presented at **Agenda Item 9.1**.	All current and planned AUASB projects for 2022-23 are included in the work program and have been agreed with the AUASB Technical Team and AUASB Chair.

Background and Previous Discussions on Topic

1. The ATG has updated the 2022-23 Technical Work Program to address changes since the March and May 2023 AUASB meetings, including:

   (a) Key projects completed to date in 2022-23 and since the last AUASB meeting;

   (b) A summary of strategic priorities for the 2022-23 year and the list of technical staff projects currently in progress, both for the AUASB and IAASB; and

   (c) Other planned projects on the AUASB work program which have yet to commence.

   A summary of the AUASB Technical Work Program is contained in a PowerPoint slide pack included at **Agenda Item 9.1**.

2. The Work Program incorporates feedback received from the AUASB's Agenda Consultation Process (previously covered at the September and November 2022 AUASB Meetings), which is summarised in the AUASB Agenda Consultation 2022-2023 Feedback Statement released in December 2022.

Matters for Discussion and ATG Recommendations

3. As of May 2023 the AUASB Technical Group (ATG) staff have identified 42 current or prospective projects to date for the current period, with approximately 90% of these connected to the six AUASB strategic priority areas.

4. The ATG maintains a detailed spreadsheet which tracks the staff working on each project and targeted timelines which is reviewed regularly by the AUASB Chair and Technical Directors. The ATG will continue to review and update this presentation quarterly to inform AUASB members of the progress against the 2022-23 AUASB Technical Work Program and following each AUASB meeting publish the updated work program on the AUASB Website.

Collaboration with NZAuASB and other standard setters

5. The ATG has a regular dialogue with NZAuASB technical staff to identify projects and activities where sharing and collaboration of information should occur. The AUASB and NZAuASB Technical Directors last met on 10 May 2023 to identify and put in place plans to collaborate on common projects over the current period, and bi-monthly meetings are scheduled throughout the year to ensure coordination. In addition, through the joint membership of the AUASB and NZAuASB by each Board's Chair we regularly review and provide input into the NZAuASB work program, and vice versa.

6. The AUASB and NZAuASB technical staff continue to collaborate on IAASB projects through their roles as technical advisors to IAASB members in each territory and through the IAASB National Standard Setters forum.

7. The AASB and AUASB Technical Directors meet monthly to review and consult on AASB and AUASB priority areas. Additionally, a monthly AASB/AUASB Collaboration meeting is held between the AASB and AUASB Chairs and Technical Directors.

Next steps/Way Forward

8. Subject to changes requested by AUASB Members and agreed by the AUASB Chair, the ATG will arrange to have this latest version of the 2022-23 AUASB Technical Work Program and AUASB Agenda Consultation Feedback Statement published on the AUASB Website following the June 2023 AUASB meeting.

Materials Presented

Agenda Item	Description
9.1	AUASB Technical Work Program Update Summary

AUASB Meeting - June 2023
Agenda Item 9.1

AUASB Work Program Update

May 2023

Board activities and timelines set out in this document are subject to change in accordance with the Board’s decisions, such as changes in project priorities. To access project pages for these projects, where available, click on the project name in the table.

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2022-23 AUASB Strategic Priority Areas

2022-23 Technical Work Program

Key outputs / projects delivered since previous AUASB Meeting

- LCE Group Audits Exposure Draft Response
- GS 023 - Engagement Leader Guidance for Public Sector auditors
- AUASB Sustainability Assurance Update #3
- Update of ASA 700 for AASB 101 changes
- Withdrawal of GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities
- ISA 500 Audit Evidence - AUASB Submission
- Upload of AUASB Guidance Statements to Standards Portal
- AUASB response to 2024-2027 IAASB Strategy and Work Plan

2022-23 Technical Work Program

Key AUASB outputs / projects in progress

- KAM Reporting beyond Listed Entities #
- ASA 600 Implementation Support
- Outreach on ISA 570 Going Concern ED #
- Review Engagement Bulletin for NFPs #
- Audit Engagement Related Disclosures (with AASB)
- LCE Standard – AU applicability and implementation #
- Sustainability Assurance ED guidance #
- June 2023 Year End Issues Bulletin #
- Review Legislative drafting of assurance requirements (with Office of Parliamentary Counsel)
- Further functionality enhancements to AUASB Digital Standards Portal
- Post Implementation Review of ASAE 3500 *Performance Engagements* #
- Review of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Included on June 2023 AUASB Agenda

2022-23 Technical Work Program

Outputs / projects yet to commence or paused

- Update of APRA related Guidance Statements
- Service Performance Reporting Assurance (with AASB)
- ASQM 1 – Monitoring and Remediation
- ASQM 1 – Technology Considerations

2022-23 Technical Work Program

IAASB Projects

NAME	STATUS
IAASB - IASB LIAISON	Ongoing
GOING CONCERN	Exposure Draft - Out for Comment
AUDITS OF LESS COMPLEX ENTITIES	Consideration of Comments
IAASB - SUSTAINABILITY STANDARD SETTERS' LIAISON	Ongoing
TECHNOLOGY	Ongoing
AUDIT EVIDENCE	Consideration of Comments
FRAUD	Exposure Draft Development
LISTED ENTITY AND PUBLIC INTEREST ENTITY	Consideration of Comments
SUSTAINABILITY ASSURANCE	Exposure Draft Development

Collaboration with the AASB

- *Sustainability Project Advisory Panel*
- *NFP private sector financial reporting framework (Tier 3)*
- Public sector financial reporting framework
- *Service performance reporting*
- Digital financial reporting
- *Intangible assets*
- *Going concern disclosures*
- Fair value measurement for public sector entities

NB: Items in italics currently in progress with the AASB

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AUASB Agenda Paper

Title:	Post Implementation Review (PIR) — ASAE 3500 *Performance Engagements*	**Date:**	14 June 2023
ATG Staff:	Johanna Foyster	**Agenda Item:**	10.0

Recommendations and Questions for the Board

Question No.	Question for the Board
Question 1	Does the AUASB have any comments / questions concerning the Feedback Statement on the PIR of ASAE 3500 at **Agenda Item 10.1?**
Question 2	Does the AUASB agree with the recommendation proposed by AUASB Technical Staff that the AUASB add a new project to its work plan to make narrow scope amendments to ASAE 3500 to address the key findings from the PIR?

Background

1. Refer to the Feedback Statement at Agenda Item 10.1, paragraphs 1-16, for background on the project.

Matters for Discussion and ATG Recommendations

2. Refer to the Feedback Statement at Agenda Item 10.1 which sets out:

   (a) the key findings from the PIR (paragraphs 17-22); and

   (b) the proposed AUASB Technical Staff recommendation for the AUASB to consider, to address the key findings from the PIR (paragraphs 23-25).

Collaboration with NZAuASB and other standard setters

3. Not applicable as ASAE 3500 is a local Standard.

Next steps/Way Forward

4. AUASB Technical Staff will issue the final Feedback Statement publicly on the AUASB website before the end of June 2023.

5. If the AUASB supports the recommendation to embark on a project to make narrow-scope amendments to ASAE 3500, AUASB Technical Staff will, in accordance with the AUASB's due process for making narrow-scope amendments to standards[1], prepare an Agenda Paper for Board consideration and approval out of session in July 2023, which sets out the:
   - objective(s) and scope of the project (and identifying issues that are out of scope);
   - justification for the project;
   - underlying issues to be addressed by the AUASB, and Technical Staff recommended actions to respond to issues; and
   - nature, timing and extent of further input to be obtained from stakeholders.

Materials Presented

Agenda Item	Description
10.1	**Feedback Statement** for Post Implementation Review of ASAE 3500 *Performance Engagements* (Draft)

[1] See AUASB *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*, paragraphs 185-186.

Feedback Statement

Project Title: Post Implementation Review of ASAE 3500 *Performance Engagements*

Purpose of this Feedback Statement

1. This Feedback Statement summarises the key themes raised by stakeholders in response to the AUASB's post-implementation review (PIR) of its Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (ASAE 3500).

2. The AUASB will use evidence obtained from conducting the PIR to identify potential issues that may exist in applying ASAE 3500 in practice, and to determine what actions need to be undertaken by the AUASB to address such issues.

Background

3. ASAE 3500 is an Australian Standard with no IAASB equivalent. It is issued by the AUASB under the AUASB's *Framework for Assurance Engagements*, which is consistent with the IAASB's equivalent Framework. The Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding ASAE 3500.

4. ASAE 3500 was revised and reissued by the AUASB in October 2017 (operative for assurance engagements commencing on or after 1 January 2018).[1]

5. The AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications* (Due Process Framework) requires the AUASB to perform a PIR on all new domestic standards/major revisions to standards to evaluate the effectiveness and efficiency of its implementation.

6. A PIR is usually performed after the new/revised requirements have been applied for two to three years, to allow sufficient time for the standard to be used and tested in practice. The ASAE 3500 PIR was delayed due to the Pandemic and the AUASB's focus on developing AUASB Guidance Statement GS 023 *Special Considerations —Public Sector Engagements*.

Objective of PIR

7. The objective of the ASAE 3500 PIR is to:

   (a) gather information about the application of ASAE 3500 in practice; and

   (b) evaluate the overall effectiveness and efficiency of the Standard in meeting its original objectives, and whether the Standard remains appropriate.

Scope / Approach

8. A PIR is not intended to be a reconsideration of the original Standard. Instead, it acknowledges that consultation and due process during the development of a pronouncement are not a substitute for

[1] ASAE 3500 (October 2017) was updated in December 2022 to reflect conforming and consequential amendments in response to the revised suite of Quality Management Standards that became effective for financial reporting periods commencing on or after 15 December 2022.

the practical application of new or revised requirements in practice. The focus of the PIR is therefore on practical application of ASAE 3500 to identify:

- unexpected issues with implementation/application;
- divergence in practice; and
- new or emerging practices not contemplated when the Standard was developed but that may be increasing in prevalence.

9. In accordance with the AUASB's PIR methodology, the PIR process comprises the following steps:
   (a) gather evidence to identify issues with implementation and application;
   (b) collate and analyse stakeholder feedback;
   (c) evaluate the overall effectiveness and efficiency of the Standard in meeting its original objectives, including whether the Standard and its requirements remain appropriate;
   (d) present the preliminary PIR findings and recommendations to the AUASB; and
   (e) publish the PIR findings in the form of an *AUASB Feedback Statement*.

Outreach

10. As ASAE 3500 is primarily used in conducting performance engagements in the public sector, AUASB technical staff considered **direct targeted consultation** with key stakeholders and stakeholder representative groups would prove more efficient and effective in soliciting relevant feedback than undertaking broader consultation with the public.

11. Stakeholders and stakeholder groups included in the targeted outreach comprised:
   - **Audit Offices of Commonwealth, State and Territory Auditors-General (Audit Offices)** that undertake performance engagements in conjunction with financial report assurance or as part of their mandates.
   - **ACAG Heads of Performance Audit (HoPA)** – a sub-committee of the Australasian Council of Auditors General (ACAG). HoPA provides an avenue through which the heads of performance audit (i.e. ACAG representatives who have responsibility for the methodology and delivery of performance audit engagements in each of their Audit Offices) can establish relationships and come together to share, collaborate and leverage ideas and practices. The Committee further provides an opportunity to discuss and exchange intelligence about the practical challenges and solutions for managing a performance audit business.
   - **ACAG Auditing Standards Committee (ASC)** – a sub-committee of ACAG. The ASC provides ACAG with advice on emerging issues that impact audit quality in both financial and performance audits and developments in auditing and assurance standards.

12. Targeted stakeholders were invited to provide feedback in response to nine key PIR Questions concerning adoption and application of ASAE 3500 in practice.

13. Concurrently with the formal targeted consultation, AUASB Technical Staff also undertook **limited public consultation** activities to solicit feedback from other interested parties, including:
   - **Assurance practitioners through the Professional Accounting Bodies** – CA ANZ, CPA Australia and IPA.
   - **Internal auditors through the Institute of Internal Auditors (IIA-Australia).**

Outreach activities included:

(a) Posting a news item to the AUASB website (March 2023) and periodic newsletter (April 2023) alerting stakeholders to the PIR and asking for feedback. The news items included links to the PIR Project Plan and nine PIR Questions available on the AUASB website. The PIR was also promoted on LinkedIn and Twitter.

(b) Posting news items about the PIR in the March/April 2023 newsletters/technical updates of the Professional Accounting Bodies (CA ANZ, CPA Australia and IPA) and the Institute of Internal Auditors (IIA-Australia), with relevant links to the AUASB website.

14. On 18 April 2023, AUASB Technical Staff met with HoPA in Canberra to discuss the PIR and to gather feedback direct. AUASB Technical Staff also attended the 2023 biennial *International Meeting of Performance Audit Critical Thinkers* (IMPACT) Conference in Canberra on 19-20 April 2023 to create awareness of the PIR and gather further feedback from performance assurance practitioners on an informal basis. The 2023 conference was co-hosted by ACAG, the Australian National Audit Office (ANAO) and ACT Audit Office.

15. Finally, AUASB Technical Staff performed a search for information that may be publicly available to:

(a) determine the extent to which ASAE 3500 has been adopted in Australia; and

(b) identify potential issues concerning ASAE 3500 and its application in practice.

Overview of Respondents

16. In addition to the direct feedback from HoPA and informal feedback from performance assurance practitioners attending the IMPACT conference, the AUASB received eight written responses from:

Audit Offices:

- Australian National Audit Office (ANAO)
- Audit Office of NSW
- Auditor-General's Department of South Australia
- Queensland Audit Office
- Tasmanian Audit Office
- Victorian Auditor-General's Office
- Office of the Auditor-General Western Australia

Other:

- Joint submission by CA ANZ and CPA Australia (based primarily on feedback received from public sector auditors).

Key Findings from the PIR

Summary of key messages

17. **Support for the Standard's reporting requirements to be revised**

- Feedback indicated divergent practices in applying the Standard's reporting requirements in the different jurisdictions in Australia.

- The ANAO commented that it considered some of the base elements required to be included as a minimum in the performance assurance report[2] to be less relevant to users than matters not required as minimum content, such as findings, recommendations and data sources. The ANAO in its Auditing Standards (which are also legislative instruments like the AUASB's Auditing Standards) has replaced paragraph 45 of ASAE 3500 with the reporting requirements of INTOSAI[3] ISSAI 3000[4]. The ANAO considers these reporting requirements are consistent with the current practice of the ANAO in reporting conclusions, findings and recommendations in performance audit reports. ISSAI 3000 reporting requirements allow for the audit conclusion to include and be presented together with other information that highlights both positive and negative aspects of performance. The ANAO considers this is consistent with the ANAO's purpose of improving public sector performance and supporting accountability and transparency in the Australian government sector through independent reporting to the Parliament, the Executive and the public (refer also to paragraph 21 of this Feedback Statement).
- Several respondents expressed a need for further guidance and illustrative example assurance reports and, in particular, examples of wording to use in drafting various types of assurance conclusions (especially in circumstances where there are material variations from performance against only some of the criteria)

18. **Support for the inclusion of specific requirements and application material for limited assurance performance engagements**

- All respondents identified a need for the Standard to be updated to include specific requirements and application material for limited assurance performance engagements. It was noted this may require a review of the ASAE 3500 objectives[5], which focus solely on reasonable assurance engagements.
- Most respondents expressed a need for further application guidance to differentiate between the procedures/evidence for limited and reasonable assurance engagements in the context of conducting performance audit engagements (direct engagements), including examples to demonstrate key principles.
- Several respondents requested further guidance on how limited assurance conclusions may be expressed, including illustrative examples.

19. **Support for including further guidance on setting and assessing materiality**[6]

- Most respondents commented that the requirements related to materiality included in ASAE 3500 are challenging for assurance practitioners to effectively apply to performance audits in the public sector and that the requirements are likely interpreted differently by different practitioners in practice.
- A majority of respondents identified a need for greater guidance on setting and assessing materiality in practice, and to include performance audit specific examples. Various respondents noted that inclusion of such additional guidance in the standard (or by way of an Appendix to the Standard) is particularly important as many performance assurance practitioners do not come from an accounting or auditing background and, as such, may lack awareness of other relevant auditing and/or assurance standards. Several respondents considered INTOSAI performance audit resources provided useful guidance in this regard.

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2 ASAE 3500, paragraph 45.
3 International Organisation of Supreme Audit Institutions
4 International Standard of Supreme Audit Institutions (ISSAI) 3000 *Standard for Performance Auditing*, paragraphs 116, 122, 124 and 126.
5 ASAE 3500, paragraph 15.
6 ASAE 3500, paragraphs 29-31 and related application and other explanatory material.

20. **Support for existing requirements and application material related to the identification and assessment of engagement risk[7] to be revised**

- Most respondents believed the current requirements related to the identification and assessment of engagement risk could be clearer. The majority of respondents also found the application guidance in the Standard to be minimal and requested the AUASB consider redrafting relevant paragraphs and including further application guidance, drawing from relevant AUASB Auditing Standards such as ASA 315[8] and/or relevant INTOSAI performance auditing materials which respondents considered helpful.
- Several respondents found the language used in the section on *Understanding the Activity and Other Performance Engagement Circumstances* to be confusing.
  - Many respondents raised specific issues with application of paragraph 33 of the Standard, noting the potential for inconsistent application in practice. This paragraph includes a requirement for the assurance practitioner to understand the design of internal controls the practitioner considers relevant to evaluate an entity's performance against identified criteria and, if relevant, to perform procedures to assess their implementation. Respondents commented that the intent of the requirement was not clear and that further application guidance, including practical examples, would be useful to clarify the circumstances when internal controls could be considered relevant in the context of a performance audit in the public sector, and further guidance on what the nature, timing and extent of procedures (testing of controls) should be.
  - The ANAO noted it has omitted paragraph 33 (see previous point) and paragraph 34 (implementing non-compliance with laws and regulations procedures) of ASAE 3500 from the ANAO Auditing Standards (which are also legislative instruments like the AUASB's Auditing Standards) on the basis that these paragraphs contain requirements for all audits that are not consistent with the performance auditing approach of Supreme Audit Institutions. The ANAO considers inclusion of these requirements would extend the scope of *all audits* to include consideration of internal controls relevant to the subject matter of the audit as well as non-compliance with laws and regulations, irrespective of whether these procedures are required, within the scope of the audit, to achieve the objective of the audit. ANAO noted that, where not required in the scope of the audit, these additional procedures would not add value to the audit process nor result in information that would be considered of value to users of the reports.

21. **Support for the objectives of a performance audit[9] to be updated to**:

(a) **Consider additional performance audit assertions beyond the '3 Es'**

- Several respondents argued that the objective of a performance engagement, that is, to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria, does not incorporate the broader aim of performance auditing in the public sector of also considering the important principles of equity (whether government entities provide services to all citizens in an equitable manner, without discriminating against a particular group) and probity (such as honesty, accountability and transparency).
- The ANAO noted that in the revised ANAO Auditing Standards (which are legislative instruments like the AUASB's Auditing Standards), which took effect on 14 April 2023, all ASAE 3500 references to 'economy, efficiency and/or effectiveness' have been replaced with 'economy, efficiency, effectiveness *and/or ethics*'. This is to reflect that the ANAO

[7] ASAE 3500, paragraphs 32-35 and related application and other explanatory material.
[8] ASA 315 *Identifying and Assessing the Risks of Material Misstatement*
[9] ASAE 3500, paragraphs 16(n) and 16(o).

assesses all aspects of the proper use of resources by the Commonwealth and Commonwealth entities, with 'proper' meaning efficient, effective, economical *and ethical* as defined under the *Public Governance, Performance and Accountability Act 2013*.

(b) **In addition to evaluating performance, also identifying and recommending opportunities for improvement**

- Some respondents argued that the INTOSAI definition and objective of a performance audit set out in ISSAE 300[10] aligned more closely with their Audit Office's vision for performance audits to provide new information, analysis or insights and, where appropriate, identify and recommend opportunities for improvement.
- One respondent suggested the AUASB undertake research whether the recommendations arising from the performance engagement should be a mandatory component of the assurance report.

22. **Other comments**:

- Respondents all expressed the view that the Standard would be easier to understand and apply if written in 'plain English' format (similar to INTOSAI Standards) as many performance assurance practitioners do not necessarily have an accounting or financial auditing background.
- Some respondents considered further application and explanatory material and/or examples would be useful to assist practitioners to apply the requirements relating to identifying, selecting or developing suitable criteria/lines of enquiry, and how this should be documented.

Recommendation/Way Forward —ASAE 3500 PIR

23. The AUASB at its June 2023 meeting considered and agreed with a proposal by AUASB Technical Staff recommending that the AUASB add a new project to its work plan to make narrow scope amendments[11] to ASAE 3500 to address the key findings from the PIR.

24. The revision is considered narrow in scope as it will be targeted at the specific issues identified by stakeholders that participated in the PIR, rather than undertaking a full-scale revision of the Standard in its entirety which are not necessary at this point of time.

25. Staff will commence work on the project in the second half of 2023.

10 International Standard of Supreme Audit Institutions (ISSAI) 300 *Performance Audit Principles*, paragraph 9.
11 The AUASB has adopted a simplified due process for addressing changes to existing standards that are considered to be narrow in scope – refer to paragraphs 176-197 of the AUASB Due Process Framework.

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AUASB Agenda Paper

Title	What Not-For-Profit Entities need to know about an Audit vs Review	**Date:**	14 June 2023
ATG Staff:	Marina Michaelides	**Agenda Item:**	11.0

Recommendations and Questions for the Board

Question No.	Questions for the Board	ATG Recommendation and Overview
Question 1	Does the AUASB have any comments on the working draft AUASB Bulletin attached in **Agenda Item 11.1**?	The ATG propose to issue the AUASB Bulletin once all stakeholder feedback has been received.

Background and Previous Discussions on Topic

1 The AUASB continue to focus their work on the NFP sector to build on the momentum created from our recent NFP Fundraising Bulletin. As part of that process the ATG are intending to issue two additional AUASB Bulletins, split into two parts:

Part A - What Not-for-Profit Entities need to know about an Audit vs Review (geared at the NFP entity); and

Part B – What Auditors of Not-for-Profit Entities need to know about an Audit vs Review (geared at the NFP Auditor).

2 The working draft of Part A is attached at **Agenda Item 11.1** for the AUASB's consideration.

Matters for Discussion and ATG Recommendations

3 In late May 2023, the ATG shared the draft Bulletin to selected stakeholders (three practitioners, two professional bodies and ACNC) whom the ATG had also consulted with on GS 019 withdrawal and revision. Feedback has been received by four stakeholders to date and changes to the draft have been made accordingly:

- to tighten up the introduction and purpose; and
- restructure the section on "Why a medium Not-For-Profit might choose a Review or an Audit".

4 Further feedback is anticipated from the other two stakeholders and will be incorporated as appropriate into the final draft Bulletin.

Engagement with academics

The ATG consulted with Ms Jenny Yang from the University of New South Wales as part of information gathering process. Ms Jenny Yang provided a summary of her analysis currently being conducted by UNSW coupled with consultation with auditors of NFPs undertaken by the AUASB, found that of 3,214 medium sized Charities registered with the ACNC in 2018, 10% are undertaking a review and 90% are conducting an audit engagement.

Anecdotally we have heard through consultation with auditors of medium sized NFPs that an audit is often conducted because:

- an entities constitution states a requirement to undertake an annual audit; or
- those charged with governance rely upon it as a thermometer of where the entity is at a given point in time; or
- an entity not being educated in the differences between an audit and review; or
- grant funding agreements may require an annual audit; or
- the entity may have had a fraud incident or suspicion of a fraud incident, so an audit assists with robust governance.

ATG Recommendation

5 The ATG request that the AUASB review and provide comments on the working draft of the 'What Not-for-Profit Entities need to know about an Audit vs Review' Bulletin at **Agenda Item 11.1**.

6 Subject to feedback from the AUASB and other relevant stakeholders the Bulletin will be approved by the Chair and Technical Director out of session once finalised.

Collaboration with NZAuASB and other standard setters

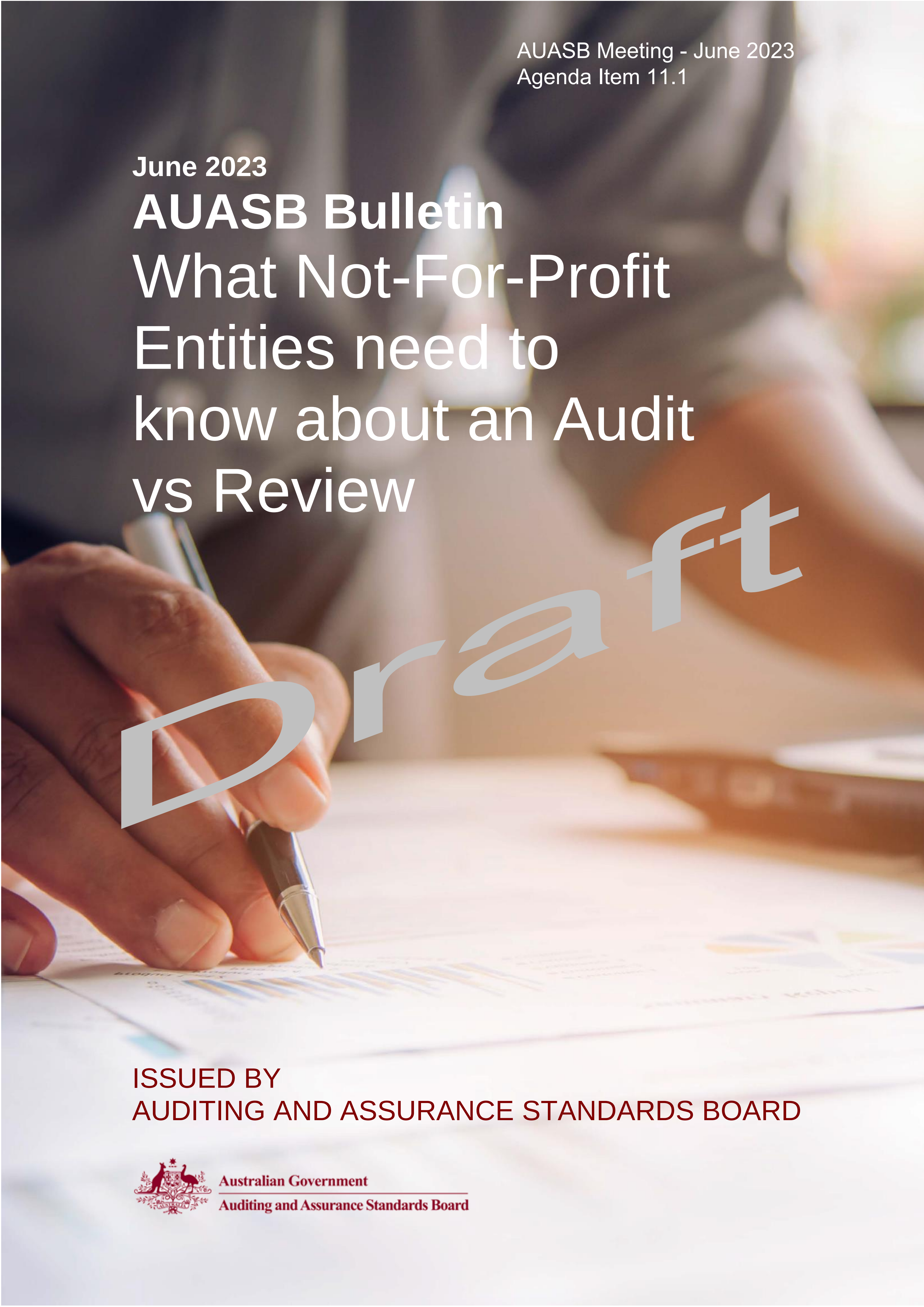
7 This Bulletin is specific to the reporting and assurance requirements for Australian Not-for-Profit entities.

Next steps/Communications

8 The ATG will incorporate any feedback received from the AUASB and other stakeholders on the draft Bulletin and will look to issue the Bulletin on the AUASB website and LinkedIn and through other standard AUASB communication channels. The Bulletin will also be promoted through regular stakeholder engagement meetings/forums as part of the broader strategic focus on the NFP sector.

Materials Presented

Agenda Item	Description
11.1	Draft AUASB Bulletin - What Not-for-Profit Entities need to know about an Audit vs Review



AUASB Meeting - June 2023
Agenda Item 11.1

June 2023

AUASB Bulletin

What Not-For-Profit Entities need to know about an Audit vs Review

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About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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Introduction and purpose

The Auditing and Assurance Standards Board (AUASB) has prepared this AUASB Bulletin to assist Not-for-Profit Entities (NFPs)[1] to consider whether an audit or review engagement may be the most appropriate to their needs based on current regulation, governance, and the needs of stakeholders.

With the recent changes to the Australian Charities and Not-for-Profit Commission (ACNC) thresholds for financial reporting and assurance requirements for registered charities and NFP entities, those have moved from being large to medium under the thresholds will now have the option to have a review rather than an audit. It is important for charities and other NFP entities plus assurance practitioners of all NFPs to consider whether an audit or a review best meets the needs of the entity, users and any relevant regulator/s.

This AUASB Bulletin outlines the differences between an audit and review, why an NFP may choose one over the other, what to expect from each engagement and how and what the assurance practitioner will communicate through an audit or review report.

Understanding the regulatory and legal framework of the Not-for- Profit Entity

NFPs need to consider both the regulatory framework and the legal structure of their entity when considering the assurance requirements for an audit or review. This will assist the NFP in determining the reporting and audit or review requirements that apply at both a Commonwealth and State level. This understanding also needs to be overlayed with the legal structure of the NFP, including the governing documents, which may give rise to specific compliance obligations, including further reporting obligations.

NFPs registered with the ACNC are required to comply with financial reporting and audit/assurance obligations under the *Australian Charities and Not-for-profits Commission Act 2012* (the ACNC Act). In addition, there may be other State/Territory/Commonwealth based legislation that NFPs may need to comply with, depending on the structure of the entity or whether a streamlined reporting arrangement exists with the state/territory based regulator and the ACNC (including, for example incorporated association, indigenous corporation, company limited by guarantee).

Refer to the AUASB Not-for-Profit page for further resources to assist.

For a NFP that is a company limited by guarantee, or an entity reporting under the ACNC Act, or other applicable legislation or regulation, the auditor may be able to conduct a review engagement instead of an audit. For further details, refer to ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation* or ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.

[1] NFP entities include registered charities with the ACNC. There are many NFP entities that are not eligible to be a charity. This bulletin uses the term NFP to include all NFP entities. Where the term charity is used it is specific to Australian Charities and Not-for-Profit Commission (ACNC) registered charities.

What is a Review vs Audit?

A review engagement assesses what the entity has done to prepare the financial statements of the business' operations and provides a report on whether anything came to the reviewer's attention suggesting that the financial report is materially misstated. You can take limited assurance from a review which is less than the assurance that can be taken from an audit.

An audit engagement allows an assurance practitioner to provide an opinion on the financial statements that an entity prepares. To provide an audit opinion, the assurance practitioner has complied with all the Australian Auditing Standards (ASAs) and conducted more detailed audit procedures than required by a review. You can take a reasonable or high level of assurance but not absolute assurance from an audit.

A key difference between an audit or review are the types of procedures and the extent of work the assurance practitioner may undertake to ensure sufficient appropriate evidence is obtained. Review procedures are primarily based on inquiry and analytical review. Audit procedures normally involve detailed tests of accounting records using techniques such as inspection, observation, confirmation, re-calculation and re-performance, in addition to inquiry and analytical review.

Why a Medium size Not-For-Profit might choose a Review or Audit?

As part of the overall governance and regulation of a NFP the directors or trustees and management will need to determine if the financial statements of the entity are required to be either reviewed or audited.

ACNC registered charities are classified as small, medium or large based on their annual revenue for the reporting period. Medium charities are permitted to provide a review or audit report with their annual financial statements, while large charities must provide an audit report.

For reporting periods starting from 1 July 2022 the ACNC charity sizes are:

- Small charities are those with annual revenue under $500,000.
- Medium charities are those with annual revenue of $500,000 or more, but under $3 million.
- Large charities are those with annual revenue of $3 million or more.

For earlier reporting periods please refer to the ACNC website for further information.

For other NFP entities not registered as a charity with the ACNC, the requirements to undertake an audit or review are most likely to be driven by a number of factors including:

- annual revenue;
- funding obligations e.g. grant recipient;
- constitution; and
- legal structure of the entity e.g. company limited by guarantee or incorporated association.

For those NFP entities that can choose between a review and an audit some of the key factors for consideration in the decision are likely to include:

- size and complexity of the entity
- internal resources available
- expected cost and time; and
- funding arrangements.

Considerations for Not-For-Profits when deciding on a Review or Audit

Review or Audit	Review	Audit
When is it useful?	When needing an independent conclusion over a full set of historical financial statements but not needing the cost and extent of an audit.	When needing an independent opinion over a full set of historical financial statements. An audit may provide additional tangible benefits to your NFP or charity's management team. These could include: • Independent assessment of material risks to the financial statements; • Access to external expertise and industry best practice; and • Ongoing recommendations and evaluation of internal controls relevant to the audit
What is it?	It involves assessing how the entity has prepared its financial statements and provides a report giving a conclusion on whether anything has come to the assurance practitioner's attention that the financial statements have not been prepared in accordance with the accounting standards (or other applicable criteria). It provides "limited" assurance which is a lower level of assurance than that provided by an audit.	It involves assessing how the entity has prepared its financial statements and provides a report giving an opinion on whether the financial statements have been prepared in accordance with the accounting standards (or other applicable criteria). It provides "reasonable" assurance which is a high level of assurance, but not absolute.

Review or Audit	Review	Audit
What can you expect?	The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a review engagement are deliberately more limited than an audit engagement. A review is based on: • comparing information with other relevant information • reading and assessing material supporting the matters reported and talking to and asking questions of management and staff. It generally does not involve external confirmation with third parties or testing records or controls. Review Standards require enquiries of management as to the existence of any actual, suspected or alleged fraud or illegal acts that may have a direct effect on the determination of material amounts and disclosures in the financial statements.	Assurance practitioners undertakes a range of procedures to get a full picture of the entity and how those activities are reflected in the financial accounts. This will involve the assurance practitioner: • conducting risk assessment procedures across the entity and to consider risk of material fraud as part of this process • spending time with management and staff • confirmation and corroboration with third parties • checking a sample of transactions through invoices, receipts and other documentation • observing and testing through walk throughs the operation of the controls • challenging any estimates or assumptions made by management. Auditing standards require the assurance practitioner to explicitly discuss the risk of a material fraud with management and others as part of the audit.

Review or Audit	Review	Audit
What are the key outputs?	A review report which is worded in accordance with the requirements of the auditing standards (ASRE 2415). It explains the reviewer's assessment of what and how you have reported and gives their independent conclusion on the financial statements. The reviewer must form a conclusion whether: • on the basis of the review, anything has come to the reviewer's attention that causes the reviewer to believe that the financial report does not satisfy the relevant regulation; • the reviewer has been given all information, explanation and assistance necessary for the conduct of the review; • the entity has kept financial records sufficient to enable a financial report to be prepared and reviewed; and • the entity has kept other records as required by the relevant regulation.	An audit report which is worded in accordance with the requirements of the auditing standards (ASAs). It explains the auditor's assessment of what and how you have reported and gives their independent opinion on the financial statements. The assurance practitioner must form an opinion whether: • the financial report satisfies the requirements of the relevant regulation and is not materially misstated; • the assurance practitioner has been given all information, explanation and assistance necessary for the conduct of the audit; • the entity has kept financial records sufficient to enable a financial report to be prepared and audited; and • the entity has kept other records as required by the relevant regulation.
Who can undertake these assurance engagements?	Reviews of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these regulations, a review should be undertaken by a suitably qualified accountant following review standards. Review engagement standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out a review engagement. JAB Competency requirements for review engagements in Australia	Audits of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these areas, an audit should be undertaken by a suitably qualified accountant following auditing standards. Auditing standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out an audit engagement.

Where to find further information

Refer to our AUASB Not-for-Profit page on the AUASB website which includes example controls and audit procedures, example auditor’s reports and other reference materials produced by other standard setters, professional bodies and academic research.

ACNC Website: Governance for Good: A Guide for Responsible people and ACNC Governance standards.

Governance Institute website: Good Governance Guide — Conflicts of interest in not-for-profit organisations.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	Expanding KAMs beyond listed entities – Feedback Statement	**Date:**	14 June 2023
ATG Staff:	Anne Waters	**Agenda Item:**	12.0

Question No.	Questions for the Board
1	Does the AUASB have any comments or questions in relation to the Feedback Statement at **Agenda Item 12.1**?
2	Does the AUASB approve the Feedback Statement at **Agenda Item 12.1**?

Background and Previous Discussions on Topic

1. At its meeting on 2 May 2023, the AUASB discussed the feedback received in response to the Discussion Paper *Expanding KAMs beyond listed entities*. The AUASB agreed there was no compelling case to expand the communication of key audit matters (KAMs) beyond listed entities at this time.

Matters for Discussion and ATG Recommendations

2. The AUASB Technical Group have prepared a Feedback Statement to communicate to our stakeholders the feedback we received, and the decision made by the AUASB.

Next steps/Way Forward

3. Subject to feedback from the AUASB, the Feedback Statement will be issued.

Materials Presented

Agenda Item	Description
12.1	Expanding KAMs beyond listed entities – Feedback Statement

June 2023

Feedback Statement

Expanding Key Audit Matters beyond listed entities

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, Non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing, and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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1. Introduction

The enhanced auditor's report became effective in December 2016. One of the significant enhancements was the introduction of the communication of Key Audit Matters (KAMs) in the auditor's report of listed entities as required by ISA / ASA 701[1].

KAMs were introduced to:

- Enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.
- Provide additional information to intended users to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit.
- Assist intended users in understanding the entity and areas of significant management judgement in the financial report[2].

In addition, it was anticipated there would be other benefits such as:

- Enhanced communication between auditors and investors, and those charge with corporate governance.
- Increased user confidence in audit reports and financial statements.
- Increased transparency, audit quality, and enhanced information value.
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report.
- Renewed auditor focus on matters to be reported that could result in an increase in professional scepticism.
- Enhanced financial reporting in the public interest[3].

The IAASB determined that ISA 701 should be applicable for listed entities only as there are many users who do not have ready access to management and those charged with governance, and who may benefit from this communication. As detailed in the ISA 701 Basis for Conclusions, the IAASB decided that extending the mandatory application to other entities would be considered once the post-implementation review (PIR) was completed.

As detailed in the ASA 701 Basis for Conclusions, the AUASB discussed the types of entities that might be considered "public interest" and agreed the concept of KAMs disclosures in the auditor's report about the matters of most significance to the audit was useful to all users of audited financial reports. However, the AUASB agreed to keep the scope of ASA 701 consistent with the ISA and committed to reconsider this when conducting a PIR.

---

1 ISA / ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
2 ASA 701 paragraph 2
3 Refer IAASB auditor reporting focus page

The AUASB has contributed to the IAASB's PIR activities related to ISA 701 since they first commenced in 2020. As communicated in the IAASB's Auditor Reporting PIR Feedback Statement issued in June 2021, there was broad support for the communication of KAMs for listed entities. However there were also mixed views on whether the scope of ISA 701 should be expanded by the IAASB or left up to each jurisdiction to decide. The IAASB agreed that the communication of KAMs for Public Interest Entities (PIEs) would be considered further by the Listed Entity / PIE Project Task Force.

Since the introduction of the enhanced auditor's report the AUASB have conducted extensive outreach to understand stakeholders' views on the benefits and experience in relation to KAMs. Through this outreach it was widely acknowledged that the addition of KAMs resulted in an improvement in the communicative value of the auditor's report for listed entities.

The AUASB have approached the PIR for the auditor reporting standards in two phases. During the first phase, we formally sought views on all aspects of the enhanced auditor's report to inform the AUASB in its response to the IAASB.

The second phase of the PIR is the formal consideration of whether the communication of KAMs should be expanded beyond listed entities and mandated for certain other types of entities in Australia. As part of this the AUASB issued Discussion Paper Expanding Key Audit Matters beyond listed entities seeking feedback to inform the AUASB as they consider:

- The proposals of the IAASB's Listed entity/PIE project Task Force, and
- Irrespective of whether the IAASB expand the scope of ISA 701, whether to expand the scope of reporting of KAMs in Australia (i.e. ASA 701).

Discussion Paper questions

The AUASB Discussion Paper included the following questions for stakeholder feedback:

1. Do you support requiring the communication of KAMs in the auditor's report for the following:

   Option 1: Listed entities only (i.e., No amendment to ASA 701); or

   Option 2: Listed entities plus certain other types of entities; or

   Option 3: All audited financial reports.

2. If in response to Question 1 you support Option 2, for which types of entities do you think auditors should be required to communicate KAMs?

   Do you support one of the suggested ways to segment the population of entities described in this discussion paper; or is there another way you would segment the population of entities that KAMs should apply to?

3. If you do not support any of the Options currently under consideration by the AUASB in this discussion paper, do you have any suggestions for alternative options the AUASB should consider when evaluating the population of entities that KAMs should apply to going forward?

What is the purpose of this feedback statement?

This feedback statement summarises the feedback received in relation to the AUASB Discussion Paper and the AUASB's conclusion on this matter.

2. Summary of Outreach and Responses

Feedback was received from stakeholders from all sectors, including:

- Auditors from the private and public sector;
- Users / Preparers;
- Regulators;
- Academics; and
- Professional bodies.

The AUASB Staff held two roundtable sessions throughout the consultation period (one in Melbourne and one online) attended by representatives from large and mid-tier audit firms, ACNC, ASIC and the professional bodies.

The AUASB received nine written responses to the Discussion Paper from:

- Pitcher Partners;
- Nexia Australia;
- KPMG Australia;
- Australasian Council of Auditors General (ACAG);
- Institute of Public Accountants (IPA);
- Deloitte Touche Tohmatsu (Deloitte);
- Australian Prudential Regulation Authority (APRA);
- Chartered Accountants Australia and New Zealand (CAANZ) jointly with CPA Australia; and
- Australian Charities and Not-for-profits Commission (ACNC).

3. Feedback Received

At the May 2023 meeting, the AUASB board discussed the feedback received in relation to the AUASB Discussion Paper.

The following key themes were evident in the feedback received from stakeholders:

- All stakeholders supported the continued requirement of communicating KAMs in the auditor's report for listed entities only (Option 1).
- There was no support for requiring the communication of KAMs for other types of entities unless there was clear evidence that there would be benefits for users. Stakeholders acknowledged that it is difficult to gather this evidence.
- Not all entities captured by the definition of PIEs have users of their financial reports, therefore requiring communication of KAMs for all PIEs would not be appropriate.

- Several stakeholders pointed out that ASA 701 currently permits auditors of non-listed entities to voluntarily report KAMs, however this is not being done frequently due to it not being considered valuable for other types of entities.
- Whilst KAMs are not mandatory in the public sector, a number of Auditor-General Offices have adopted the reporting of KAMs for certain entities that they audit, noting they are an effective tool for increasing the transparency of auditors in the conduct of their work.
- Two stakeholders supported Option 2 for listed entities and other types of entities but only on the condition that research demonstrates that the benefits of expanding KAMs outweigh the costs.
- One stakeholder commented that requiring KAMs for Registered Superannuation Entities may be consistent with the increase in their reporting requirements, however only if there is evidence that it will be beneficial to users. In the superannuation sector, APRA does not require reporting of KAMs as it has the mandate to directly obtain relevant information from superannuation entities and their auditors. APRA do acknowledge that users of these financial reports may find KAMs beneficial however would only recommend KAMs being required if the benefits outweigh the costs / additional regulatory burden.
- ACNC do not consider a blanket application to all charities considered large to be appropriate, given that large charities are likely to be substantially smaller than the listed entities currently covered under ASA 701.

4. AUASB Decisions

At its meeting on 2 May 2023, based on the feedback provided by stakeholders as detailed above, the AUASB agreed not to expand the communication of KAMs beyond listed entities at this time. The matter will again be considered by the AUASB depending on the outcomes of IAASB's Listed Entity / PIE project. The IAASB's Exposure Draft for Track 2 of this project is expected to be approved in September 2023 ahead of its public release in February 2024.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	**AUASB response to the IAASB's Proposed ISA 570 (Revised)** ***Going Concern***	**Date:**	31 May 2023
ATG Staff:	Anne Waters / Rebecca Mattocks	**Agenda Item:**	13.0

Questions for the Board

Question	Questions for the Board
1	Overall is the AUASB supportive of the proposals in ISA 570 ED and consider that they address the matters in paragraphs 6?
2	Is the AUASB supportive of the definition of Material Uncertainty (Related to Going Concern) and how the term may cast significant doubt is clarified as detailed in paragraph 7?
3	Is the AUASB supportive of the proposals in relation to increasing transparency in the auditor's report as detailed in paragraphs 8 to 9?
4	Does the AUASB have other matters in ISA 570 ED which they consider should be included in our submission to the IAASB?
5	Do you consider the proposed changes in the ISA 570 ED to be adequately aligned with existing financial reporting requirements (refer paragraph 10)?

Background and Previous Discussions on the Topic

1 On 3 May 2023 the AUASB issued a Consultation Paper seeking public comment on the IAASB's Exposure Draft on ISA 570 (Revised) Going Concern (ISA 570 ED).

2 The objective of this agenda item is to:

(a) gather initial views from the AUASB on the more significant changes proposed in ISA 570 ED; and

(b) provide an update to the AUASB on outreach plans.

Matters for Discussion

3 The AUASB has been informed throughout the development of ISA 570 ED. The ATG are now seeking specific feedback as to whether the AUASB is supportive of the proposals in ISA 570 ED, to enable us to:

(a) Explore any matters with stakeholders and

(b) Commence drafting the submission to the IAASB.

4 Feedback from stakeholders will be presented to the AUASB at its meeting on Wednesday 23 August 2023. Per the AUASB Due Process Framework, although the views of all stakeholders are carefully considered by the AUASB, the AUASB decides on the final response to the ISA 570 ED, after balancing all the evidence from research, the consultation process, and careful deliberation of the potential benefits and costs of proposals.

Questions for the AUASB

5 Specific matters which the ATG is seeking views from the AUASB are listed in paragraphs.6 – 10 below. Where possible references to the where the matters are explained in the Consultation Paper have been included to assist.

6 Overall, is the AUASB supportive of the proposals in ISA 570 ED and consider that they:

(a) are responsive to the public interest? (Refer to Attachment 2 Appendix 1 of the Consultation Paper at **Agenda Item 13.1** for details on how public interest has been addressed)

(b) will enhance and strengthen the auditor's judgements and work relating to going concern?

(c) Are scalable to entities of different sizes and complexities? (Refer to Attachment 2 page 34 of the Consultation Paper at **Agenda Item 13.1**)

(d) will reinforce the application of professional scepticism? (Refer to Attachment 2 Section 2-H of the Consultation Paper at **Agenda Item 13.1** for details on how professional scepticism has been addressed)

7 Do you support the definition of Material Uncertainty (Related to Going Concern) which is:

> An uncertainty related to events or conditions that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
>
> (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
>
> (b) In the case of a compliance framework, the financial statement not to be misleading.

And: Do you support the application material (refer ISA 570 ED para A5) to the definition clarifying the phrase "may cast significant doubt"? (Refer to Attachment 2 of the Consultation Paper at **Agenda Item 13.1**).

8 Do you support the proposals for increased transparency in the auditor's report when the auditor issues an unmodified opinion, as described in the table below:

Applicability	Going Concern Section	Material Uncertainty Related to Going Concern Section
All Entities	State that the auditor: • Concluded that management's use of the going concern basis of accounting is appropriate. • Based on the audit evidence obtained, has not identified a material uncertainty. Refer to Attachment 2 paragraphs 75-78 of the Consultation Paper at **Agenda Item 13.1**.	State that: • The auditor concluded that management's use of the going concern basis of accounting is appropriate. • A material uncertainty exists. • The auditor's opinion is not modified in respect of the matter. Include: • A reference to the related disclosure(s) in the financial statements. Refer to Attachment 2 paragraphs 84-86 of the Consultation Paper at **Agenda Item 13.1**.
Listed Entities	In addition, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern, but no material uncertainty exists, include: • A reference to the related disclosure(s) in the financial statements, if any. • A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. Refer to Attachment 2 paragraphs 79-83 of the Consultation Paper at **Agenda Item 13.1**.	In addition, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern and a material uncertainty exists, include: • A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. Refer to Attachment 2 paragraphs 84-86 of the Consultation Paper at **Agenda Item 13.1**.

9 Do you support the proposals when there is a modification to the auditor's report (Refer to Attachment 2 Paragraphs 87-91 of the Consultation Paper at **Agenda Item 13.1**):

(a) due to inadequate disclosure of a material uncertainty in the financial statements, that the auditor's report includes a Material Uncertainty Related to Going Concern section which states:

> We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, as described in the Basis for Qualified (Adverse) Opinion section of our report, a material uncertainty exists that has not been adequately disclosed in the financial statements.

(b) when there is a disclaimer of opinion and the auditor's report will include in the Basis for Disclaimer of Opinion:

> We are unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

10 When the AUASB conducted outreach to inform its submission to the IAASB's *Fraud and Going Concern in an Audit of Financial Statements Discussion Paper*, the feedback received was that existing financial reporting requirements are not sufficiently robust to drive adequate disclosure by entities, and the accounting and auditing standards should be better aligned. This was reflected in our submission to the IAASB. The ATG are aware that the IAASB have engaged with the IASB on this matter, and that the IASB consider that existing principles-based accounting standards are sufficient. Our Consultation Paper at **Agenda Item 13.1** includes a question seeking feedback on this matter.

Outreach

11 To date the ATG have run two educational sessions being a Webcast and AASB Dialogue Series on Going Concern (recording).

12 The following roundtables are planned:

Melbourne – 8 August 2023

Sydney – 10 August 2023

Virtual – 26 July and 1 August 2023

13 In addition, the ATG will:

(a) present to the Large National Network Meetings.

(b) meet with representatives from the AICD, ASX, ASIC and members of the AASB's User Forum.

Collaboration with NZAuASB

14 The AUASB and NZAuASB staff will share feedback received from both jurisdictions and coordinate our responses to the IAASB where appropriate.

Next steps

15 Responses to the AUASB on the Going Concern Consultation Paper at **Agenda Item 13.1** are due by 14 August 2023. The AUASB will consider the draft IAASB submission and feedback from stakeholders at its virtual meeting on 23 August 2023 (due to the IAASB on 24 August 2023).

Materials Presented

Agenda Item	Description
13.0	Going Concern Agenda Paper
13.1*	AUASB Consultation Paper

* In Supplementary Papers pack

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	AUASB Operational Matters	**Date:**	14 June 2023
ATG Staff:	Matthew Zappulla	**Agenda Item:**	15

Recommendations and Questions for the Board

Question No.	Question for the Board	ATG Recommendation Overview
Question 1	Do AUASB members have any feedback on the current effectiveness and efficiency of AUASB operational and reporting matters for the 2022-23 reporting period, as described in Paragraph 2 below.	n/a

Background and Previous Discussions on Topic

1. With this AUASB meeting being the last of the 2022-23 reporting period it is timely to review and provide any comments on the operational activities of the Office of the AUASB.

Matters for Discussion and ATG Recommendations

2. AUASB members are requested to review and provide any comments on the following AUASB operational and reporting activities (links to AUASB website are highlighted):

- The current AUASB Strategy
- The most recent AUASB Corporate Plan (NB: 2023-24 Corporate Plan to be completed by 31 August 2023)
- The most recent AUASB Annual Report (NB: 2023-24 Annual Report to be completed by 30 September 2023)
- The layout and presentation of the AUASB website
- The format of AUASB communications, as demonstrated by the way AUASB News Items are presented and in our AUASB LinkedIn page
- The functionality and accessibility of the AUASB Digital Standards Portal
- AUASB Bulletins and other publications available on the AUASB Website here
- The AUASB's Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications

Next steps/Way Forward

3. Feedback provided will be considered by the AUASB Chair and Technical Director, and where relevant incorporated into the 2022-23 annual reporting activities of the AUASB.

AUASB Agenda Paper

Title:	Proposed AUASB 2024 Meeting Dates	**Date:**	31 May 2023
ATG Staff:	Rebecca Mattocks	**Agenda Item:**	16.1

Questions for the Board

Question No.	Question for the Board
1	Does the AUASB agree with the proposed AUASB 2024 meeting dates presented in Paragraph 1 below?

AUASB 2024 Meeting Dates

1. The following timing is proposed:

2024	Location	Suggested Dates
March	In person (full day)	Wednesday 13 March
May	Virtual via Zoom (2-3 hours)	Wednesday 1 May
June	In person (2 full days)	Wednesday 12 June and Thursday 13 June
August	Virtual via Zoom (2-3 hours)	Tuesday 6 August
September	In person (full day)	Tuesday 10 September
December	In person (2 full days)	Tuesday 3 December and Wednesday 4 December

2. IAASB meeting dates, School Holidays and Public Holidays were considered in the selection of the above dates. AUASB members are requested to review the proposed format and timing of each meeting and propose any necessary amendments.

Audits of Less Complex Entities – Proposed ISA for LCE

This agenda item presents revised drafting of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

Content shaded in grey is not proposed for discussion with the Board at this time.

Preface– ISA for LCE

P.1. This standard (i.e., the ISA for LCE) has been designed to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, for audits of financial statements of less complex entities (LCEs) in the private and public sectors. The standard has been developed to reflect the nature and circumstances of an audit of the financial statements of an LCE and result in the consistent performance of a quality audit engagement. A quality audit engagement is achieved by planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objective of this standard involves exercising professional judgment and professional skepticism.

P.1A. This standard applies to an audit of a complete set of general purpose financial statements of an LCE as contemplated in Part A, and is written in that context. It may also be adapted as necessary in the circumstances of the engagement to an audit of a complete set of special purpose financial statements, or an audit of a single financial statement or of a specific element, account or item of a financial statement, only if the entity is an LCE as set out in Part A.

P.1B. When an audit engagement is undertaken using this standard, the International Standards on Auditing do not apply to the engagement. They may, however, provide additional guidance in relation to an audit performed in accordance with the ISA for LCE.

P.2. Part A sets out the authority for determining the appropriate use of the ISA for LCE. Decisions about the required or permitted use of this standard, including descriptions of the type of entities for which an audit in accordance with this standard is appropriate rest with legislative and regulatory authorities or relevant local bodies with standard-setting authority. The intended scope of this standard is consistent with the description of a typical LCE set out in Part A and does not contemplate jurisdictional descriptions.

P.3A. If this standard is used for audit engagements other than those contemplated in Part A, the auditor is not permitted to represent compliance with the ISA for LCE in the auditor's report.

P.4. This standard does not override local law or regulation that governs audits of financial statements in a particular jurisdiction. The ISA for LCE does not address the responsibilities of the auditor that may exist in legislation or regulation. Such responsibilities may differ from those established in this standard and it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory, or professional obligations.

The Applicable Financial Reporting Framework

P.6. The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. Law or regulation may establish the responsibilities of management, and those charged with governance, in relation to financial reporting. This standard does not impose responsibilities on management or those charged with governance and does not override law or regulation that govern their responsibilities. However, an audit in accordance with this standard is conducted on the premise that management, and where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Those Charged with Governance and Management's Responsibilities for Preparation of the Financial Statements

The extent of management's responsibilities, or the way that they are described, may differ across jurisdictions. While there may be differences in the extent of those responsibilities or how they are described, an audit in accordance with this standard is conducted on the premise that management, and where appropriate, those charged with governance, have acknowledged and understood that they have responsibility:

- *For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation;*
- *For such internal control as management, and where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and*
- *To provide the auditor with unrestricted access to all information of which they are aware that is relevant to the preparation of the financial statements, additional information the auditor may request, and unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.*

P.7. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standard setting organization, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both.

P.8. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, the framework ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies consistent with the framework's concepts underlying the requirements.

P.9. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. This standard covers both frameworks. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

(i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

An Audit of Financial Statements

P.10. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. As the basis for the auditor's opinion, this standard requires the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

P.11. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

Inherent Limitations of an Audit

Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks of material misstatement is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks of material misstatement is a matter of professional judgment, rather than a matter capable of precise measurement.

Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with this standard. Accordingly, the subsequent discovery of a material misstatement resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with this standard. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.

Format of the ISA for LCE

P.12. The ISA for LCE includes:

- Part A sets out the authority for determining the appropriate use of the ISA for LCE.
- Part 1, which sets out the fundamental concepts, general principles and overarching requirements to be applied throughout the audit.
- Part 2, which sets out the general requirements for audit evidence and documentation, as well as the overall objective of the audit.
- Part 3, which sets out the auditor's and engagement partner's obligations and responsibilities for quality management in an audit of an LCE.

- Parts 4 to 9, which follow the flow of an audit engagement, and set out the detailed requirements for the audit. Each of these Parts also includes specific communication and documentation requirements as necessary.
- [Part 10, which sets out the special considerations that apply to an audit of group financial statements.]
- Appendices, which include the glossary of terms used in this standard, assertions, an illustrative engagement letter and an illustrative representation letter, as well as other relevant supporting materials for implementation of the requirements within this standard.

P.13. The content of Parts 1-[10] includes:

- Introductory material in a separate box setting out the content and scope of that Part (but does not create any additional obligations for the auditor).
- Objective(s), which link the requirements of that Part and the overall objective of the audit.
- Requirements to be met, except where the requirement is conditional and the condition does not exist. Requirements are expressed using "shall."
- Essential explanatory material (EEM), designed to provide further explanation relevant to a sub-section or a specific requirement. All EEM is presented in italics within separate blue boxes. There are two types of EEM: general introductory EEM that explains the context of the section that follows and EEM specific to the requirement directly above it.

Requirements and EEM that are only applicable when there are engagement team members other than the engagement partner are presented in a box.

P.14. Definitions, describing the meanings attributed to certain terms for the purpose of this standard, can be found in the Glossary of Terms in Appendix 1.[1] The definitions assist in the consistent application and interpretation of the requirements, and are not intended to override definitions that may be established for other purposes, whether in law or regulation. Unless otherwise indicated, the definitions carry the same meanings throughout this standard.

P.14A For the purposes of this standard, the use of "LCE" or "entity" also refers to a group (i.e., where the audit is an audit of group financial statements).

Non-Authoritative Support Materials

P.15. The IAASB may issue Staff publications or other non-authoritative material to support the implementation of the ISA for LCE.

Public Sector Entities

P.16. This standard is relevant to engagements in the public sector, when the considerations set out in the Authority in Part A apply. The public sector auditor's responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements in

[1] The definitions in this standard are consistent with the definitions in the International Standards on Auditing (ISAs) (i.e., contained in the IAASB's Glossary of Terms within the IAASB's Handbook Volume 1). The Glossary of Terms in Appendix 1 also includes other relevant terms in the IAASB Handbook Glossary of Terms that are not defined but are used in the ISAs.

accordance with this standard. These additional responsibilities are not dealt with in this standard. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard setters, or in guidance developed by public sector audit agencies.

P.17. The applicable financial reporting framework in a public sector entity is determined by the legislative and regulatory frameworks relevant to each jurisdiction or within each geographical area. Matters that may be considered in the entity's application of the applicable financial reporting requirements, and how it applies in the context of the nature and circumstances of the entity and its environment, include whether the entity applies a full accrual basis of accounting or a cash basis of accounting in accordance with the International Public Sector Accounting Standards, or a hybrid.

P.18. Ownership of a public sector entity may not have the same relevance as in the private sector because decisions related to the entity may be made outside of the entity as a result of political processes. Therefore, management may not have control over certain decisions that are made. Matters that may be relevant include understanding the ability of the entity to make unilateral decisions, and the ability of other public sector entities to control or influence the entity's mandate and strategic direction.

P.19. When appropriate, additional considerations specific to public sector entities have been included in EEM.

Maintenance of the ISA for LCE[2]

P.20. The IAASB expects to propose amendments to the ISA for LCE periodically. The IAASB will consider the impact on the ISA for LCE as part of a project to revise or develop a new ISA, and a determination made as to the urgency for the need for a change to this standard. In developing the exposure draft of the changes for the ISA for LCE, the IAASB will consider any specific issues that have been brought to the attention of the IAASB regarding application of the ISA for LCE. The IAASB expects that there will be a period of at least eighteen months between when amendments to the ISA for LCE are issued and the effective date of those amendments.

[2] Task Force recommendations on the future maintenance of this standard will be presented to the Board in September 2023.

A. Authority of the ISA for Audits of Financial Statements of Less Complex Entities

Content of this Part

Part A sets out the Authority for determining the appropriate use of the ISA for LCE.

The ISA for LCE is designed to enable the achievement of the overall objectives of the auditor, given the typical nature and circumstances of an LCE. There are limitations to the use of the ISA for LCE, which are designated into three categories, including specific prohibitions, qualitative characteristics, and quantitative thresholds. Part A also describes the responsibilities for legislative or regulatory authorities or relevant local bodies with standard-setting authority to support the appropriate use of this standard. For the purposes of this Part, the use of "LCE" or "entity" also refers to a group (i.e., where the audit is an audit of group financial statements).[3]

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE (i.e., they do not address complex matters or circumstances). If the ISA for LCE is used for an audit outside the intended scope of this standard, compliance with the requirements of the ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.

The Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide) provides further guidance for legislative or regulatory authorities or relevant local bodies with standard-setting authority when addressing their respective responsibilities as described in this Part. In addition, the Authority Supplemental Guide further explains matters that may be relevant for firms and auditors in the determination whether the use of the ISA for LCE is appropriate.

Limitations for Using the ISA for LCE

Limitations for using the ISA for LCE are designated into three categories:

- *Specific classes of entities for which the use of the ISA for LCE is prohibited (i.e., specific prohibitions);*
- *Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE for the audit of the financial statements of that entity; and*
- *Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.*

In determining the appropriate use of the ISA for LCE, all three categories are to be considered.

3 A "group" is a reporting entity for which group financial statements are prepared and "group financial statements" are financial statements that include the financial information of more than one entity or business unit through a consolidation process. The term "consolidation process" as used in the ISA for LCE is not intended to have the same meaning as "consolidation" or "consolidated financial statements" as defined or described in financial reporting frameworks. Rather, the term "consolidation process" refers more broadly to the process used to prepare group financial statements. The Glossary (**Appendix 1**) describes the meanings attributed to certain terms for the purpose of the ISA for LCE, including the meaning of group and group financial statements.

Specific Prohibitions

Paragraph A.1. sets out the classes of entities for which the use of this standard is specifically prohibited.

A.1. The ISA for LCE shall not be used if:

(a) Law or regulation prohibits the use of the ISA for LCE or specifies the use of auditing standards other than the ISA for LCE for an audit of financial statements in that jurisdiction.

(b) The entity is a listed entity.

(c) The entity falls into one of the following classes:

(i) An entity one of whose main functions is to take deposits from the public;

(ii) An entity one of whose main functions is to provide insurance to the public; or

(iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.

[(d) The audit is an audit of group financial statements (group audit) and:

(i) Any of the group's individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c); or

(ii) Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets).]

A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a store with multiple branches. When those business units have characteristics such as separate locations, separate management, separate general ledger and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.

In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA for LCE.

Component Auditors

A component auditor is an auditor who performs audit work related to a component[4] for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

[4] A component is an entity, business unit, function or business activity, or some combination thereof, determined by the auditor responsible for the group audit for the purposes of planning and performing audit procedures in a group audit.

Part 3 contains requirements in relation to engagement quality, including relevant ethical requirements, and the direction and supervision of the members of the engagement team, and the review of their work.

When the auditor responsible for the group audit performs audit procedures related to a component, the auditor is not considered a component auditor.

A.2. The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific sub-sets within a class to be able to use this standard or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

Qualitative Characteristics

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE.

The ISA for LCE has not been designed to address:

- *Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.*
- *Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership, corporate governance arrangements, or policies, procedures or processes established by the entity.*

Also, the ISA for LCE does not include any requirements addressing:

- *Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.*
- *When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of a typical LCE.*
- *The auditor's use of a report on the description, design, or operating effectiveness of controls at a service organization (i.e., a type 1 or type 2 report), as an auditor of a typical LCE would ordinarily not need to rely on such a report.*

A.3. The following list describes characteristics of a typical LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute, and other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination. For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units.

Business Activities, Business Model & Industry	The entity's business activities, business model or the industry in which the entity operates do not give rise to significant pervasive business risks. There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements). The entity's transactions result from few lines of business or revenue streams.
Organizational Structure and Size	The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).
Ownership Structure	The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.
Nature of Finance Function	The entity has a centralized finance function, including centralized activities related to financial reporting. There are few employees involved in financial reporting roles (e.g., 5 individuals or less).
Information Technology (IT)	The IT environment of the entity, including its IT applications and IT processes, is straightforward. The entity uses commercial software and does not have the ability to make any program changes other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds). Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations. Few formalized general IT controls are needed in the entity's circumstances.
Application of the Financial Reporting Framework and Accounting Estimates	Few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgment in applying the requirements of the financial reporting framework. The entity's financial statements ordinarily do not include accounting estimates that involve the use of complex methods or models, assumptions or data.

[Additional Characteristics Relevant for Group Audits	
For group audits, the following qualitative characteristics are to be considered in addition to those above:	
Group Structure and Activities	The group has few entities or business units (e.g., 5 or less). Group entities or business units are limited to few jurisdictions (e.g., 3 or less).
Access to Information or People	Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the auditor.
Consolidation Process	The group has a simple consolidation process. For example: • Financial information of all entities or business units has been prepared in accordance with the same accounting policies applied to the group financial statements; • All entities or business units have the same financial reporting period-end as that used for group financial reporting; • There are no sub-consolidations; and • Intercompany, or other consolidation adjustments are not complex.]

Notwithstanding that professional judgment is applied in determining whether this standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in this Authority, the use of the ISA for LCE is not appropriate.

Quantitative Thresholds

A.4. Determining quantitative thresholds assists in the consistent and appropriate use of the ISA for LCE in a jurisdiction. This section anticipates that legislative or regulatory authorities or relevant local bodies with standard setting authority will determine quantitative threshold(s) for use of the ISA for LCE in their respective jurisdictions.

Guidance on setting quantitative thresholds is described further in the Authority Supplemental Guide. Quantitative thresholds may be set, for example, for all applicable entities within the jurisdiction in general, or different thresholds may be set for entities within a specific or certain industry(ies) or for certain classes of entities. In doing so, consideration is to be given to the specific prohibitions for use of the ISA for LCE and the qualitative characteristics of a typical LCE, as set out in this Part, as well as other specific circumstances or needs that may be relevant in the jurisdiction. While complexity is not always directly relative to the size of an entity or its activities, complexity often increases when key quantitative measures (e.g., revenue, total assets, employee numbers etc.,) increase.

When determining quantitative thresholds for the use of the ISA for LCE, existing definitions or thresholds in a jurisdiction developed, which may be developed for different purposes may be *considered. The IAASB discussed definitions or thresholds used in a broad range of economies, including the:*

- *European Commission's definition of a "small enterprise."*[5] *A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed EUR 10 million.*
- *National Entrepreneur and SME Development Council of Malaysia's definitions of a "small entity."*[6] *These definitions use different quantitative thresholds depending on the nature of the entity's business. For example, a small manufacturing entity is defined as an entity with revenue of less than RM 15 million or having less than 75 employees, whereas a small entity providing services or operating in other sectors is defined as an entity with revenues of less than RM 3 million or having less than 30 employees.*

The IAASB discussed that these definitions or thresholds may be appropriate examples for a jurisdiction to consider when determining quantitative thresholds, adjusted for the economic and other circumstances of the jurisdiction.

When the auditor is determining whether the ISA for LCE is appropriate to use, quantitative thresholds are to be considered in addition to the specific prohibitions in paragraph A.1. and the qualitative characteristics in paragraph A.3.

Responsibilities of Legislative or Regulatory Authorities or Relevant Local Bodies

Decisions about the required or permitted use of the IAASB's International Standards (including the International Standards on Auditing (ISAs) and the ISA for LCE) rest with legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, jurisdictional / national auditing standard setters, professional accountancy organizations or others as appropriate) in individual jurisdictions.

As part of the local adoption and implementation process, it is anticipated that legislative or regulatory authorities or relevant local bodies with standard-setting authority:

- *May add or modify the classes of entities in paragraph A.1.(c) as set out in paragraph A.2.*
- *Determine quantitative thresholds described in paragraph A.4.*

In doing so, the specific prohibitions, qualitative characteristics and quantitative thresholds should be considered, as well as other specific needs that may be relevant in the jurisdiction.

[5] Source: https://single-market-economy.ec.europa.eu/smes/sme-definition_en.

[6] Source: https://smemalaysia.org/sme-definition/

1. Fundamental Concepts, General Principles and Overarching Requirements

Content of this Part

Part 1 sets out the:

- Effective date of this standard.
- The relevant ethical requirements and obligations for firm-level quality management.
- Overall objectives of the auditor. Each Part within this standard contains an objective for planning and performing the audit and provides a link between the requirements within that Part and the overall objectives of the auditor. The objectives within each Part assist the auditor to understand the intended outcomes of the procedures contained in that Part.
- Fundamental concepts, general principles and overarching requirements applicable to the engagement, including professional skepticism and professional judgment.
- Overarching requirements in relation to fraud, law or regulation, related parties and communications with management and, where appropriate, those charged with governance.
- General communication requirements that apply to all Parts. Within individual Parts there may be additional specific communication requirements.

Scope of this Part

The concepts, principles and overarching requirements in this Part apply throughout the audit engagement.

1.1. Effective Date[7]

1.1.1. This standard is effective for audits of financial statements for periods beginning on or after [XXX].

The auditor is permitted to apply this standard, if not prohibited by law or regulation, before the effective date specified.

1.2. Relevant Ethical Requirements and Firm-Level Quality Management

Relevant Ethical Requirements for an Audit of Financial Statements

1.2.1. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, for financial statement audit engagements.

Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to an audit of financial statements, together with national requirements that are more restrictive.

The IESBA Code establishes the fundamental principles of ethics, which are:

- *Integrity;*
- *Objectivity;*
- *Professional competence and due care;*

[7] The effective date of this standard will be discussed by the Board in September 2023.

- *Confidentiality; and*
- *Professional behavior.*

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The IESBA Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles.

Firm-Level Quality Management

Systems of quality management, including the policies or procedures, are the responsibility of the firm. ISQM 1,[8] applies to all firms that perform audits. This standard is premised on the basis that the firm is subject to ISQM 1 or to national requirements that are at least as demanding.

If an engagement quality review is required by the firm's policies or procedures established in accordance with ISQM 1, then ISQM 2,[9] applies. ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

1.3. Overall Objectives of the Auditor

1.3.1. The overall objectives of the auditor when conducting an audit of financial statements using the ISA for LCE are to:

(a) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects in accordance with an applicable financial reporting framework; and

(b) Report on the financial statements, and communicate as required by this standard, in accordance with the auditor's findings.

1.3.2. The auditor shall have an understanding of the entire text of this standard to understand its objectives and to apply its requirements properly.

1.3.3. To achieve the overall objectives, the auditor shall use the objectives stated in the relevant Parts in planning and performing the audit, to:

(a) Determine whether any audit procedures in addition to those required by the relevant Part are necessary to achieve the objectives stated in this standard; and

(b) Evaluate whether sufficient appropriate audit evidence has been obtained.

The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches:

[8] International Standards on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews for Financial Statements, or Other Assurance or Related Services Engagements*

[9] ISQM 2, *Engagement Quality Reviews*

- *Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with requirements from other Parts;*
- *Extend the work performed in applying one or more requirements; or*
- *Perform other procedures judged by the auditor to be necessary in the circumstances.*

1.3.4. If an objective in a Part cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor to:

(a) Modify the terms of engagement and perform the audit and report in accordance with the International Standards on Auditing; or

(b) Modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation).

Failure to achieve an objective represents a significant matter requiring documentation.

1.4. Fundamental Concepts and General Principles for Performing the Audit

1.4.1. The auditor shall comply with all relevant requirements unless, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement. In such circumstances, the auditor shall perform alternative procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

A requirement is not relevant only in the cases where the entire Part is not relevant (for example, if the audit is not an audit of group financial statements) or the requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

1.4.2. The auditor shall not represent compliance with the ISA for LCE in the auditor's report unless all relevant requirements in this standard have been met or the circumstances in paragraph 1.4.1. apply.

Professional Judgment

1.4.4. The auditor shall exercise professional judgment in planning and performing the audit.

Professional judgment is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and this standard and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

The distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have been sufficiently developed to achieve the necessary competencies for reasonable judgments.

The exercise of professional judgment in any particular case is based on the facts and circumstances that are known to the auditor.

Significant professional judgments made in reaching conclusions on significant matters arising during the audit are required to be documented in accordance with the requirements of Part 2 of this standard.

Professional Skepticism

1.4.5. The auditor shall plan and perform the audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

1.4.6. The auditor shall design and perform procedures in a way that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

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 audit procedures in addition to those required by this standard.*

Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management, and where appropriate, those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances.

The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management, and where appropriate, those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance.

1.5. Fraud

The primary responsibility for the prevention and detection of fraud rests with both management, and where appropriate, those charged with governance of the entity. Although fraud is a broad legal concept, for the purposes of this standard, the auditor is concerned with fraud that causes a material misstatement in the financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error even though the audit is properly planned and performed in accordance with this standard. This is 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.

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

1.5.1. The auditor shall address the risk of fraud when:

(a) Identifying and assessing risks of material misstatement, whether due to fraud or error. In doing so, the auditor shall evaluate whether information obtained from the procedures to identify and assess risks and related activities indicates that one or more fraud risk factors are present;[10]

(b) Obtaining sufficient appropriate audit evidence through designing and implementing appropriate responses to assessed risks of material misstatement, including risks of material misstatement due to fraud; and

(c) Responding appropriately to fraud or suspected fraud identified during the audit.

Considerations Specific to Public Sector Entities

The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.

Auditor Unable to Continue the Engagement

1.5.2. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall determine the legal and professional responsibilities applicable in the circumstances or consider whether it is appropriate to withdraw, where withdrawal is possible under law or regulation.

Considerations Specific to Public Sector Entities

In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of the mandate or public interest considerations.

1.6. Law or Regulation

It is the responsibility of management, with the oversight of those charged with governance where appropriate, to ensure that the entity's operations are conducted in accordance with the provisions of law or regulation, including compliance with the provisions of law or regulation that determine the reported amounts and disclosures in an entity's financial statements.

The requirements in this standard are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with law or regulation. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all law or regulation. The auditor's focus in an audit of the financial statements is on circumstances when non-compliance with law or regulation results in a material misstatement of the

[10] Appendix 4 sets out fraud risk factors relevant to less complex entities.

financial statements. In this regard, the auditor's responsibilities are in relation to compliance with two different categories of law or regulation and are distinguished as follows:

- *The provisions of those laws or regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements (e.g., tax and pension law or regulation); and*
- *Other law or regulation that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations), i.e., non-compliance with such law or regulation may therefore have a material effect on the financial statements.*

1.6.1. During the audit, the auditor shall remain alert to the possibility that performing audit procedures may bring instances of non-compliance or suspected non-compliance with law or regulation to the auditor's attention.

In the absence of identified or suspected non-compliance with law or regulation, the auditor is not required to perform audit procedures regarding the entity's compliance with law or regulations, other than what is required by this standard.

Considerations Specific to Public Sector Entities

In the public sector, there may be additional audit responsibilities with respect to the consideration of law or and regulation which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

Reporting to an Appropriate Authority Outside the Entity

1.6.3. If the auditor has identified or suspects non-compliance with law or regulation, including fraud, the auditor shall determine whether law, regulation or relevant ethical requirements:

(a) Require the auditor to report to an appropriate authority outside the entity.

(b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Reporting identified or suspected non-compliance with law or regulation, including fraud, to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- *The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or*
- *Law, regulation or relevant ethical requirements provide the auditor with the right to do so.*

1.7. Related Parties

1.7.1. During the audit, the auditor shall remain alert for:

(a) Information about the entity's related parties, including circumstances involving a related party with dominant influence;

(b) 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; and

(c) Significant transactions outside the entity's normal course of business.

Many related party transactions occur in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Related parties, by virtue of their ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management. Consideration of such behavior is relevant when identifying and assessing the risks of material misstatement due to fraud.

Many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Where the financial reporting framework has established such requirements, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. Even if the applicable financial reporting framework has not established such requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions to be able to conclude whether the financial statements achieve fair presentation and are not misleading.

1.8. General Communications with Management and Those Charged with Governance

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

1.8.2. The auditor shall communicate, on a timely basis, with management and, where appropriate, those charged with governance.

Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees or equivalent.

There may be other cases where it is not clear with whom to communicate, for example in some family-owned businesses, some not-for-profit organizations and some government entities (e.g., the governance structure may not be defined). In such cases the auditor may need to discuss and agree with management or the engaging party with whom communications should be made.

1.8.3. Specific matters to be communicated are required throughout this standard. The auditor shall use professional judgment in determining the appropriate form, timing and general content of the communications with management, and where appropriate, those charged with governance. When determining the form and timing of communication, the auditor shall consider:

(a) Legal requirements for communication; and

(b) The significance of the matters to be communicated.

The appropriate form and timing of communications will vary with the circumstances of the audit, and may be affected by the significance and nature of the matter, and the actions expected to be taken by management, and where appropriate, those charged with governance.

In audits of LCEs, communication with management and, where appropriate, those charged with governance, often may occur in a less structured manner and matters may be communicated orally. This standard requires that the auditor exercises professional judgement to determine the appropriate form of communication of a matter(s) and certain matters are required to be communicated in writing.

1.8.4. In some cases, all of those charged with governance are involved in managing the entity, for example, an LCE where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this standard are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The auditor shall nonetheless 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.

1.8.5. Where the responses to inquiries of management, and where appropriate, those charged with governance about a particular matter are inconsistent, the auditor shall investigate the inconsistency.

Specific Communications in Relation to Fraud

1.8.6. If the auditor has identified fraud or has obtained information that indicates that fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

Considerations Specific to Public Sector Entities

In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation or other authority.

1.8.7. Unless prohibited by law or regulation, the auditor shall communicate with those charged with governance, on a timely basis, if the auditor has identified or suspects fraud involving:

(a) Management, unless those charged with governance are involved in managing the entity;

(b) Employees who have significant roles in the entity's internal control system; or

(c) Others where the fraud results in a material misstatement in the financial statements.

1.8.8. If the auditor suspects fraud involving management, the auditor shall discuss with those charged with governance the nature, timing and extent of audit procedures necessary to complete the audit.

1.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

1.9.1. The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others.

2. Audit Evidence and Documentation

Content of this Part

Part 2 sets out the requirements to be applied throughout the audit for:

- Audit evidence.
- Documentation. Within individual Parts there may also be additional specific documentation requirements.

Scope of this Part

The requirements in this Part apply throughout the audit engagement.

2.1. Objectives

2.1.1. The objectives of the auditor are to:

(a) 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; and

(b) Prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the ISA for LCE and applicable law or regulation.

2.2. Sufficient Appropriate Audit Evidence

2.2.1. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion.

2.2.2. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Sufficiency is the measure of the quantity of audit evidence, and is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also the quality of the audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate if it is of poor quality.

Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

2.3. Information to be Used as Audit Evidence

Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by designing and performing procedures to identify and assess risks of material misstatement (see Part 6) *and responding to assessed risks of material misstatement (see Part 7) as well as procedures in other Parts to comply with the requirements of the ISA for LCE.*

Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the audit, but may also include information from other sources, such as:

- *Previous audits (provided that the auditor has confirmed there are no changes);*
- *Other engagements performed for the client; and*
- *The firm's quality management procedures for acceptance and continuance.*

Audit evidence may come from inside or outside the entity (the entity's accounting records are an important source of audit evidence), the work of management's expert, and includes information that both supports and corroborates management's assertions, as well as contradicts such assertions.

Automated Tools and Techniques (ATT)

ATT, for the purpose of this standard, are IT-enabled processes that involve the automation of methods and procedures, for example the analysis of data using modelling and visualization, or drone technology to observe or inspect assets.

In applying this standard, an auditor may design and perform audit procedures manually or through the use of ATT, and either technique can be effective. Regardless of the tools and techniques used, the auditor is required to comply with the requirements in this standard.

Using ATT can supplement or replace manual or repetitive tasks. In certain circumstances, when obtaining audit evidence, an auditor may determine that the use of ATT to perform certain audit procedures may result in more persuasive audit evidence relative to the assertion being tested. In other circumstances, performing audit procedures may be effective without the use of ATT.

The use of ATT may potentially create biases or a general risk of overreliance on the information or output of the audit procedure performed. As powerful as these tools may be, they are not a substitute for the auditor's knowledge and professional judgment. Further, although the auditor may have access to a wide array of data, including from varying sources (i.e., increased quantity), the exercise of professional skepticism remains necessary to critically assess audit evidence arising from the use of data and from the outputs from using ATT.

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

Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of the information may be affected by the direction of testing.

The reliability of information to be used as audit evidence is influenced by its source and nature, as well as the circumstances under which it was obtained, including the controls over its preparation and *maintenance where relevant. Generally, the reliability of information is increased when it is obtained from independent sources outside of the entity, by the auditor directly, is an original document rather than a copy and written rather than oral information. However, circumstances may exist that could affect these generalizations.*

2.3.2. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes including, as necessary in the circumstances:

(a) Obtaining evidence about the accuracy and completeness of the information; and

(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

2.3.3. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. 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 further and determine the effect on the rest of the audit evidence obtained.

2.3.4. The auditor shall determine what modifications or additions to audit procedures are necessary if:

(a) Audit evidence obtained from one source is inconsistent with that obtained from another; or

(b) The auditor has doubts about the reliability of information to be used as audit evidence.

2.5. General Documentation Requirements

The ISA for LCE sets out general documentation requirements in this Part and, as appropriate, specific documentation requirements in other Parts.

2.5.1. The auditor shall prepare audit documentation on a timely basis that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

(a) The nature, timing and extent of the audit procedures performed in accordance with this standard and applicable legal and regulatory requirements, including recording:

- (i) The identifying characteristics of the specific items or matters tested;
- (ii) Who performed the work and the date such work was completed;
- (iii) Who reviewed the audit work performed and the date and extent of such review.

(b) The results of the audit procedures performed, and the audit evidence obtained; and

(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Audit documentation provides evidence that the audit complies with the ISA for LCE. The form, content and extent of audit documentation depends on the nature and circumstances of the entity and the procedures being performed.

Audit documentation is a record of audit procedures performed, related audit evidence obtained, and conclusions the auditor reached. The auditor obtains audit evidence by designing and performing audit procedures, including risk identification and assessment procedures performed in accordance with Part 6, further audit procedures performed in accordance with Part 7, and procedures in other Parts that are performed to comply with the requirements of the ISA for LCE.

Audit documentation may be in paper or electronic format. Oral explanations, by the auditor on their own, do not adequately support the work performed by the auditor or the conclusions reached, but may be used to explain or clarify information contained in the audit documentation.

It is not necessary to include superseded drafts of working papers or financial statements in the audit documentation.

It is not necessary or practicable for the auditor to document every matter considered, or professional judgment made, in an audit. However, the auditor is required to prepare audit documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the ISA for LCE and applicable law or regulation. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

Significant Matters

Judging the significance of a matter requires professional judgment and the analysis of the facts and circumstances. Examples of significant matters include matters giving rise to significant risks, areas where the financial statements could be materially misstated, circumstances where the auditor has had difficulty in applying the necessary audit procedures, or any findings that could result in a modified opinion.

When The Engagement Partner Performs All the Audit Work

In the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (e.g., there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.

Automated Tools and Techniques

This standard does not differentiate between different tools and techniques that the auditor may use to design and perform audit procedures, for example using manual or automated techniques with respect to what is required to be documented. Regardless of the tools and techniques used, the auditor is required to comply with relevant documentation requirements.

2.5.3. If the auditor identified information that is inconsistent with the auditor's conclusion regarding a significant matter, the auditor shall document how the inconsistency was addressed.

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

A documentation requirement applies only to requirements that are relevant in the circumstances.

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

Documentation of Communications

2.5.7. Where matters required to be communicated by this standard are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated.

2.5.8. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation. Written communications need not include all matters that arose during the audit.

3. Engagement Quality Management

Content of this Part

Part 3 sets out the responsibilities for managing and achieving quality for the audit engagement.

Scope of this Part

In accordance with ISQM 1, the firm is responsible for designing, implementing and operating a system of quality management for audits of financial statements, that provides the firm with reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements, and that engagement reports issued are appropriate in the circumstances. The engagement team, led by the engagement partner, is responsible within the context of the firm's system of quality management for:

- Implementing the firm's responses to quality risks that are applicable to the audit engagement using information communicated by, or obtained from, the firm;
- Determining whether additional responses are needed at the engagement level beyond those in the firm's policies or procedures given the nature and circumstances of the engagement; and
- Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation and operation of the firm's system of quality management.

The requirements in this Part apply throughout the audit engagement.

3.1. Objective

3.1.1. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:

(a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with this standard and applicable legal and regulatory requirements; and

(b) The auditor's report issued is appropriate in the circumstances.

3.2. The Engagement Partner's Responsibilities

Leadership Responsibilities for Managing and Achieving Quality

3.2.1. The engagement partner shall take:

(a) Overall responsibility for managing and achieving quality on the audit engagement; and

(b) Responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality.

The engagement partner's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

3.2.1A. In taking overall responsibility for managing and achieving quality on the audit engagement, the engagement partner shall:

(a) Be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and conclusions reached are appropriate in the circumstances.

(b) Determine that the nature, timing and extent of direction, supervision and review is:

(i) Responsive to the nature and circumstances of the engagement and the resources assigned; and

(ii) Planned and performed in accordance with the firm's policies or procedures, this standard, relevant ethical requirements and regulatory requirements.

Sufficient and Appropriate Involvement

Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- *Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.*
- *Direction and supervision of the assignees.*
- *Review of the assignees' work to evaluate the conclusions reached.*

Direction, Supervision and Review

The approach to direction, supervision and review may be tailored depending on, for example:

- *The engagement team member's previous experience with the entity and the area to be audited.*
- *The assessed risks of material misstatement. A higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.*
- *The competence and capabilities of the individual engagement team members performing the audit work.*

3.2.2. The engagement partner shall take responsibility for establishing and communicating to the members of the engagement team the expected behavior of the engagement team members, including emphasizing:

(a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;

(b) The importance of professional ethics, values and attitudes;

(c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and

(d) The importance of exercising professional skepticism throughout the audit engagement.

In addressing the requirements in paragraphs 3.2.1A. and 3.2.2., the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through conduct and actions (e.g., leading by example).

Relevant Ethical Requirements

3.2.2A. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement.

3.2.6. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists or relevant ethical requirements have been breached, the engagement partner shall take action, including:

(a) Following the firm's policies or procedures to evaluate the threat; and

(b) Consulting with others in the firm.

If there are no others in the firm to consult with, the engagement partner may consult with others outside the firm such as experienced practitioners in other firms or the professional accountancy body where the engagement partner is a member.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

3.2.6A. Throughout the audit engagement, the engagement partner shall:

(a) Take responsibility for other members of the engagement team having been made aware of relevant ethical requirements and the firm's related policies or procedures for identifying, evaluating and addressing threats to compliance with relevant ethical requirements; and

(b) Remain alert through observation, inspection of audit documentation and making inquiries as necessary, for breaches of relevant ethical requirements by members of the engagement team.

Engagement Resources

3.2.7. Taking into account the nature and circumstances of the audit and the firm's related policies or procedures, the engagement partner shall:

(a) Determine that:

(i) Sufficient and appropriate resources are assigned or made available to the engagement team in a timely manner; and

(ii) Members of the engagement team, and any auditor's external experts, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.

(b) If the conditions in (a) are not met, the engagement partner shall take appropriate action.

Other Engagement Partner Responsibilities

3.2.10. The engagement partner shall:

(a) Obtain an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation processes of the network and across the network firms, and:

(i) Determine the relevance and effect of that information on the audit engagement; and

(ii) Take appropriate action; and

(b) Remain alert for matters that may be relevant to the firm's monitoring and remediation process and communicate to those responsible for the process.

3.2.12. The engagement partner shall:

(a) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;

(b) Take responsibility for consultations being undertaken in accordance with the firm's related policies or procedures, or where deemed necessary on difficult or contentious matters;

(c) Determine that conclusions reached with respect to differences of opinion and difficult or contentious matters are documented, agreed with the party consulted and implemented; and

(d) Not date the auditor's report until any differences of opinion are resolved.

Forming an objective view on the appropriateness of the judgments made in the course of the audit can present practical problems when the same individual also performs the entire audit. If unusual issues are involved, it may be desirable to consult with other suitably- experienced auditors or the auditor's professional body.

Consultation may be appropriate, or required by the firm's policies or procedures, when there are issues that are complex or unfamiliar, significant risks, significant transactions that are outside the normal course of business, or that otherwise appear to be unusual, limitations imposed by management or non-compliance with law or regulation.

Differences of opinion may arise within the engagement team, or between the engagement team and the engagement quality reviewer, or even with individuals performing activities within the firm's system of quality management such as those responsible for providing consultation.

In considering matters related to differences of opinion, or difficult or contentious matters, the engagement partner may also consider whether the use of the ISA for LCE continues to be appropriate.

3.2.13. For audit engagements for which an engagement quality review is required, the engagement partner shall determine that an engagement quality reviewer has been appointed and:

(a) Cooperate with the engagement quality reviewer;

(b) Discuss significant matters and significant judgments arising during the audit with the engagement quality reviewer; and

(c) Not date the auditor's report before the engagement quality review is complete.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

3.2.13A. The engagement partner shall review audit documentation at appropriate points in time during the audit, including documentation of:

- Significant matters;
- Significant judgments and the conclusions reached; and
- Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

The engagement partner exercises professional judgment in determining matters to review, for example, based on:

- *The nature and circumstances of the audit engagement.*
- *Which engagement team member performed the work.*
- *Matters from recent inspection findings.*
- *The requirements of the firm's policies or procedures.*

3.2.14. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities.

3.3. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

3.3.1. The auditor shall include in the audit documentation matters identified, relevant discussions, and conclusions reached with respect to fulfillment of responsibilities for relevant ethical requirements, including applicable independence requirements.

4. Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

Content of this Part

Part 4 sets out the auditor's responsibilities for:

- Agreeing the terms of the audit engagement with management, and where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit are present.
- Determining that use of the ISA for LCE is appropriate for the audit engagement.

Part 4 also addresses activities related to initial audit engagements.

Scope of this Part

Part A of this standard sets out the authority for appropriate use of the ISA for LCE. This Part sets out the engagement partner's obligations for use of this standard as part of the firm's acceptance or continuance procedures for an audit engagement of an LCE.

The information and audit evidence gathered during client acceptance and continuance procedures is used to make the determination that the ISA for LCE is appropriate for the audit engagement and also informs the auditor's procedures when planning the audit and for risk identification and assessment.

Part 1.2. sets out that this standard is premised on the basis that the firm is subject to ISQM 1 or to national requirements that are at least as demanding. ISQM 1 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements. In addition, compliance with ISQM 1 may require firms to have policies or procedures to address other matters of relevance to this Part.

Audit engagements may only be accepted when the auditor considers that relevant ethical requirements such as independence and professional competence and due care will be satisfied and the preconditions for an audit are present. In addition, the auditor considers the performance of non-assurance services for the audit client and whether these services are permissible.

If the audit is an initial engagement, this Part also sets out the auditor's responsibilities relating to opening balances.

4.1. Objectives

4.1.1. The objectives of the auditor are:

(a) To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

(i) Establishing whether the preconditions for an audit are present; and

(ii) Confirming that there is a common understanding between the auditor and management, and where appropriate, those charged with governance, of the terms of the audit engagement.

(b) For initial audit engagements, to obtain sufficient appropriate audit evidence about whether:

(i) Opening balances contain misstatements that materially affect the current period's financial statements, and

(ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

4.3. Preconditions for an Audit

4.3.1. In order to establish whether the preconditions for an audit are present, the auditor shall:

(a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable;

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

(i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

(ii) For such controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(iii) To provide the auditor with:

a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. Additional information that the auditor may request from management for the purpose of the audit; and

c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

4.3.2. If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

(a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable; or

(b) If the agreement of management that it acknowledges and understands its responsibility has not been obtained.

4.3.3. If management or those charged with governance impose a limitation on the scope of the auditor's work such that the auditor believes that the limitation will result in the auditor disclaiming the opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

4.4. Considerations in Engagement Acceptance or Continuance

4.4.1. The engagement partner shall determine that the firm's policies or procedures regarding acceptance and continuance of the audit engagement have been followed[11] and that conclusions reached in this regard are appropriate, including the appropriate use of the ISA for LCE in accordance with Part A of this standard.

Part A sets out the matters relevant to the engagement partner for determining the appropriate use of the ISA for LCE, in particular in relation to the limitations for using this standard.

Information and audit evidence gathered during client acceptance and continuance procedures may be used to make the determination about use of the ISA for LCE. Further information may also be obtained when performing risk identification and assessment procedures that may change the engagement partner's initial determination about use of the ISA for LCE in accordance with this Part. Part 6 (see paragraph 6.5.A) requires the engagement partner to determine whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited during the risk identification and assessment process. Consideration of further information throughout the audit may change the engagement partner's determination about the appropriateness of the use of the ISA for LCE.

4.4.2. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of this standard. In these circumstances, the auditor shall evaluate:

(a) Whether users may misunderstand the assurance obtained from the audit of the financial statements, and, if so,

(b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

4.4.3. If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with the ISA for LCE. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with this ISA for LCE.

4.5. Terms of the Audit Engagement

Performing acceptance or continuance procedures before planning commences assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to plan and perform the current engagement.

4.5.1. The auditor shall agree the terms of the audit engagement with management, or where appropriate, those charged with governance.

If law or regulation prescribes the responsibilities of management that are equivalent in effect to what this standard requires, the auditor may use the wording of the law or regulation to describe them in the written agreement.

[11] International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30 sets out the firm's responsibilities for establishing quality objectives for the acceptance of specific engagements, including judgments relating to financial and operating priorities of the firm when deciding to accept or continue specific engagements.

Appendix 2 sets out an illustrative engagement letter.

4.5.2. On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

4.5.3. The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.

4.5.4. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.

Before agreeing to change an audit engagement to a review or a related service, the auditor may need to assess any legal or contractual implications of the change.

4.5.5. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

4.5.6. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:

(a) Withdraw from the audit engagement where possible under applicable law or regulation; and

(b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

4.6. Initial Audit Engagements

4.6.1. If the engagement is an initial audit and there has been a change in auditor, the auditor shall communicate with the predecessor auditor, in compliance with relevant ethical requirements.

4.6.2. The auditor shall read the most recent financial statements, if any, and the auditor's report thereon, if any, for information relevant to opening balances, including disclosures.

4.6.3. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements.[12]

4.6.4. The auditor shall obtain sufficient appropriate audit evidence[13] about whether the opening balances contain misstatements that materially affect the current period's financial statements by:

(a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;

(b) Determining whether the opening balances reflect the application of appropriate accounting policies; and

[12] For the effect on the auditor's report see Part 9, paragraph 9.5.1.I.

[13] For the effect on the auditor's report see Part 9, paragraph 9.5.1.F.

(c) Performing one or more of the following:

(i) Where the prior year financial statements were audited, inspecting the predecessor auditor's working papers to obtain evidence regarding the opening balances;

(ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or

(iii) Performing specific audit procedures to obtain evidence regarding the opening balances.

The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:

- *The accounting policies followed by the entity.*
- *The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial statements.*
- *The significance of the opening balances relative to the current period's financial statements.*
- *Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.*

4.6.5. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.[14]

4.6.6. The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether any changes in accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.[15]

4.7. Specific Communication Requirements

Communications with Those Charged with Governance

4.7.1. The auditor shall communicate with those charged with governance the auditor's responsibilities for forming and expressing an opinion on the financial statements prepared by management, and that the auditor's responsibilities do not relieve management or those charged with governance from their responsibilities for oversight of the preparation of the financial statements.

4.8. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

4.8.1. The auditor shall include in the audit documentation matters identified, relevant discussions with personnel, and conclusions reached with respect to the acceptance and continuance of the client relationship and audit engagement.

[14] For the effect on the auditor's report see Part 9, paragraph 9.5.1.G.

[15] For the effect on the auditor's report see Part 9, paragraph 9.5.1.H.

4.8.2. The auditor shall document the basis for the determination made for using the ISA for LCE.

4.8.3. The auditor shall document changes, if any, to the determination of the use of the ISA for LCE if further information comes to the auditor's attention during the audit that may change the professional judgment made in this regard.

4.8.4. The auditor shall record in an audit engagement letter or other suitable form of written agreement:

(a) That the audit will be undertaken using the ISA for LCE;

(b) The objective and scope of the audit of the financial statements;

(c) The respective responsibilities of the auditor and management;

(d) Identification of the applicable financial reporting framework for the preparation of the financial statements;

(e) Reference to the expected form and content of any reports to be issued by the auditor; and

(f) A statement that there may be circumstances in which a report may differ from its expected form and content.

4.8.5. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in this standard, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies, and that management acknowledges and understands its responsibilities.

5. Planning

Content of this Part

Part 5 sets out the auditor's responsibility to plan the audit (including holding an engagement team discussion), and the concept of materiality when planning and performing the audit.

Scope of this Part

Planning is continual and is not a discrete phase of the audit but is iterative, as necessary, throughout the audit. Part 6, identifying and assessing risks of material misstatement, and Part 7, responding to assessed risks of material misstatement, are also relevant to this Part.

Some requirements within this Part are linked to procedures in other Parts and may require the auditor to perform those procedures in order to meet the requirements in this Part.

5.1. Objectives

5.1.1. The objectives of the auditor are to:

(a) Plan the audit so that it will be performed in an effective manner; and

(b) Apply the concept of materiality appropriately in planning and performing the audit.

5.2. Planning Activities

The nature, timing and extent of planning activities will vary according to the nature and circumstances of the entity, the size and nature of the engagement team, the engagement team members' previous experience with the entity and any changes in circumstances that occur during the audit engagement.

The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements.

5.2.2. The auditor shall set the scope, timing and direction of the audit and:

(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 this entity is relevant; and

(e) Ascertain the nature, timing and extent of procedures to be performed and the resources necessary to perform the audit, including determining whether experts are needed.

In the audit of an LCE, establishing the scope, timing and direction of the audit need not be a complex or time-consuming exercise. For example, a brief memorandum prepared after 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 scope, timing and direction for the current audit engagement. Standard audit programs or checklists created based on the assumption of few identified controls, as is likely to be the case in a less complex entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.*

5.2.3. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit.

5.2.4. When information used to plan and perform the audit has been obtained from the previous experience with the entity, or prior audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence in the current period.

5.2.5. The auditor shall update and change the scope, timing and direction as necessary during the audit.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

5.2.5A. The engagement partner and other key members of the engagement team shall be involved in planning the audit.

5.2.5B. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and review of their work.

Engagement Team Discussion

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

5.2.6. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, including:

(a) The application of the applicable financial reporting framework to the entity's facts and circumstances.

(b) How and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur, and how fraud or error could arise from related party relationships or transactions.

Discussions among the engagement team shall occur setting aside beliefs the engagement team may have that management, and where appropriate, those charged with governance are honest and have integrity.

The engagement team discussion may also include other matters related to the audit such as logistical, operational or other matters (such as when risks of material misstatement may have changed from prior years or matters related to relevant ethical requirements including independence) and the timing of the audit and communications that are required.

5.2.7. When there are engagement team members not involved in the discussion, the engagement partner shall determine which matters are to be communicated to those members.

Using the Work of Management's Expert

5.2.8. If information to be used as audit evidence has been prepared using the work of management's expert, the auditor shall, having regard to the significance of that expert's work for the auditor's purpose:

(a) Evaluate the competence, capabilities and objectivity of that expert; and

(b) Obtain an understanding of the work of that expert.

Evaluating the Competence, Capabilities and Objectivity of a Management's Expert

Competence relates to the nature and level of expertise of the management's expert. Capability relates to the ability of the management's expert to exercise that competence in the circumstances. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the management's expert. Matters relevant to evaluating the competence, capabilities and objectivity of a management's expert may include whether that expert's work is subject to technical performance standards or other professional or industry requirements.

Obtaining an Understanding of the Work of the Management's Expert

When obtaining an understanding of the work of the management's expert, evaluating the agreement between the entity and that expert may assist the auditor in determining the appropriateness of the following for the auditor's purposes:

- *The nature, scope and objectives of that expert's work;*
- *The respective roles and responsibilities of management and that expert; and*
- *The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.*

Determining Whether to Use the Work of an Auditor's Expert

5.2.9. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.

If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting the requirements in paragraphs 3.2.7. and 5.2.2.(e). As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert. Nonetheless, if the auditor using the work of an auditor's expert concludes, based on the audit procedures performed and the evidence obtained, that the work of that expert is adequate for the auditor's purposes, the auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence.

5.2.10. The auditor shall consider the following when determining the nature, timing and extent of procedures related to the auditor's expert:

(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 management policies or procedures.

5.2.11. If the auditor is using the work of an auditor's expert, the auditor shall:

(a) Evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity, including inquiry regarding interests and relationships that may create a threat to objectivity, for the auditor's purpose;

(b) Obtain sufficient understanding of the field of expertise to enable the auditor to determine the nature, scope and objectives of the auditor's expert work and evaluate that work for the auditor's purpose; and

(c) Agree in writing with the auditor's expert the nature, scope and objectives of the expert's work, the respective roles and responsibilities of the expert and the auditor in relation to that work, the nature, timing and extent of communications and the need for the expert to observe confidentiality requirements.

5.3. Materiality

5.3.1. The auditor shall determine materiality for the financial statements as a whole.

Materiality in the Context of an Audit

The concept of materiality is applied by the auditor in both planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements if any, on the financial statements and in forming an opinion in the auditor's report.

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements.

The auditor's professional judgment about misstatements that will be considered material provides a basis for:

- *Determining the nature, timing and extent of procedures to identify and assess risks of material misstatement;*
- *Identifying and assessing the risks of material misstatement; and*
- *Determining the nature, timing and extent of further audit procedures.*

Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole

A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following:

- *The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses)*
- *Whether there are items on which the attention of the users tends to be focused. ;*
- *The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates;*
- *The entity's ownership structure and the way it is financed. For example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings; and*
- *The relative volatility of the benchmark.*

Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.

When an entity's profit before tax from continuing operations is consistently nominal, as might be the case for an owner-managed business where the owner takes much of the profit before tax in the form of remuneration, a benchmark such as profit before remuneration and tax may be more relevant.

Considerations Specific to Public Sector Entities

In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements. Furthermore, the financial statements may be used to make decisions other than economic decisions. The determination of materiality for the financial statements as a whole in an audit of the financial statements of a public sector entity is therefore influenced by law, regulation or other authority, and by the financial information needs of legislators and the public in relation to public sector programs.

In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

5.3.2. The auditor shall also determine the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures if, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

5.3.3. The auditor shall determine performance materiality for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

Clearly Trivial Misstatements

Part 7 requires the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial. During planning, the auditor may designate an amount below which misstatements of amounts in the individual statements would be clearly trivial, and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements.

5.3.4. The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) if the auditor becomes aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

5.3.5. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

5.4. Specific Communication Requirements

5.4.1. The auditor shall communicate with management, and where appropriate, those charged with governance an overview of the planned scope, timing and direction of the audit.

5.5. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

5.5.1. The auditor shall include in the audit documentation a description of the scope, timing and direction of the audit, and significant changes made during the audit, together with the reasons for such changes.

5.5.3. The auditor shall document significant decisions reached including significant decisions regarding the susceptibility of the entity's financial statements to material misstatement due to fraud or error.

5.5.4. The auditor shall include in the audit documentation the following amounts and the factors considered in their determination of materiality (including any revisions as applicable):

(a) Materiality for the financial statements as a whole;

(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;

(c) Performance materiality; and

(d) The amount below which misstatements would be considered clearly trivial.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

5.5.4A. The auditor shall document the discussion among the engagement team.

6. Risk Identification and Assessment

Content of this Part

Part 6 contains the requirements relevant to the auditor's responsibility to perform procedures and related activities to:

- Understand the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control;
- Identify risks of material misstatement at the financial statement and assertion levels, whether due to fraud or error; and
- Assess inherent risk and control risk.

Appendix 3 illustrates the iterative nature of the auditor's risk identification and assessment.

Scope of this Part

This Part deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, which provides the basis for the audit procedures undertaken to respond to assessed risks in Part 7. Part 5 sets out the auditor's obligations for planning activities, including the requirements for the engagement team discussion.

6.1. Objectives

6.1.1. The objectives of the auditor are to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control enables the auditor to identify and assess the risks of material misstatement. The auditor's risk identification and assessment process is iterative and dynamic.

6.2. Procedures for Identifying and Assessing Risks and Related Activities

6.2.1. The auditor shall design and perform procedures to obtain audit evidence that provides an appropriate basis for:

(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and

(b) The design of further audit procedures.

The auditor uses professional judgment to determine the nature and extent of the procedures to be performed, which may vary with the formality of the entity's policies or procedures.

Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, the procedures described in paragraph 6.2.2. are still required.

Designing and performing procedures to obtain audit evidence in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory may involve obtaining evidence from multiple sources within and outside the entity.

However, the auditor is not required to perform an exhaustive search to identify all possible sources of evidence.

6.2.1A. When obtaining audit evidence to identify and assess risks of material misstatement and design further audit procedures, the auditor shall consider information from:

(a) The acceptance or continuance procedures; and

(b) When applicable, other engagements performed by the engagement partner for the entity.

6.2.2. The procedures to identify and assess risks of material misstatement shall include:

(a) Inquiries of management, and other appropriate individuals within the entity;

(b) Analytical procedures; and

(c) Observation and inspection.

The auditor is not required to perform all of these procedures for each aspect of the auditor's understanding required by this Part.

Analytical procedures help to identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud, including those relating to revenue accounts.

Analytical procedures performed as a risk assessment procedure may include both financial (e.g., sales price) and non-financial information (e.g., volume of goods sold) and the use of data aggregated at a high level. In the audit of an LCE, the auditor may perform a simple comparison of information, such as the change in interim or monthly account balances from balances in prior periods, to identify potential higher risk areas.

Observation and inspection may support, corroborate or contradict inquiries of management and others, and may also provide information about the entity and its environment. Where policies or procedures are not documented, or the entity' s controls lack formality, the auditor may still be able to obtain some audit evidence to support the identification and assessment of the risks of material misstatement through observation or inspection of the performance of the control.

Considerations Specific to Public Sector Entities

When making inquiries of those who may have information that is likely to assist in identifying risks of material misstatement, auditors of public sector entities may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity. Procedures performed by auditors of public sector entities to identify and assess risks of material misstatement may also include observation and inspection of documents prepared by management for the legislature, for example documents related to mandatory performance reporting.

Automated Tools and Techniques

If the auditor uses ATT, the auditor may design and perform audit procedures to identify and assess risks of material misstatement on relatively large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, observation or inspection.

6.2.3. In designing and performing procedures to identify and assess risks of material misstatement, the auditor shall consider possible risks of material misstatement arising from:

(a) Fraud or error;

(b) Related parties; and

(c) Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Fraud

Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively, such as recording fictitious journal entries close to the end of the financial reporting period.

Misappropriation of assets involves the theft of the entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.

Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

In an LCE there may be different fraud risk factors than in more complex entities. On one hand, management or the owner-manager may be able to exercise more effective oversight than in a more complex entity which may compensate for more limited opportunities for segregation of duties. On the other hand, less segregation of duties and more direct involvement of management or the owner-manager may provide management or the owner manager with a greater opportunity to override controls and commit fraud. LCEs, including owner-managers may also have different pressures or incentives to commit fraud than management in more complex entities. Appendix 4 sets out fraud risk factors relevant to less complex entities.

Related Parties

In some LCEs, related party transactions between owner-managers and close family members may be common, in particular in closely held entities. These 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, or for consideration significantly different from fair value.

Going Concern

Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern of particular relevance to an LCE include the risk that banks and other lenders, close family members or owner-managers may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

6.2.6. If the audit opinion on the prior period's financial statements was modified, the auditor shall evaluate the effect on the current year's financial statements when identifying and assessing risks of material misstatement.

6.3. Understanding Relevant Aspects of the Entity

The auditor's understanding of relevant aspects of the entity, including the entity and its environment, the applicable financial reporting framework and the entity's system of internal control establishes a *frame of reference in which the auditor identifies and assesses the risks of material misstatement, and also informs how the auditor plans and performs further audit procedures.*

Inquiries of Management and Others within the Entity

6.3.A. The auditor shall inquire of management and, when appropriate, those charged with governance, regarding:

(a) How the entity identifies business risks relevant to the preparation of the financial statements and how they are addressed;

(b) The risks of fraud in the entity and the controls that management has established to mitigate these risks;

(c) The nature and extent of management's direct involvement in operations or other activities that may help management to prevent or detect misstatements in accounting information, or identify controls that are not operating as intended.

(d) The identity of the entity's related parties, including changes from the prior period; the nature of the relationships between the entity and these related parties; and whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions; and

(e) Whether the entity is in compliance with laws or regulations that may have an effect on the financial statements, and if there has been any correspondence with relevant licensing or regulatory authorities that may be relevant to the financial statements.

(f) The basis for the intended use of the going concern basis of accounting, whether events or conditions exist 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.

Inquiries of management and, when applicable, those charged with governance, assist the auditor to identify and assess risks of material misstatement and respond to those risks.

Inquiries about how the entity identifies and assesses its business risks relevant to the preparation of the financial statements may assist the auditor in understanding:

- *Where there are identified business risks;*
- *Whether, and how the entity has responded to those risks;*
- *Whether the risks faced by the entity have been identified, assessed and addressed as appropriate to the nature and circumstances of the entity.*

Inquiries about the risks of material misstatement due to fraud in the entity may assist the auditor in understanding:

- *Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;*
- *Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;*

- *Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity;*

Inquiring about how management performs activities to prevent or detect misstatements in accounting information and identifies controls that are not operating as intended may include inquiring about what information management uses and the basis upon which management considers the information to be sufficiently reliable, as well as inquiring about how deficiencies are remediated. These inquiries assist the auditor to understand whether the other aspects of the entity's internal control system are present and functioning as appropriate to the entity's circumstances considering the nature and complexity of the entity.

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

6.3.B. The auditor shall make inquiries of management, those charged with governance, and as appropriate others within the entity, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

Understanding the Entity and Its Environment

6.3.1. The auditor shall obtain an understanding of:

(a) The entity's organizational structure, ownership and governance, and business model.

(b) The industry and other external factors affecting the entity.

(c) How the entity's financial performance is measured.

(d) The legal and regulatory framework applicable to the entity, and how the entity is complying with that framework.

(e) The entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognized or disclosed.

(f) Agreements or relationships that may result in unrecognized liabilities or future commitments.

Understanding the entity's business model helps the auditor to understand the entity's objectives and strategy, and to understand the business risks the entity takes and faces. Understanding the entity's business risks assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. When obtaining an understanding of the entity's business model, the auditor may consider how the entity uses IT.

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Other external factors affecting the entity that the auditor may consider include climate-related risks, the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

When understanding agreements or relationships that may result in unrecognized liabilities or future commitments the auditor may consider inspecting minutes of meetings and correspondence with legal counsel and inspecting legal expense accounts.

Considerations Specific to Public Sector Entities

Entities operating in the public sector may create and deliver value in different ways to those creating wealth for owners but will still have a 'business model' with a specific objective. Matters public sector auditors may obtain an understanding of that are relevant to the business model of the entity, include:

- *Knowledge of relevant government activities, including related programs.*
- *Program objectives and strategies, including public policy elements.*

Understanding the Applicable Financial Reporting Framework

6.3.3. The auditor shall obtain an understanding of:

(a) The applicable financial reporting framework including, for accounting estimates, the recognition criteria, measurement bases, and the related presentation and disclosure requirements and how these apply in the context of the nature and circumstances of the entity and its environment.

(b) The entity's accounting policies and reasons for any changes thereto.

6.3.4. The auditor shall evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework.

Understanding the Entity's System of Internal Control

In less complex entities, and in particular owner-managed entities, the way in which the entity's system of internal control is designed, implemented and maintained will vary with the entity's size and complexity. When there are no formalized processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance prevent and detect fraud and error, and use professional judgment to determine the nature and extent of the procedures to obtain the required understanding.

Considerations Specific to Public Sector Entities

Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority. As a result, their considerations about the system of internal control may be broader and more detailed.

Understanding the Entity's Control Environment

6.3.6. The auditor shall:

(a) Obtain an understanding of the control environment relevant to the preparation of the financial statements; and

(b) Evaluate whether the control environment provides an appropriate foundation for the entity's system of internal control considering the nature and complexity of the entity.

The auditor's understanding may include:

- *How management, and where appropriate, those charged with governance, oversee the entity, demonstrate integrity and ethical values, for example, through communication to employees regarding expectations for business practices and ethical behavior;*
- *The culture of the entity, including whether management supports honesty and ethical behavior;*
- *The entity's assignment of authority and responsibility;*
- *How the entity attracts, develops, and retains competent individuals; and*
- *When applicable, how owner-managers are actively involved in the business and how this may impact the risks arising from management override of controls due to lack of segregation of duties.*

The control environment provides an overall foundation for the operation of the other aspects of the entity's system of internal control, and deficiencies may undermine the rest of the entity's system of internal control. Although it does not directly prevent or detect and correct misstatements, it may influence the effectiveness of other controls in the system of internal control. The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's system of internal control and its importance in the entity.

Because the control environment is foundational to the entity's system of internal control, any deficiencies could have pervasive effects on the preparation of the financial statements. Therefore, the auditor's understanding and evaluation of the control environment affects the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level, as well as the auditor's responses to the assessed risks.

Some or all aspects of the control environment for an LCE may not be applicable or may be less formalized. For example, an LCE may not have a written code of conduct but, instead, may have developed a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example.

Some entities may be dominated by a single individual who may exercise a great deal of discretion. The actions and attitudes of that individual may have a pervasive effect on the culture of the entity, which in turn may have a pervasive effect on the control environment. Domination of management by a single individual in an LCE does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorization can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual can be a potential control deficiency since there is an opportunity for management override of controls.

Understanding the Entity's Process to Prepare its Financial Statements

6.3.9. For significant classes of transactions, account balances and disclosures, the auditor shall obtain an understanding of the entity's process to prepare its financial statements including:

(a) The accounting records and other records that support the classes of transactions, account balances and disclosures in the financial statements;

(b) How transactions are initiated, and how information about them is recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

(c) How information about events and conditions, other than transactions are identified, processed and disclosed; and

(d) The entity's resources, including the IT environment, relevant to (a) to (c) above.

Matters the auditor may consider when obtaining an understanding of the entity's process to prepare its financial statements relating to significant classes of transactions, account balances and disclosures include how:

- *The data or information relating to transactions, other events and conditions are processed;*
- *The integrity of that data or information is maintained; and*
- *The information processes, personnel and other resources are used.*

The auditor's understanding may be obtained in various ways and may include:

- *Inquiries of relevant personnel about the procedures used to initiate, record, process and report transactions or about the entity's financial reporting process;*
- *Inspection of policy or process manuals or other documentation of the entity's process to prepare the financial statements;*
- *Observation of the performance of the policies or procedures by entity's personnel; or*
- *Selecting transactions and tracing them through the applicable process to prepare the financial statements (i.e., performing a walk-through).*

Less complex entities with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies.

Automated Tools and Techniques

The auditor may also use ATT to obtain direct access to, or a digital download from, the databases in the entity's information system that store accounting records of transactions. By applying ATT to this information, the auditor may confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. Analysis of complete or large sets of transactions may also result in the identification of variations from the normal, or expected processing procedures for these transactions, which may result in the identification of risks of material misstatement.

6.3.12. For accounting estimates and related disclosures for significant classes of transactions, account balances or disclosures, the auditor shall obtain an understanding of how management:

(a) Identifies, selects and applies relevant methods, assumptions and data that are appropriate in the context of the applicable financial reporting framework, including identification of significant assumptions;

(b) Understands the degree of estimation uncertainty and addresses such uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements; and

(c) Reviews the outcome(s) of previous accounting estimates and responds to the results of that review.

6.3.12A. The auditor shall evaluate whether the entity's process to prepare its financial statements, including for accounting estimates, appropriately supports the preparation of its financial statements in accordance with the applicable financial reporting framework.

Understanding the Services Provided by a Service Organization

6.3.12B. If the entity uses the services of a service organization and those services are relevant to the entity's process to prepare its financial statements, the auditor's understanding in accordance with paragraph 6.3.9. shall include:

(a) The nature of the services provided by the service organization and the significance of those services to the entity including the effect thereof on the user entity's system of internal control;

(b) The nature and materiality of the transactions processed or accounts or financial 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 relevant contractual terms for the activities undertaken by the service organization.

The auditor's understanding should be sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement.

Less complex entities may often use external bookkeeping services ranging from the processing of certain transactions (for example, processing of payroll and payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organization for the preparation of its financial statements does not relieve management of the less complex entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.

The services of a service organization are relevant to the entity's process to prepare its financial statements when those services, and the controls over them, are part of, or affect the process described in paragraph 6.3.9.

The auditors understanding will inform the auditor about the nature and significance of the services provided by the service organization and their effect on the entity's system of internal control at the user entity, which affect the nature and extent of work to be performed by the auditor regarding the services provided by a service organization. The significance of the controls of the service organization relative to those of the entity depends on the degree of interaction between the service organization's activities and those of the entity. For example, the service organization may process and account for transactions that are still required to be authorized by the entity, alternatively the entity may rely on such controls being affected at the service organization.

Understanding the Entity's Control Activities

6.3.14. The auditor shall obtain an understanding of the entity's control activities by identifying controls that address risks of material misstatement at the assertion level as set out below. For each control identified in (a)—(e) below, the auditor shall perform procedures, beyond inquiry, to evaluate whether the control is designed effectively and has been implemented:

(a) Controls that address risks determined to be significant risks;

(b) Controls over journal entries including to record non-recurring, unusual transactions or adjustments;

(c) Controls, if any, for which the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive testing, including those controls that address risks for which substantive procedures alone are not enough to obtain sufficient appropriate audit evidence; and

(d) Controls, if any, related to significant transactions and relationships with related parties and significant transactions and arrangements outside the normal course of business.

(e) Controls in (a) to (d) at the user entity related to the services provided by the service organization, including those that are applied to the transactions processed by the service organization.

The auditor's required understanding of the entity's control activities involves identifying specific controls, as appropriate in the entity's circumstances, and evaluating their design and determining whether the controls have been implemented. Evaluating the design and implementation of controls includes the evaluation of whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and the determination whether the control has been implemented.

This assists the auditor's understanding of management's approach to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls.

Journal Entries

Controls over journal entries are expected to be identified for all audits because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor's planned approach to further audit procedures. For example, in an audit of an LCE, the entity's information system may not be complex and the auditor may not intend to test the operating effectiveness of controls. Further, the auditor may not have identified any significant risks or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such an audit, the auditor may determine that there are no identified controls other than the entity's controls over journal entries.

Related Parties

Controls in less complex entities are likely to be less formal and such entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions. For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through inquiry of management combined with other procedures, such as observation of management's oversight and review activities, and inspection of available relevant documentation.

6.3.15. For the controls identified in paragraph 6.3.14. the auditor shall:

(a) Identify the IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT and what those related risks are;

(b) Identify the entity's general IT controls that respond to those identified risks; and

(c) By performing procedures in addition to inquiries, evaluate whether the identified general IT controls are designed effectively and have been implemented.

The auditor's understanding of the entity's process to prepare the financial statements (which may be done by performing walk-through procedures) includes the IT environment relevant to the flows of transactions and processing of information. This is because the entity's use of IT applications or other aspects of the IT environment may give rise to risks arising from the use of IT (i.e., the susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information).

The extent of the auditor's understanding of the IT processes, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors. General IT controls support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information.

Deficiencies Within the Entity's System of Internal Control

6.3.18. The auditor shall determine whether one or more deficiencies have been identified in the entity's system of internal control and if so, if they individually or in combination, constitute significant deficiencies.

In understanding the entity's system of internal control, the auditor may determine that certain of the entity's policies or procedures are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying deficiencies in internal control. If the auditor has identified one or more deficiencies, the auditor may consider the effect of those deficiencies on the identification and assessment of risks of material misstatement and on the design of further audit procedures.

The auditor uses professional judgment in determining whether a deficiency represents a significant deficiency in internal control.

6.4. Identifying and Assessing the Risks of Material Misstatement

Risks of material misstatement are identified and assessed by the auditor to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

6.4.1. The auditor shall identify and assess the risks of material misstatement, due to fraud or error, at:

(a) The financial statement level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the financial statements; and

(b) The assertion level for classes of transactions, account balances, and disclosures. In doing so, the auditor shall:

(i) Determine the relevant assertions and related significant classes of transactions, account balances and disclosures; and

(ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.

Financial Statement Level Risks

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks related to specific assertions at the class of transactions, account balance or disclosure level (e.g., risk of management override of controls).

Assertion Level Risks

In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Appendix 5 sets out assertions that may be used by the auditor in considering different types of misstatements at the assertion level.

An assertion about a class of transactions, account balance or disclosure is a relevant assertion when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk) and is based on the auditor's consideration of misstatements that have a reasonable possibility of both occurring (i.e., likelihood), and being material if they were to occur (i.e., magnitude). Significant classes of transactions, account balances and disclosures are those for which there is one or more relevant assertions. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides a basis for the identification and assessment of risks of material misstatement.

Assessing Inherent Risk

The assessed inherent risk for a particular risk of material misstatement at the assertion level represents a judgment within a range, from lower to higher, on the spectrum of inherent risk.

In assessing inherent risk, the auditor uses professional judgment in determining the significance of the combination of the likelihood and magnitude of a misstatement on the spectrum of inherent risk. The judgment about where in the range inherent risk is assessed may vary based on the nature, size *or circumstances of the entity, and takes into account the assessed likelihood and magnitude of the misstatement.*

In considering the likelihood of a misstatement, the auditor considers the possibility that a misstatement may occur. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to nature, size or circumstances).

When assessing inherent risk, factors relating to the preparation of information required by the applicable financial reporting framework that affect the susceptibility of assertions to misstatement may include:

- *Complexity;*
- *Subjectivity;*
- *Change;*
- *Uncertainty (for accounting estimates this is estimation uncertainty); or*
- *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.*

The presence of these factors may give rise to higher inherent risk and may be an indication that the ISA for LCE is not appropriate for the audit.

When risks of material misstatement relate more pervasively to the financial statements as a whole, and potentially affect many assertions, the risks of material misstatement are assessed at the financial statement level. When assessing risk at the assertion level, the auditor takes into account the degree to which the risks of material misstatement at the financial statement level affects the assessment of inherent risks for risks of material misstatement at the assertion level.

In identifying and assessing risks of material misstatement, the results of the engagement team discussion and any inquiries relating to fraud and going concern are relevant.

Considerations Specific to Public Sector Entities

In exercising professional judgment as to the assessment of the risk of material misstatement, public sector auditors may consider the complexity of the regulations and directives, and the risks of non-compliance with authorities.

6.4.2. In identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

When identifying and assessing risks of material misstatement due to fraud, the auditor may consider whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts.

The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property.

6.4.3A. In identifying and assessing risks of material misstatement relating to an accounting estimate and related disclosure at the assertion level, the auditor shall take into account the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the following are affected by complexity, subjectivity, change or management bias:

(a) The selection and application of the method, the assumptions and data used; and

(b) The selection of management's point estimate and related disclosures.

Significant Risks

6.4.3B. The auditor shall determine whether any of the assessed risks of material misstatement are, in the auditor's professional judgment, a significant risk.

The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk as set out in paragraph 6.4.3D. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed.

6.4.3C. The auditor shall determine whether the assessed risks associated with related party relationships and transactions, and assessed risks relating to accounting estimates are significant risks.

6.4.3D. The auditor shall treat the following as significant risks:

(a) Risk of material misstatement from management override of controls;

(b) Any other risks of material misstatement due to fraud, including risks that the auditor identified in accordance with paragraph 6.4.2.;

(c) Identified significant related party transactions outside the entity's normal course of business.

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 therefore a significant risk.

Assessing Control Risk

6.4.3E. The auditor shall assess control risk if:

(a) The auditor has determined that substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level; or

(b) The auditor otherwise plans to test the operating effectiveness of controls,

otherwise, the assessed risk of material misstatement is the same as the assessment of inherent risk.

The auditor's plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor's assessment of control risk.

The initial expectation of the operating effectiveness of controls is based on the auditor's evaluation of the design, and the determination of implementation, of the controls identified in paragraphs 6.3.14.

and 6.3.15. (b). Once the auditor has tested the operating effectiveness of the controls in accordance with Part 7, the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment.

The auditor's assessment of control risk may be performed in different ways depending on preferred audit techniques or methodologies, and may be expressed in different ways. The control risk assessment may be expressed using qualitative categories (for example, control risk assessed as maximum, moderate, minimum) or in terms of the auditor's expectation of how effective the control(s) is in addressing the identified risk, that is, the planned reliance on the effective operation of controls. For example, if control risk is assessed as maximum, the auditor contemplates no reliance on the effective operation of controls. If control risk is assessed at less than maximum, the auditor contemplates reliance on the effective operation of controls.

Where routine business transactions are subject to highly automated processing with little or no manual intervention, it may not be possible to perform only substantive procedures in relation to the risk. This may be the case in circumstances where a significant amount of an entity's information is initiated, recorded, processed, or reported only in electronic form. In such cases:

- *The sufficiency and appropriateness of audit evidence usually depend on the effectiveness of controls over its accuracy and completeness.*
- *The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.*

Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment

6.4.3F. The auditor shall evaluate whether the audit evidence obtained from procedures to identify and assess the risks of material misstatement provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the procedures to identify and assess the risks of material misstatement, whether corroborative or contradictory to assertions made by management.

6.4.3G. The auditor's 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. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

6.4.3H. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, the auditor's assessment of the risks of material misstatement may need to be revised.

6.5. Evaluation of the Appropriateness of Using the ISA for LCE

6.5.A. Based on the procedures performed to identify and assess the risks of material misstatement, the engagement partner shall evaluate whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

The auditor's original determination to use the ISA for LCE may change as new information or additional audit evidence is obtained when performing procedures to identify and assess risks of material misstatement. In circumstances where audit evidence, or new information, is obtained, which is inconsistent with the auditor's original determination for using the ISA for LCE, the auditor may need to change the original determination to use the ISA for LCE, <u>and transition to using the ISAs or other standard as appropriate.</u>

6.7. Specific Communication Requirements

6.7.1. The auditor shall communicate with management, and where appropriate, those charged with governance, the significant risks identified by the auditor.

6.8. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

The form and extent of documentation for the identification and assessment of the risks of material misstatement may be simple and relatively brief, and is influenced by:

- *The nature, size and complexity of the entity and its system of internal control.*
- *Availability of information from the entity.*
- *The audit methodology and technology used in the course of the audit.*

It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it, but rather apply the principles in Part 2.5 and the matters noted below.

6.8.1. The auditor shall include the following in the audit documentation:

(a) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control;

Key elements of understanding documented by the auditor include those on which the auditor based the assessment of risks of material misstatement.

(b) The names of the identified related parties (including changes from prior period) and the nature of the related party relationships;

(c) The identified and assessed risks of material misstatement, including risks due to fraud, at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made;

(d) If applicable, the reasons for the conclusion that there is not a risk of material misstatement due to fraud related to revenue recognition;

(e) The controls set out in paragraphs 6.3.14. and 6.3.15 and the evaluation whether the control is designed effectively and determination whether the control has been implemented; and

(f) For accounting estimates, key elements of the auditor's understanding of the accounting estimates, including controls as appropriate, the linkage of the assessed risks of material misstatements to the auditor's further procedures, and any indicators of management bias and how those were addressed.

6.8.2. The auditor shall document the basis for the evaluation about whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

7. Responding to Assessed Risks of Material Misstatement

Content of this Part

Part 7 contains content related to the:

- Design and implementation of overall responses to assessed risks of material misstatement at the financial statement level;
- Design and implementation of responses to the assessed risks of material misstatement at the assertion level (i.e., design and performance of further audit procedures). Further procedures include substantive procedures (tests of detail and substantive analytical procedures) and tests of controls (as appropriate), and are expanded on in this Part; and
- Procedures for specific topics when responding to assessed risks of material misstatement.

Scope of this Part

This Part sets out the specific requirements for obtaining audit evidence through responding to assessed risks of material misstatement. Part 2 also sets out the broad requirements for audit evidence. In complying with the requirements in this Part, the auditor may find it useful to refer to the following that set out relevant matters:

- Fraud – see Part 1.5.
- Law or regulation – see Part 1.6.
- Related parties – see Part 1.7.
- Information to be used as audit evidence – see Part 2.3.
- Procedures for obtaining audit evidence – see Part 2.4.

7.1. Objectives

7.1.1. The objectives of the auditor are to:

(a) Obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement (the assessed risks), through designing and implementing responses to those risks;

(b) Respond appropriately to risks of material misstatement arising from fraud or suspected fraud;

(c) Obtain sufficient appropriate audit evidence regarding management's use of the going concern assumption and related disclosures; and

(d) Respond appropriately to identified or suspected non-compliance with law or regulation that have been identified during the audit.

7.2. Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Financial Statement Level

7.2.1. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, whether due to fraud or error.

The auditor's overall responses at the financial statement level, for example, making general changes to the nature, timing or extent of audit procedures, or adjustments to resources assigned or using experts, are based on those risks that relate pervasively to the financial statements as a whole. These may include, for example, risks arising from industry, regulatory and other external factors, or matters related broadly to the entity's basis of accounting or accounting policies.

In particular, the auditor's overall responses also are influenced by the auditor's understanding of the control environment. The control environment provides a foundation for the operation of the other components of the entity's internal control system. The control environment does not directly prevent, or detect and correct, misstatements. It may, however, influence the effectiveness of controls in the other components of the entity's internal control system. Therefore, an effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity.

Deficiencies that have been identified in the control environment when obtaining an understanding of the entity's internal control system, however, have the opposite effect and may result in the need for more extensive audit evidence from substantive procedures. A weak control environment also impacts the work that may be undertaken at an interim period.

7.2.2. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

(a) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

(b) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

Incorporating an element of unpredictability may be achieved by, for example:

- *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.*

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

7.2.2A. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement

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

7.3.1. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on, and responsive to, assessed risks, whether due to fraud or error, at the assertion level.

Further audit procedures comprise tests of controls and substantive procedures. The auditor may choose to perform tests of controls or they may be required in specific circumstances (see paragraph 7.3.2.(d)). Substantive procedures include tests of details and substantive analytical procedures.

Further audit procedures are responsive to the assessed risk of material misstatement at the assertion level, and provide a clear linkage between the auditor's further procedures and the risk assessment. If the assessed risks of material misstatement are due to fraud risks at the assertion level, the nature, timing and extent of audit procedures may need to be changed to obtain audit evidence that is more relevant and reliable or to obtain additional corroborative information.

7.3.2. In designing the further audit procedures, the auditor shall:

(a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant class of transactions, account balance, or disclosure, including:

(i) The likelihood and magnitude of misstatement due to the characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and

(ii) Whether the risk assessment takes account of controls that address the risk of material misstatements (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (where the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures);

(b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk;

(c) In designing and performing tests of controls, obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of controls; and

(d) If the auditor intends to test the operating effectiveness of controls or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, design and perform tests of controls, to obtain sufficient appropriate audit evidence as to the operating effectiveness of such controls,

In an audit of an LCE, the auditor may not be able to identify many controls, or the extent of documentation prepared by the entity to which they exist or operate may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures.

When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.

Considerations Specific to Public Sector Entities

For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.

7.3.3. When designing tests of controls and tests of details, the auditor shall determine the means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

In selecting items for testing, the auditor is required by paragraph 2.3.1 to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for testing are selecting all items (100% examination), selecting specific items and audit sampling.

Tests of Controls

7.3.8. In designing and performing tests of controls, the auditor shall perform audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of controls, including:

(a) How the controls were applied at relevant times during the period;

(b) The consistency with which they were applied; and

(c) By whom or by what means they were applied.

7.3.9. The auditor shall determine whether the controls to be tested depend on other controls (indirect controls), and if so, consider whether it is necessary to obtain evidence about the effective operation of the indirect controls.

7.3.10. The auditor shall test controls for the period of time, or throughout the period, for which the auditor intends to rely on those controls in order to provide an appropriate basis for the auditor's reliance.

7.3.11. If the auditor obtains audit evidence about the operating effectiveness of controls in the interim period, the auditor shall obtain additional audit evidence about any subsequent significant changes and determine the additional audit evidence to be obtained for the remaining period.

7.3.12. If the auditor intends to use audit evidence about the operating effectiveness of controls obtained in previous periods, the auditor shall:

(a) Consider:

(i) The effectiveness of the components of the internal control system,

(ii) The risks from the characteristics of the control (e.g., manual or automated),

(iii) The effectiveness of general IT controls,

(iv) The effectiveness of the control and its application by the entity,

(v) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

(vi) The risk of material misstatement and the extent of reliance on the control planned; and

(b) Establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. If there have been significant changes the auditor shall test the control in the current period, otherwise at least once every third audit.

7.3.13. If the auditor intends to rely on a control that is a control over a significant risk, the auditor shall test the control in the current period.

7.3.14. When evaluating the operating effectiveness of controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.

7.3.15. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

(a) The tests of controls provide an appropriate basis for reliance on the controls;

(b) Additional tests of control are necessary; or

(c) The risks of material misstatement need to be addressed using substantive procedures.

Substantive Procedures

7.3.18. The auditor's substantive procedures shall include substantive procedures specifically responsive to significant risks. When the response to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

7.3.18A. The auditor's substantive procedures shall include audit procedures related to the financial statement closing process, including:

(a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and

(b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

7.3.18B. Irrespective of the assessed risks, substantive procedures shall be performed for each material class of transactions, account balance, and disclosure.

For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 7.3.1 requires the auditor to design and perform further audit procedures whose nature timing and extent are based on, and responsive to assessed risks of material misstatement at the assertion level.

Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, in designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

7.3.19. If the auditor performed substantive procedures at an interim date, the auditor shall cover the remaining period by performing:

(a) Substantive procedures, combined with tests of controls for the intervening period; or

(b) If the auditor determines that it is sufficient, further substantive procedures only, that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

Substantive Analytical Procedures

7.3.19A. If the auditor uses substantive analytical procedures to obtain audit evidence, the auditor shall:

(a) Determine the suitability of the substantive analytical procedure for the purpose of the test and for the given assertion(s);

(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 its preparation;

(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify material misstatements;

(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation being required; and

(e) Investigate fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount by inquiring of management and obtaining appropriate audit evidence relevant to management's responses and performing additional audit procedures as necessary in the circumstances.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

Automated Tools and Techniques

Analytical procedures can be performed using a number of tools or techniques, which may also be automated. The evolution of technology, coupled with the increase in number and variety of sources of data, may create more opportunities for the auditor to use ATT in performing substantive analytical procedures.

There are countless information sources available (e.g., social media, free access information sources) to the auditor, and some are more reliable than others. The use of ATT to perform substantive analytical procedures allows the auditor to incorporate information from more sources both internal and external to the entity and also to use much greater volumes of data in the analyses. Nonetheless, the auditor's responsibility for addressing the reliability of data used in substantive analytical procedures is unchanged.

Audit Sampling

7.3.19B. If the auditor uses audit sampling when responding to assessed risks of material misstatement as a means for selecting items for testing, the auditor shall:

(a) Consider the purpose of the audit procedures and the characteristics of the population from which the sample will be drawn.

(b) Determine a sample size sufficient to reduce sampling risk to an acceptably low level.

(c) Select items in a way that each sampling unit in the population has a chance of selection.

(d) Perform audit procedures, appropriate to the purpose, on each item selected, unless the procedure is not applicable to the selected item in which case the auditor shall select a replacement item. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control (in the case of tests of controls) or a misstatement (in the case of tests of details).

(e) 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.

Sample Design

When designing an audit sample, the auditor's considerations may include:

- *The purpose of the test, the combination of audit procedures that is likely to best achieve the purpose, what items to select to meet the purpose and the assertion being addressed.*
- *The possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling.*

The auditor's considerations of the characteristics of a population may include:

- *Whether the population of items to be tested is appropriate to achieve the test objectives. Sampling will not identify or test items that are not already included within the population. For example, a sample of receivable balances may be used to test the existence of receivables, but such a population would not be appropriate for testing the completeness of receivables.*
- *The size of the population. In some cases, a statistical conclusion may not be drawn if the population to be tested is too small to sample.*

Audit sampling can be applied using either non-statistical or statistical sampling approaches. Statistical conclusions can be drawn from statistical samples. Non-statistical samples are often used in combination with other audit procedures that address the same assertion.

Sample Size

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. Appendix 6 includes examples of factors influencing the sample size for tests of controls and test of details.

Selection of Items for Testing

With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected. With non-statistical sampling, judgment is used to select sample items. It is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection.

7.3.19C. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

7.3.19D. For tests of details, the auditor shall project misstatements found in the sample to the population.

A misstatement that has been established to be an anomaly need not be projected across the remaining population.

7.3.19E. The auditor shall evaluate:

(a) The results of the sample; and

(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

For tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. For tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transactions or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists. Also, in the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.

If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:

- *Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or*
- *Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.*

External Confirmations

7.3.20. The auditor shall consider whether external confirmation procedures are to be performed as substantive procedures.

External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions.

7.3.21. When using external confirmation procedures, the auditor shall maintain control over:

(a) Determining the information to be confirmed or requested and selecting the appropriate confirming party;

(b) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and

(c) Sending the requests, including follow-up requests when applicable, to the confirming party.

7.3.22. If management refuses to allow the auditor to send a confirmation request, the auditor shall:

(a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;

(b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and

(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

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

7.3.24. If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

7.3.25. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

7.3.26. The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements.

7.3.27. The auditor shall evaluate whether the results of the external confirmation procedures, if any, provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

7.4. Specific Focus Areas

Going Concern

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

7.4.1. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

In accordance with the requirements of this Part, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. In many cases, the management of less complex entities may not have prepared a detailed assessment of the entity's ability to continue *as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. In such cases, it may be appropriate to discuss the medium- and long-term financing of the entity with management, provided that management's plans can be corroborated by sufficient documentary evidence and are consistent with the auditor's understanding of the entity. Therefore, the auditor's evaluation of going concern, for example, may be satisfied by discussion, inquiry and inspection of supporting documentation.*

Continued support by owner-managers is often important to less complex entity's ability to continue as a going concern. Where a less complex entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

7.4.2. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall:

(a) Cover the same period as used by management, as required by the applicable financial reporting framework. If that period is less than twelve months from the date of the financial statements, the auditor shall ask management to extend the period. If management does not make or extend its assessment, the auditor shall consider the implications for the auditor's report. [16]

(b) Consider whether management's assessment includes all relevant information of which the auditor is aware of as a result of the audit.

The auditor also remains alert to the possibility that there are known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question management's use of the going concern basis of accounting in preparing the financial statements. The further into the future the events or conditions are, the more significant the going concern issues need to be before the auditor takes further action.

7.4.4. 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.

7.4.5. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional procedures, including consideration of mitigating factors. These procedures shall include:

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(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.

[16] For the effect on the auditor's report see Part 9, paragraph 9.5.1.S.

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:

(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 whether any additional facts or information have become available since the date on which management made its assessment.

A material 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, for a fair presentation framework, necessary for the fair presentation of the financial statements or, for a compliance framework, necessary for the financial statements not to be misleading.

7.4.6. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform additional audit procedures as necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.

Management Override of Controls

7.4.8. The auditor shall design and perform audit procedures to:

(a) Test the appropriateness of manual and automated journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including:

(i) Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

(ii) Selecting journal entries and other adjustments made at the end of a reporting period; and

(iii) Considering the need to test journal entries and other adjustments throughout the period.

(b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing the review, the auditor shall:

(i) Evaluate whether the judgments and decisions made by management indicate a possible bias on the part of the entity's management, even if they are individually reasonable, that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole; and

(ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.

(c) For significant unusual transactions outside the normal course of business for the entity or that otherwise appear to be unusual, evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

(d) Respond to the identified risks of management override of controls to the extent not already addressed by (a) to (c).

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 therefore a significant risk.

Material misstatement of financial statements due to fraud often involves the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries. This may occur throughout the year or at period end, or both, or by management making adjustments to amounts reported in the financial statements that are not reflected in journal entries, such as through reclassifications.

Automated Tools and Techniques

In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of ATT.

Related Parties

7.4.9. The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions, including inspecting:

(a) Bank and legal confirmations obtained as part of the auditor's procedures;

(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.

7.4.11. For identified arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

(a) Determine whether the underlying circumstances confirm the existence of those relationships or transactions;

(b) Where the applicable financial reporting framework establishes related party requirements:

(i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation;

(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 for 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.

7.4.12. For identified significant related party transactions outside of the entity's normal course of business the auditor shall:

(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 financial reporting or to conceal misappropriation of assets;

(ii) The terms of transactions are consistent with management's explanations; and

(iii) The transactions have been appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework.

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

7.4.14. If the auditor identifies significant transactions outside the entity's normal course of business, the auditor shall inquire of management about the nature of these transactions and whether related parties could be involved.

7.4.15. If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion.

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

7.4.15A. The auditor shall share relevant information obtained about the entity's related parties with other members of the engagement team, including the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

Accounting Estimates

7.4.16. The auditor shall design and perform further audit procedures related to accounting estimates to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level, including for disclosures.

7.4.18. The auditor's further audit procedures to respond to assessed risks of material misstatement at the assertion level relating to an accounting estimate shall include one or more of the following approaches:

(a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 7.4.18B).

(b) Testing how management made the accounting estimate (see paragraphs 7.4.18C–7.4.18D).

(c) Developing an auditor's point estimate or range (see paragraph 7.4.18E).

Given the nature of many accounting estimates for an LCE, the final outcome of an accounting estimate may be known before the date of the auditor's report. In these circumstances, audit evidence obtained from events occurring up to the date of the auditor's report may provide sufficient appropriate audit evidence to address the assessed risks of material misstatement. For some accounting estimates, however, events occurring up to the date of the auditor's report may not provide sufficient appropriate audit evidence about whether the accounting estimate is reasonable or misstated (e.g., when events or conditions develop only over an extended period). In these circumstances, the auditor's further audit procedures include the approaches in (b) or (c).

Obtaining Audit Evidence from Events Occurring Up to the Date of the Auditor's Report.

7.4.18B. When the auditor's further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor shall evaluate whether the audit evidence is sufficient and appropriate, taking into account any changes in circumstances and other relevant conditions between the event and the measurement date that may affect the relevance of such evidence.

Testing How Management Made the Accounting Estimate

7.4.18C. When testing how management made the accounting estimate, the auditor's further audit procedures shall address whether:

(a) The method selected is appropriate, including any changes from the prior period;

(b) The significant assumptions and data are consistent and appropriate, and their integrity maintained in applying the method;

(c) Management has the intent to carry out specific courses of actions;

(d) The judgments made in selecting the method, significant assumptions and data, give rise to indicators of possible management bias and, if possible indicators of bias are identified, evaluate the implications for the audit, including determining whether there is an intention to mislead such that it is fraudulent in nature;

(e) Changes from prior periods are appropriate;

(f) The data is relevant and reliable in the circumstances; and

(g) Calculations are mathematically accurate and whether judgements have been applied consistently.

Method, Significant Assumptions and Data

Relevant considerations for the auditor regarding the appropriateness of the method, significant assumptions and data in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- *Management's rationale for the selection of the method, assumption and data;*
- *Whether the method, assumption and data are appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates;*

- *Whether a change from prior periods in selecting a method, assumption or data is based on new circumstances or new information. When it is not, the change may not be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate may give rise to material misstatements of the financial statements or may be an indicator of possible management bias.*
- *When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences.*
- *Whether the significant assumptions are inconsistent with each other and with those used in other accounting estimates.*

7.4.18D. The auditor's further audit procedures also shall address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand and address estimation uncertainty by selecting appropriate point estimates and developing related disclosures. If management has not undertaken such steps, the auditor shall:

(a) Request management to perform additional procedures to address estimation uncertainty by reconsidering the selection of point estimates or providing additional disclosures related to the estimation uncertainty; and

(b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range.

When the applicable financial reporting framework does not specify how to select a point estimate from among reasonably possible outcomes or does not require specific disclosures, the exercise of judgment by management is an important consideration for the auditor regarding the appropriateness of the point estimate selected and the related disclosures.

Matters that may be relevant for the auditor regarding management's disclosures about estimation uncertainty include the requirements of the applicable financial reporting framework, which may require disclosures:

- *That describe the amount as an accounting estimate and explain the nature and limitations of the process for making it; and*
- *About material accounting policy information related to accounting estimates, which may include significant or critical management judgments as well as significant forward-looking assumptions or other sources of estimation uncertainty.*

Developing an Auditor's Point Estimate or Range

7.4.18E. When the auditor develops a point estimate or range to evaluate management's point estimate, the auditor's further audit procedures shall include audit procedures to:

(a) Evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework; and

(b) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence.

The auditor's decision as to whether to develop a point estimate rather than a range may depend on the nature of the accounting estimate and the auditor's judgment in the circumstances. For example, *the nature of the accounting estimate may be such that there is expected to be less variability in the reasonably possible outcomes. In these circumstances, developing a point estimate may be an effective approach, particularly when it can be developed with a higher degree of precision.*

The requirement for the auditor to determine that the range includes only amounts that are supported by sufficient appropriate audit evidence does not mean that the auditor is expected to obtain audit evidence to support each possible outcome in the range individually. Rather, the auditor is likely to obtain evidence to determine that the points at both ends of the range are reasonable in the circumstances, thereby supporting that amounts falling between those two points also are reasonable.

Inventory

7.4.19. If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

(a) Attendance at physical inventory counting, unless impracticable, to:

(i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;

(ii) Observe the performance of management's count procedures;

(iii) Inspect the inventory; and

(iv) Perform test counts;

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results; and

(c) If the physical inventory counting is at a date other than the date of the financial statements, performing audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.

7.4.20. If the auditor has not attended the inventory count due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, or if not possible, determine the effect on the auditor's report.[17]

In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience, difficulty, time, or cost involved, however, are not sufficient to support a decision by the auditor that attendance is impracticable. In some cases where attendance is impracticable, alternative audit procedures, for example, inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and

[17] For the effect on the auditor's report see Part 9, paragraph 9.5.1.O.

condition of inventory by performing alternative audit procedures. In such cases, the auditor is required to modify the opinion in the auditor's report as a result of the scope limitation.

7.4.21. If inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory, either through confirmation as to the quantities and condition or performing inspection or other audit procedures appropriate in the circumstances.

Litigation and Claims

7.4.22. The auditor shall design and perform further audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:

(a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;

(b) Inspecting minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and

(c) Inspecting legal expense accounts.

7.4.23. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by this standard, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. [18]

7.4.23A. If:

(a) management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and

(b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures,

the auditor shall modify the opinion in the auditor's report.[19]

Audit Procedures When Non-Compliance with Law or Regulation is Identified or Suspected

7.4.24. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws or regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.[20]

7.4.25. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with law or regulation, the auditor shall:

(a) Understand the nature and circumstances, and obtain further information necessary to evaluate the possible effect on the financial statements;

[18] For the effect on the auditor's report see Part 9, paragraph 9.5.1.N.

[19] For the effect on the auditor's report see Part 9, paragraph 9.5.1.OO.

[20] For the effect on the auditor's report see Part 9, paragraph 9.5.1.J.

(b) Discuss the non-compliance with management, and where appropriate, those charged with governance, unless prohibited to do so by law or regulation;

(c) If sufficient information about suspected non-compliance cannot be obtained, evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion; and

(d) Evaluate the implications on other aspects of the audit, including the auditor's risk assessment and the reliability of written representations and take appropriate action.[21]

Using the Services of a Service Organization

7.4.26. If the entity is using the services of a service organization, the auditor shall:

(a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available at the 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 auditor's behalf.

Using the Work of Management's Expert

7.4.26A. If information to be used as audit evidence has been prepared using the work of management's expert, the auditor shall, having regard to the significance of that expert's work for the auditor's purpose, evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion.

Considerations when evaluating the appropriateness of the management's expert's work may include:

- *The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;*
- *If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;*
- *If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data; and*
- *If that expert's work involves the use of information from an external information source, the relevance and reliability of that information.*

Using the Work of an Auditor's Expert

7.4.27. When the auditor has determined to use the work of an auditor's expert, the auditor shall evaluate the adequacy of the auditor's expert's work, including:

(a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;

(b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and

[21] For the effect on the auditor's report see Part 9, paragraphs 9.5.1.K., 9.5.1.L. and 9.5.1.M.

(c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

7.4.28. If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall agree on further work to be done by that expert or perform additional audit procedures appropriate to the circumstances.

7.5. Accumulation of Misstatements

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

Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of nature, size or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

7.5.2. The auditor shall request management to correct all misstatements accumulated during the audit.

The auditor may request management to examine a class of transactions, account balance or disclosure in order for management to understand the cause of a misstatement identified by the auditor, perform procedures to determine the amount of the actual misstatement in the class of transactions, account balance or disclosure, and to make appropriate adjustments to the financial statements. Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

7.5.3. If the auditor identifies a misstatement during the audit, the auditor shall evaluate whether the misstatement is indicative of fraud. If there is such an indication, the auditor shall determine the implications on other aspects of the audit, including on the identified and assessed risks of material misstatement and the reliability of management representations.

Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

7.5.4. If the auditor identifies a misstatement that may be the result of fraud, and suspects that management is involved, the auditor shall:

(a) Reevaluate the risks of material misstatement due to fraud and the auditor's responses thereto; or

(b) Consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

The implications of identified or suspected fraud depends on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of evidence previously obtained may be called into question, since there may be doubts about the completeness and truthfulness of representations made and about the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management or third parties.

7.5.5. The auditor shall determine whether the scope, timing and direction of the audit needs 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; and

(b) The aggregate of misstatements accumulated during the audit approaches materiality.

7.6. Specific Communication Requirements

7.6.1. The auditor shall communicate:

(a) Significant deficiencies in the entity's internal control system identified during the audit to those charged with governance in writing and on a timely basis.

(b) With management, in writing and on a timely basis, matters that have been communicated to those charged with governance (unless it would be inappropriate to communicate directly with management in the circumstances) and other deficiencies in internal control identified that have not been communicated but are of sufficient importance to merit management's attention.

The communication of other deficiencies in internal control that merit management's attention need not be in writing but may be oral.

7.6.2. For communication of significant deficiencies to those charged with governance, the auditor shall include a description and explanation of the potential impact of the deficiencies, and sufficient information to understand the context of the communication.

In describing the context of the auditor's communication, the auditor may explain that:

- *The purpose of the audit was for the auditor to express an opinion on the financial statements;*
- *The audit included consideration of internal control relevant to the preparation of the financial statements 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*
- *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.*

7.6.3. In communicating with management and, where appropriate, those charged with governance, the auditor shall consider if there are any matters to communicate regarding accounting estimates. In doing so, the auditor takes into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity, change or management bias in making accounting estimates and related disclosures.

7.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

7.7.1. The auditor shall include the following in the audit documentation:

(a) The overall responses to the assessed risks of material misstatement at the financial statement level;

(b) The linkage between the procedures performed and the assessed risks at the assertion level;

(c) The results of the audit procedures, including the conclusions where these are not otherwise clear;

(d) The results of audit procedures designed to address the risk of management override of controls; and

(f) All misstatements accumulated during the audit and whether they have been corrected.

(g) If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the conclusions reached about relying on such controls that were tested in a previous audit.

7.7.2. Where the assessed risk of material misstatement is due to fraud, the auditor's documentation shall include the specific fraud response.

7.7.3. Where the auditor has identified or suspected non-compliance with law or regulation, the auditor shall document:

(a) The results of discussion with management, and where appropriate, those charged with governance and others; including how the matter has been responded to; and

(b) The audit procedures performed, the significant professional judgments made, and the conclusions reached thereon.

7.7.4. For accounting estimates, the auditor shall document significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

8. Concluding

Content of this Part

Part 8 sets out the requirements for:

- Evaluating corrected and uncorrected misstatements identified during the audit.
- Subsequent events.
- Concluding activities, including the related evaluations.
- Concluding on going concern and related disclosures.
- Written representations and performing concluding analytical procedures.

Scope of this Part

The evaluations performed and the conclusions reached will form the basis for the auditor's opinion in Part 9.

8.1. Objectives

8.1.1. The objectives of the auditor are to:

(a) Evaluate, the effect of identified misstatements on the audit and the effect of any uncorrected misstatements on the financial statements;

(b) Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) Conclude on whether sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion.

8.2. Evaluation of Misstatements Identified During the Audit

8.2.1. If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

8.2.2. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality to confirm whether it remains appropriate in the context of the entity's actual financial results.

8.2.3. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate, by considering the:

(a) Nature and size of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and

(b) Effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

8.3. Analytical Procedures that Assist When Forming an Overall Conclusion

8.3.1. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, and to identify any indications of a previously unidentified risk of material misstatement due to fraud.

8.3.2. The auditor shall investigate fluctuations or relationships that are inconsistent with other relevant information obtained during the course of the audit, by inquiring of management and performing other audit procedures as necessary in the circumstances.

8.4. Subsequent Events

Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:

- *Those that provide evidence of conditions that existed at the date of the financial statements; and*
- *Those that provide evidence of conditions that arose after the date of the financial statements.*

The auditor is not, however, expected to perform additional procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

8.4.1. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

8.4.2. The auditor shall perform those procedures in accordance with paragraph 8.4.1. for the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto, including:

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the financial statements.

(c) Reading minutes of meetings of the owners, those charged with governance and management held after the balance sheet date and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's monthly or quarterly information, if available.

8.4.3. If the auditor has identified events that require adjustment to the financial statements or disclosures therein to comply with the entity's applicable financial reporting framework when performing the procedures in paragraphs 8.4.1. and 8.4.2, the auditor shall determine whether each such event is appropriately reflected in the financial statements.

Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued

8.4.4. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if the auditor becomes aware of facts or events that, had it been known to the auditor at the date of the auditor's report but before the financial statements are issued, may have caused the auditor to amend the auditor's report, the auditor shall discuss with management, and where appropriate, those charged with governance, and determine whether the financial statements need amendment and if so, inquire how management intends to address the matter.

8.4.5. If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment, including extending the audit procedures performed to the date of the new auditor's report and providing a new auditor's report on the amended financial statements.

8.4.5A. If management does not amend the financial statements 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;[22] or

(b) If the auditor's report has already been provided to the entity, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report.

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

8.4.6. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements 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 financial statements need amendment; and, if so,

(c) Inquire how management intends to address the matter in the financial statements.

8.4.6A. If management amends the financial statements, the auditor shall:

(a) Carry out the audit procedures necessary in the circumstances on the amendment, including extending the audit procedures performed to the date of the new auditor's report and providing a new auditor's report on the amended financial statements; and;

(b) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.

[22] For the effect on the auditor's report see Part 9, paragraph 9.5.1.SS.

8.4.6B. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

8.5. The Auditor's Evaluations and Other Activities to Support the Auditor's Conclusion

Evaluations Required

8.5.1. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the assessments of the risks of material misstatement at the financial statement and assertion levels remain appropriate.

An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.

The auditor may also consider whether such information changes the auditor's determination about the appropriateness of use of the ISA for LCE for the audit, which may necessitate a modification to the terms of engagement.

8.5.2. For accounting estimates, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:

(a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified; and

(b) Management's decisions about the recognition, measurement, presentation and disclosure of accounting estimates in the financial statements are reasonable in the context of the applicable financial reporting framework.

8.5.3. The auditor shall evaluate whether two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the audit and take action as appropriate.

For example, the original risk assessments may need to be revised, the auditor's opinion may need to be modified on the basis of a scope limitation or other actions may need to be taken as appropriate.

8.5.4. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:

(a) Classification and description of financial information and the underlying transactions, events and conditions; and

(b) Presentation, structure and content of the financial statements

Concluding

8.5.5. 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 be corroborative or contradictory.

8.5.6. If the auditor has not obtained sufficient appropriate audit evidence as to a relevant assertion, the auditor shall attempt to obtain additional audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements. [23]

8.5.7. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.[24]

8.5.8. The auditor shall conclude, based on the audit evidence obtained, whether in the auditor's professional judgment, 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.[25]

8.5.9. If the auditor concludes, that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

(a) Adequately disclose 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) Disclosing 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.

In such cases, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern"

8.5.10. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

8.5.11. If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications on the audit including on the assessed risks of material misstatement and the auditor's report.

8.6. Written Representations

Written representations are necessary information that the auditor requests in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written

[23] For the effect on the auditor's report see Part 9, paragraph 9.5.1.W.

[24] For the effect on the auditor's report see Part 9, paragraph 9.5.1.P.

[25] For the effect on the auditor's report see Part 9, paragraph 9.5.1.q.

representations are audit evidence. However, although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

8.6.1. The auditor shall obtain written representations from management, who have appropriate knowledge of the matters concerned and responsibility for the financial statements, and where appropriate, those charged with governance about the following matters:

(a) That they have fulfilled their responsibility for the preparation of the financial statement in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

(b) That they have provided the auditor with all relevant information and access as agreed in the terms of the audit engagement;[26]

(c) That all transactions are recorded and are reflected in the financial statements;

(d) That they acknowledge their responsibility for the design, implementation and maintenance of controls to prevent and detect fraud;

(e) That they have disclosed to the auditor the result of its assessment of the risk that the financial statements may be materially misstated because of fraud;

(f) That their knowledge of fraud, or suspected fraud, or allegations of fraud or suspected fraud has been disclosed to the auditor;

(g) That 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;

(h) That they have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of the financial reporting framework;

(i) That all known instances of non-compliance or suspected non-compliance with law or regulation whose effects should be considered when preparing financial statements have been disclosed to the auditor;

(j) That all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework;

(k) With regard to accounting estimates, whether the methods, significant assumptions and data used in making the accounting estimates and disclosures are appropriate to achieve recognition, measurement or disclosure is in accordance with the applicable financial reporting framework;

(l) That all events occurring subsequent to date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed;

[26] The management responsibilities shall be described in the same way in the representation as described in the terms of engagement.

(m) With regard to going concern, if a material uncertainty exists, information about their plans for future actions and the feasibility of these plans;

(n) Regarding any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information; and

(o) Other representations the auditor determines necessary to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, including where necessary to support oral representations.

8.6.2. The auditor shall consider the need to obtain representations about specific accounting estimates.

8.6.3. The written representation shall be in the form of a representation letter addressed to the auditor.

Appendix 7 sets out an illustrative representation letter.

If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by this standard, the relevant matters covered by such statements need not be included in the representation letter.

8.6.4. The auditor shall request a written representation from management, and where appropriate, those charged with governance, whether they believe the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

8.6.5. If the auditor has concerns about the competence, integrity, ethical values, or diligence of management, or about its commitment to or enforcement of these, or representations received are inconsistent with other audit evidence, the auditor shall determine the effect on audit evidence more generally and take appropriate actions, including considering the possible effect on the opinion in the auditor's report.[27]

8.6.6. If management does not provide one or more of the requested written representations, the auditor shall:

(a) Discuss the matter with management;

(b) Reevaluate the integrity of management and evaluate the effect this may have on the reliability of oral and written representations and audit evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report.[28]

8.6.7. 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 financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report.

[27] For the effect on the auditor's report see Part 9, paragraph 9.5.1.T. and 9.5.1.TT.

[28] For the effect on the auditor's report see Part 9, paragraph 9.5.1.U. and 9.5.1.UU.

8.7. Taking Overall Responsibility for Managing and Achieving Quality

8.7.1. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that:

(a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and

(b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account.

8.7.2. On or before the date of the auditor's report, the engagement partner shall determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

8.7.3. Prior to dating the auditor's report, the engagement partner shall review the financial statements and the auditor's report to determine that the auditor's report being issued is appropriate in the circumstances.

8.8. Specific Communication Requirements

8.8.1. The auditor shall communicate, on a timely basis, all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation.

8.8.2. The auditor shall communicate with those charged with governance:

(a) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the auditor's opinion, unless prohibited by law or regulation. The auditor's communication shall identify the material uncorrected misstatement individually,

(b) The effect of uncorrected misstatements from prior periods on the current year financial statements,

(c) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

(d) Significant difficulties, if any, encountered during the audit.

(e) Significant matters arising during the audit, including in connection to the entity's related parties, that were discussed, or subject to correspondence, with management.

(f) Significant findings from the audit. If, in the auditor's professional judgment, oral communications would not be adequate this communication shall be in writing.

(g) Other matters, not already reported, related to fraud that may be relevant to the responsibilities of those charged with governance, unless prohibited by law or regulation.

(h) Circumstances, if any, that affect the form and content of the auditor's report.

(i) Written representations the auditor is requesting.

(j) Other significant matters, if any, arising from the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

(k) The expectation thereof and the wording if the auditor expects to include an Emphasis of Matter or Other Matter Paragraph in the auditor's report.

8.8.5. Unless all those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:

(a) Whether the events or conditions constitute a material uncertainty;

(b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

(c) The adequacy of related disclosures in the financial statements; and

(d) Where applicable, the implications for the auditor's report.

8.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.5 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

8.9.1. The auditor shall include the following in the audit documentation:

(a) All misstatements accumulated during the audit and whether they have been corrected, and the auditor's conclusion as to whether the uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion; and

(b) The nature and scope of, and conclusions from, consultations undertaken during the audit, including how such conclusions were implemented.

8.9.2. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

8.9.3. 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.

8.9.4. After assembly of the final audit file is complete, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

8.9.5. If applicable, the auditor shall document the failure to meet an objective of any Part of the ISA for LCE, and the resulting action (such as the effect on the auditor's opinion or withdrawal from the engagement if the overall objective of the auditor cannot be met).

8.9.6. If 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.

9. Forming an Opinion and Reporting

Content of this Part

Part 9 sets out the requirements for:

- Forming an opinion;
- The types of audit opinions; and
- The content of the auditor's report.
- Other Information and Comparative Information.

Scope of this Part

This Part explains the content of the auditor's report, and sets out the auditor's determination of modifications, as well as when other adjustments to the auditor's report are needed. It also sets out the auditor's required procedures in relation to corresponding figures and comparative financial statements, and other information (if applicable).

Examples of modified opinions, material uncertainty related to going concern, emphasis of matter and other matter paragraphs, and related guidance on auditor reports, can be found in the *Auditor Reporting Supplemental Guide*.

9.1. Objectives

9.1.1. The objectives of the auditor are to:

(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to express clearly that opinion through a written report; and

(b) Consider whether there is a material inconsistency between the other information, if any, and the:

(i) Financial statements; and

(ii) Auditor's knowledge obtained in the audit.

9.2. Forming an Opinion on the Financial Statements

9.2.1. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

9.2.2. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

(a) Whether sufficient appropriate audit evidence has been obtained;

(b) Whether uncorrected misstatements, individually or in aggregate are material; and

(c) The evaluations required by paragraphs 9.2.3. to 9.2.6.

9.2.3. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

9.2.4. In performing the evaluation in paragraph 9.2.3., the auditor shall evaluate, in view of the applicable financial reporting framework, whether:

(a) The financial statements appropriately disclose the entity's significant accounting policies, and whether they have been presented in an understandable way;

(b) The entity's accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates and related disclosures made by management are reasonable;

(d) The identified related party relationships and transactions have been appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework;

(e) The information presented in the financial statements is relevant, reliable, comparable and understandable including whether:

(i) The information that should have been included has been included;

(ii) Such information is appropriately classified, aggregated or disaggregated, and characterized; and

(iii) The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;

(f) The financial statements provide adequate disclosures to enable intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

(g) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

9.2.5. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the financial statements achieve fair presentation. This evaluation shall include consideration of:

(a) The overall presentation, structure and content of the financial statements; and

(b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and the disclosures necessary to achieve it, is a matter of professional judgment.

9.2.6. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

9.3. Form of Opinion

9.3.1. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework.

9.3.2. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether to modify the opinion.[29]

9.3.3. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.[30]

9.4. Auditor´s Report

9.4.1. The auditor shall report in accordance with the specified format and content below unless:

(a) Amendment to the auditor's report is required for compliance with law or regulation, including when a legislative or regulatory authority in the jurisdiction prescribes the layout or wording of the auditor's report or if prescribed by a relevant local body with standard-setting authority. When the layout or wording of the auditor's report is prescribed, the auditor's report shall refer to this ISA for LCE only if all significant elements of the specified format and content are included; or

(b) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 9.5.) or amend the auditor's report (according to Part 9.8.).

[29] For the effect on the auditor's report see Part 9, paragraph 9.5.1.X.

[30] For the effect on the auditor's report see Part 9, paragraph 9.5.1.Y.

INDEPENDENT AUDITOR'S REPORT

To the [*Shareholders of ABC Company or Other Appropriate Addressee*][31]

Opinion

We have audited[32] the financial statements of [*ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (replace these report names with the appropriate titles)*].[33]

In our opinion, the accompanying financial statements ["*present fairly, in all material respects" or "give a true and fair view of"*][34] the financial position of the [*Entity*] as at [*December 31, 20X1*], and [*of*] its financial performance and its cash flows for the year then ended in accordance with [*applicable financial reporting framework*].[35]

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.[36] We are independent of the [*Entity*] in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.[37]

Responsibilities of [Management] for the Financial Statements[38]

[*Management*] is responsible for the preparation [*and fair presentation of*] the financial statements in accordance with [*applicable financial reporting framework*],[39] and for such internal control as [*management*] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [*management*] is responsible for assessing the [*Entity's*] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [*management*] either intends to liquidate the [*Entity*] or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements[40]

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Understand internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [*Entity's*] ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [*Entity*] to cease to continue as a going concern.
- [Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events

31 Matters reflected in the specified format and content of the auditor's report in square brackets (e.g. [ ]) are to be tailored accordingly.

32 When disclaiming an opinion, the statement which indicates that the financial statements have been audited is amended to state that the auditor was engaged to audit the financial statements.

33 Identify the entity whose financial statements have been audited; identify each financial statement and its date and period, and refer to the notes and significant accounting policies or use another appropriate description in accordance with the applicable financial reporting framework.

34 See also 9.4.2 below. When the financial statements are prepared in accordance with a compliance framework, the opinion and description of the auditor's responsibilities refer instead to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

35 Identify the jurisdiction of origin of the financial reporting framework if it is not International Financial Reporting Standards or International Public Sector Accounting Standards as issued by the International Public Sector Accounting Standards Board.

36 When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor's report.

37 When the auditor expresses a qualified or adverse opinion, the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion is amended to include the word "qualified" or "adverse", as appropriate. When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor's report.

38 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

39 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

40 The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of appendix or description shall be included within the auditor's report. When the auditor disclaims an opinion on the financial statements, the description of the auditor's responsibilities only includes the matters required by paragraph 9.5.4.

in a manner that achieves fair presentation.][41]

We communicate with [*management, and where appropriate, those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address: name the location in the jurisdiction where the auditor practices]*

[Date: 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 financial statements, including evidence that (i) All the statements and disclosures that comprise the financial statements have been prepared; and (ii) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.]

9.4.2. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances, in the description of responsibilities for the financial statements in the auditor's report.

9.4.3. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

9.5. Modifications to the Opinion

Tables A to C below set out the requirements for which a modified opinion is to be used in different situations, and the form and content of a modified opinion.

9.5.1.A. The auditor shall modify the opinion in the auditor's report according to Tables A–C below when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements 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 financial statements as a whole are free from material misstatement.

9.5.1.B. When the auditor modifies the audit opinion, the auditor shall:

(a) Amend the heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion" as set out in tables A–C; and

(b) Within the basis for opinion section, include a description of the matter giving rise to the modification.

Table A below specifies 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 financial statements, affects the type of opinion to be expressed.

[41] Relevant when the financial statements are prepared in accordance with a fair presentation framework.

TABLE A *Nature of Matter Giving Rise to the Modification*	*Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements*	
	Material but Not Pervasive	*Material and Pervasive*
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Table B below specifies the modification to be made to the opinion for each type of opinion in Table A.

TABLE B **Form of opinion**	**Fair Presentation Framework**	**Compliance Framework**
9.5.1.C. Qualified opinion Auditor's Report–Heading for opinion: "Qualified Opinion" Auditor's Report–Heading for Basis for Opinion: "Basis for Qualified Opinion"	"In our opinion, except for the [effects or possible effects][42] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework]"	"…except for the [effects or possible effects] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]"
9.5.1.D. Adverse opinion Auditor's Report–Heading for opinion: "Adverse Opinion" Auditor's Report–Heading for Basis for Opinion: "Basis for Adverse Opinion"	"…the accompanying financial statements do not present fairly (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework]"	"…the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework]"
9.5.1.E. Disclaimer of opinion Auditor's Report–Heading for opinion: "Disclaimer of Opinion"	"[The auditor does] not express an opinion on the accompanying financial statements. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, [the auditor has] not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements."	

42 Matters reflected in square brackets (e.g., [ ]) are to be tailored accordingly

Auditor's Report–Heading for Basis for Opinion: "Basis for Disclaimer of Opinion"	

Table C below sets out specific circumstances when the auditor's opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A). Table C is not an exhaustive list of all circumstances when the auditor's opinion is to be modified.

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
Opening Balances				
9.5.1.F. The auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances.	4.6.4.	✔		✔
9.5.1.G. The auditor concludes, based on the audit evidence obtained, that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed.	4.6.5.	✔	✔	
9.5.1.H. The auditor concludes, based on the audit evidence obtained, that the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework or a change in accounting policies is not appropriately accounted for or adequately presented or disclosed, in accordance with the financial reporting framework.	4.6.6.	✔	✔	
9.5.1.I. The prior period's financial statements included a modification that remains relevant and material to the current period's financial statements.	4.6.3.	✔	✔	✔

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
Non-Compliance with Laws and Regulations				
9.5.1.J. Sufficient information about suspected non-compliance cannot be obtained.	7.4.24.	✔		✔
9.5.1.K. The auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements.	7.4.25	✔	✔	
9.5.1.L. The auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred.	7.4.25.	✔		✔
9.5.1.M. The auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance.	7.4.25.	✔		✔
External Confirmations				
9.5.1.N. 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.	7.3.23.	✔		✔
Inventory				
9.5.1.O. The auditor cannot perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory.	7.4.20.	✔		✔
9.5.1.OO. If management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's	7.4.23A	✓		✓

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures.				
Going Concern				
9.5.1.P. The financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate.	7.4.1. 8.5.7.		✔	
9.5.1.Q. Adequate disclosures are not made about a material uncertainty in the financial statements. 9.5.1.R. In this circumstance, the basis for qualified (or adverse) opinion section shall state that "a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter."	7.4.5 8.5.8	✔	✔	
9.5.1.S. When evaluating management's assessment of the entity's ability to continue as a going concern, if the period is less than twelve months from the date of the financial statements, and management does not make or extend its assessment, leading to the auditor being unable to obtain sufficient appropriate audit evidence.	7.4.2.	✔		✔
Subsequent Events				
9.5.1.SS. If facts become known to the auditor after the date of the auditor's report but before the date the financial statements are issued, and if management does not amend the financial statements in circumstances where the auditor believes they need to be amended.	8.4.5B.	✔	✔	✔
Written Representations				

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
9.5.1.T. The auditor concludes that the written representations required by this standard are not reliable.	8.6.5.	✓		✓
9.5.1.TT. The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by 8.6.1.(a)–(c) are not reliable.	8.6.5.			✓
9.5.1.U. When management does not provide one or more of the requested written representations.	8.6.6.	✓		✓
9.5.1.UU. When management does not provide the written representations required by paragraphs 8.6.1.(a)–(c).	8.6.6.			✓
Corresponding Figures				
9.5.1.V. When corresponding figures are presented and the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved. The Basis for Modification paragraph shall either: (a) refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material,; or (b) in other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.	9.7.4	✓	✓	✓
Other Items				

TABLE C **Specific Circumstances When the Auditor's Opinion is to be Modified**	**Para Ref**	**Qualified**	**Adverse**	**Disclaimer**
9.5.1.W. The auditor is unable to obtain sufficient appropriate audit evidence.	8.5.6.	✔		✔
9.5.1.X. The financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation.	9.3.2.	✔	✔	
9.5.1.Y. The financial statements are prepared in accordance with a compliance framework and, in extremely rare circumstances, the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading.	9.3.3	✔	✔	✔

Other Matters Relating to Modifications

9.5.2. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. 9.5.3. If there is a material misstatement of the financial statements that relates to:

(a) Specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

(b) Qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

(c) The non-disclosure in the financial statements of information required to be disclosed, the auditor shall:

(i) Discuss the non-disclosure with those charged with governance;

(ii) Describe in the Basis for Opinion section the nature of the omitted information; and

(iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

9.5.3A. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

9.5.4. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities in the template in paragraph 9.4.1 to include only the following:

(a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with the ISA for LCE and to issue an auditor's report;

(b) A statement that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

(c) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.

9.5.4A. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section 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.

9.6. Other Paragraphs in the Auditor's Report

Emphasis of Matter paragraphs and Other Matter paragraphs in the auditor's report are used when the auditor considers it necessary to:

- *Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or*
- *Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.*

Emphasis of Matter Paragraphs

9.6.1. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements, and the auditor would not be required to modify the opinion, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasized.

Examples of where Emphasis of Matter paragraphs may be needed include:

- *When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.*
- *When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).*

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

- *A modified opinion when required by the circumstances of a specific audit engagement;*

- *Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or*
- *Reporting when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.*

Other Matter Paragraphs

The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards for the confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

9.6.2. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.

Content of Other Paragraphs in the Audit Report

9.6.4. When the auditor includes an Emphasis of Matter, Other Matter paragraph or a material uncertainty relating to going concern in the auditor's report, the auditor shall include the paragraph or section according to Table D below:

Table D **Paragraph or Section**	**Location**	**Heading shall include**	**Content shall include**
9.6.5. Emphasis of Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Emphasis of Matter"	A clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. A reference only to information presented or disclosed in the financial statements. An indication that the auditor's opinion is not modified in respect of the matter emphasized.
9.6.6. Other Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Other Matter"	As appropriate in the circumstances.
9.6.7. Material Uncertainty Related to	A separate section of the	"Material Uncertainty	Draw attention to the note in the financial statements that discloses the matters related to the material uncertainty.

Table D Paragraph or Section	Location	Heading shall include	Content shall include
Going Concern paragraph	auditor's report	Relating to Going Concern"	State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

9.6.8. When facts become known to the auditor after the financial statements have been issued and if management amends the financial statements, the auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph drawing users' attention to the reason for the amendment and referring to the earlier report provided by the auditor.

9.7. Comparative Information–Corresponding Figures and Comparative Financial Statements

9.7.1. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. In doing so, the auditor shall evaluate whether:

(a) The amounts and disclosures in the prior period agree with comparative information or have been restated; and

(b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, where changes occurred, have been properly accounted for and adequately presented or disclosed.

9.7.2. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the prior period financial statements are amended, the auditor shall determine that the comparative information agrees with the amended financial statements.

9.7.2A. If the financial statements of the prior period were audited by a predecessor auditor and are presented as comparative financial statements, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

(a) That the financial statements of the prior period were audited by a predecessor auditor;

(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report,

unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statements.

If the financial statements of the prior period were audited by a predecessor auditor and are presented as corresponding figures, the auditor may decide to include an Other Matter paragraph provided the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures.

9.7.3. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures or comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Corresponding Figures

9.7.4. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in accordance with paragraph 9.7.3 or in the following circumstances:

(a) If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.[43]

(b) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

Comparative Financial Statements

9.7.5. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

9.7.6. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph.

9.8. Other Information

"Other information" is financial or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.

9.8.1. The auditor shall determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s).

9.8.2. The auditor shall read the other information, and:

(a) Consider whether there is a material inconsistency between the other information and the financial statements; and

(b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.

9.8.3. As the basis for the considerations in paragraph 9.8.2.(a), the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as,

[43] For the effect on the auditor's report see Part 9, paragraph 9.5.1.V.

to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements.

In evaluating the consistency of selected amounts or other items, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, or summarize, or to provide greater details about, the amounts or other items within the financial statements, with such amounts or other items in the financial statements.

9.8.4. While reading the other information, the auditor shall also remain alert for indications that the remainder of the other information, which is unrelated to the financial statements or the auditor's knowledge obtained in the audit, appears to be materially misstated.

9.8.5. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

(a) A material misstatement of the other information exists;

(b) A material misstatement of the financial statements exists; or

(c) The auditor's understanding of the entity and its environment needs to be updated.

9.8.6. If the auditor concludes, based on the audit evidence obtained, that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or

(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. If the correction is still not made, the auditor shall consider the implications for the auditor's report in accordance with Table E below or withdraw from the engagement where this is possible.

9.8.7. If the auditor obtained some or all of the other information at the date of the auditor's report, the auditor shall include an Other Information section in the auditor's report in accordance with Table E.

9.8.8. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include an Other Information section.

9.8.9. The auditor shall document the procedures performed in relation to other information and the final version of the other information.

Table E: **Paragraph or Section**	**Location**	**Heading shall include**	**Content shall include**
9.8.10. Other Information Section	A separate section of the auditor's report	"Other Information" or other appropriate title	(a) A statement that management is responsible for the other information; (b) An identification of the other information, if any, obtained by the auditor prior to the date of the auditor's report;

			(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon; (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA for LCE; and (e) When other information has been obtained prior to the date of the auditor's report, either: (i) A statement that the auditor has nothing to report; or (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

10. Audits of Group Financial Statements[44]

Content of this Part

Part 10 sets out the special considerations that apply to an audit of group financial statements.

Scope of this Part

All parts of the ISA for LCE apply to an audit of group financial statements (a group audit). The requirements and guidance in this Part refer to, or expand on, the application of other parts of the ISA for LCE to a group audit.

10.1. Objective

10.1.1. The objective of the auditor is to identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks.

10.2. Planning Activities

10.2.1. In applying Part 5, the auditor shall establish, and update as necessary, the scope, timing and direction of the group audit. In doing so, the auditor shall determine:

(a) The components at which audit work will be performed; and

(b) The resources needed to perform the group audit engagement.

Components

The determination of components at which to perform audit work is a matter of professional judgment. Matters that may influence the auditor's determination include, for example:

- *The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example, newly formed or acquired entities or business units or entities or business units in which significant changes have taken place.*
- *The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.*
- *Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.*
- *The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.*

[44] This Part is as presented in the Exposure Draft *Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)* and will not be discussed in June 2023.

- *The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralizes activities relevant to financial reporting.*

Based on the understanding of the group's organizational structure and information system, the auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the auditor may decide to treat these three legal entities as one component.

Resources

Part 3 requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. The auditor's determination of the resources needed to perform the group audit are a matter of professional judgment and may include the understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof.

10.2.2. If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.

10.3. Materiality

10.3.1. In applying Part 5, when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the auditor shall determine component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality.

The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

The ISA for LCE does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, Part 5 requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. In these circumstances, the auditor may need to consider whether a component performance materiality lower than the amount may be appropriate for those particular classes of transactions, account balances or disclosures.

The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the auditor may take into account in setting component performance materiality include the following:

- *The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).*
- *Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example the nature and extent of misstatements identified at the component in prior audits.*

To address aggregation risk, paragraph 10.3.1. requires component performance materiality to be lower than group performance materiality. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements.

10.4. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

10.4.1. In applying Part 6, the auditor shall obtain an understanding of:

(a) The group's organizational structure and business model, including the locations in which the group has its operations or activities and the extent to which they are similar across the group.

(b) The group's system of internal control, including:

(i) The consolidation process used by the group and consolidation adjustments;

(ii) The nature and extent of commonality of controls; and

(iii) How the group centralizes activities relevant to financial reporting.

10.5. Identifying and Assessing the Risks of Material Misstatement

10.5.1. In applying Part 6, based on the understanding obtained in paragraph 10.4.1. the auditor shall identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

In applying Part 6, the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to 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. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- *Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.*
- *Whether any fraud risk factors or indicators of management bias exist in the consolidation process.*
- *How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.*

- *Responses of those charged with governance of the group, and group management to the auditor's inquiry about whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.*

10.6. Responding to the Assessed Risks of Material Misstatement

10.6.1. In applying Part 7, the auditor shall determine the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components.

In response to the assessed risks of material misstatement, the auditor may determine the following scope of work to be appropriate at a component:

- *Design and perform further audit procedures on the entire financial information of the component;*
- *Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or*
- *Perform specific further audit procedures.*

Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally.

The auditor may determine that the financial information of components can be considered as a single population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way. In such cases, group performance materiality often will be used for purposes of performing these procedures.

Consolidation Process

10.6.2. The auditor shall design and perform further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:

(a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework;

(b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications;

(c) Evaluating whether management's judgments made in the consolidation process give rise to indicators of possible management bias; and

(d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.

The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject *to the same controls to which other financial information is subject. The auditor's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:*

- *Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;*
- *Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;*
- *Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, when applicable, by component management;*
- *Determining whether significant adjustments are properly supported and sufficiently documented; and*
- *Evaluating the reconciliation and elimination of intra-group transactions, unrealized profits, and intra-group account balances.*

10.7. Specific Communication Requirements

Communication with Group Management and Those Charged with Governance of the Group

10.7.1. If fraud has been identified by the auditor, or information indicates that a fraud may exist, the auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

10.7.2. The auditor shall communicate the following matters with those charged with governance:

(a) An overview of the work to be performed at the components of the group.

(b) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.

10.8. Specific Documentation Requirements

10.8.1. In addition to the general documentation requirements (Part 2.5.) for an audit engagement, the auditor shall include in the audit documentation:

(a) The basis for the auditor's determination of components for purposes of planning and performing the group audit.

(b) The basis for the determination of component performance materiality.

APPENDIX 1

Glossary of Terms

See Proposed Appendix 1 - Glossary of Terms[45] for a full list of definitions.

[45] Proposed Appendix 1 will be presented to the Board in the September Board Meeting.

APPENDIX 2

Illustrative Engagement Letter

The following is an illustrative engagement letter of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with [applicable financial reporting framework]. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISA for LCE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 4.5.2).

***

To the appropriate representative of management or those charged with governance of ABC Company:[46]

[*The objective and scope of the audit*]

You[47] have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standard on Auditing Financial Statements of Less Complex Entities (ISA for LCE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[*The responsibilities of the auditor*]

We will conduct our audit in accordance with the ISA for LCE. The ISA for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Understand internal control relevant to the audit 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

[46] The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction

[47] Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances

concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 the ISA for LCE.

[*The responsibilities of management and identification of the applicable financial reporting framework]*[48]

Our audit will be conducted on the basis that [management, and where appropriate, those charged with governance][49] acknowledge and understand that they have responsibility:

(a) For the preparation and fair presentation of the financial statements in accordance with [applicable financial reporting framework];[50]

(b) For such internal control as [management] determines is necessary to enable the preparation of financial statements 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 financial statements 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.

48 For purposes of this illustrative engagement letter it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 4.3.1(b) of this standard are therefore used)

49 Use terminology as appropriate in the circumstances

50 Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework]"

[*Other relevant information*]

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

[Reporting]

[*Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information.*]
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 financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

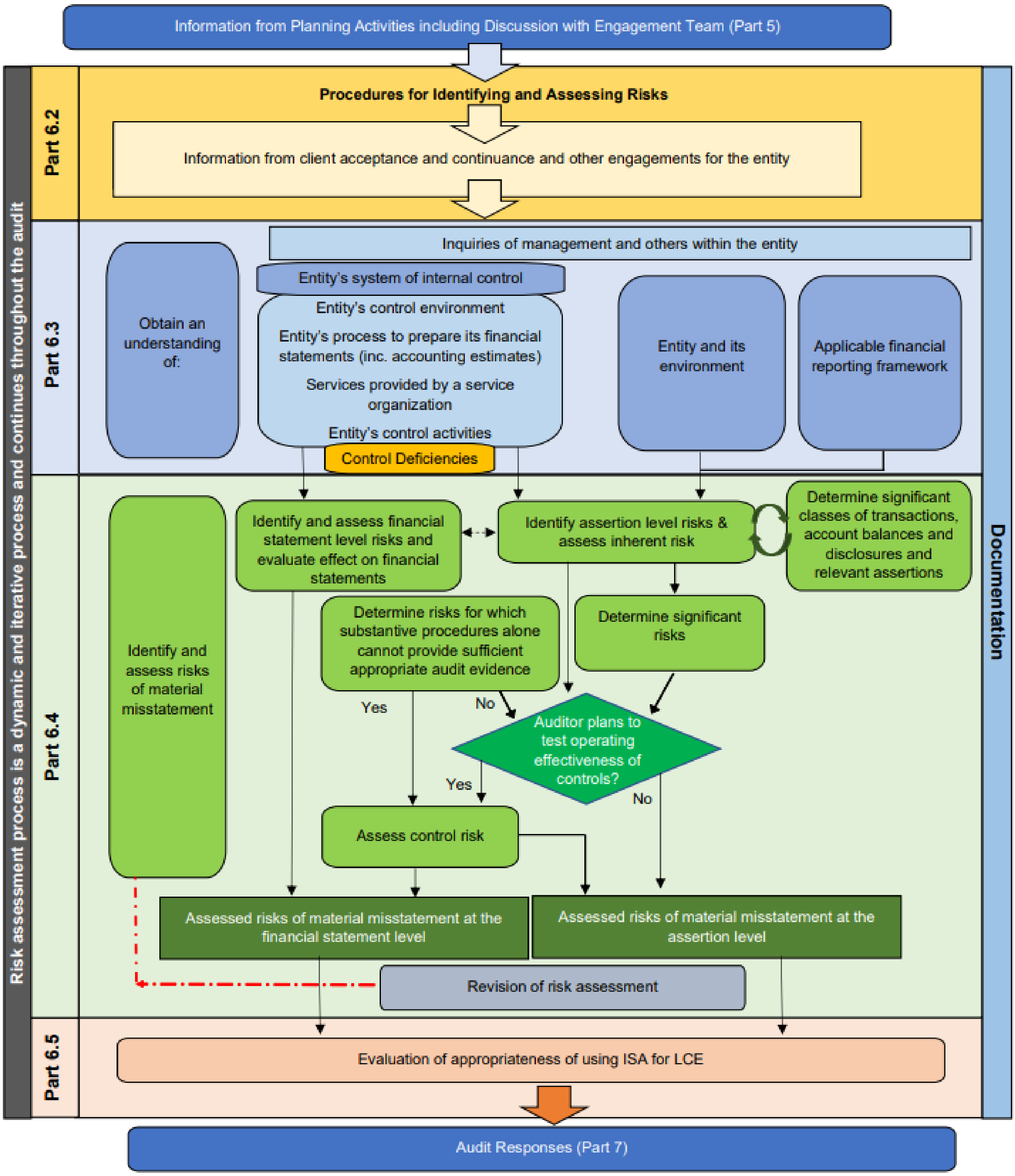
(signed)

....
Name and Title

Date

APPENDIX 3

Identifying and Assessing the Risks of Material Misstatement (Part 6)



APPENDIX 4

Fraud Risk Factors

The fraud risk factors set out below are examples of factors that may be faced by auditors during an audit of less complex entities. Examples are separately presented for the two types of fraud–fraudulent financial reporting and misappropriation of assets.

The risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different sizes or with different ownership characteristics or circumstances. Also, the order of the examples risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as (or as indicated by):

- Significant declines in customer demand or increasing business failures in the industry or overall economy.
- High degree of competition or market saturation, accompanied by declining margins.
- Operating losses causing the threat of bankruptcy or foreclosure.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations.

Pressure exists for management to meet the requirements or expectations of third parties due to:

- Pressure to renew, or obtain additional, financing, or to meet debt repayment or debt covenant requirements and therefore to overstate performance or position in order to demonstrate profitability and long-term viability.
- Pressure to understate revenue in order to reduce tax liabilities.

Opportunities

Opportunities to engage in fraudulent financial reporting that can arise from the following:

- Related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- The monitoring of management is not effective, as a result of the domination of management by a single person or small group (in a non owner-managed business) without compensating controls.
- Internal control components are deficient as a result of the following:
    - Limited segregation of duties or anti-fraud controls (e.g., fraud hotlines, internal audit function.)

- Inadequate monitoring of controls.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Attitudes/Rationalizations

- Poor communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management or owners to justify marginal or inappropriate accounting on the basis of materiality or to help the company survive.
- The relationship between management and the current or predecessor auditor is strained by disputes, unreasonable demands on the auditor, restrictions on access to people or information, or domineering management behavior.

Risk Factors Arising from Misstatements Arising from Misappropriation of Assets

Some of the risk factors related to misstatements arising from fraudulent financial reporting may also be present when misstatements arising from misappropriation of assets occur, which often is a common fraud in less complex entities. For example, ineffective monitoring of management and other deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

- Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.
- Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example:
- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation:

- Large amounts of cash on hand or processed.
- Inventory items that are small in size, of high value, or in high demand.
- Fixed assets which are small in size, marketable, or lacking observable identification of ownership.

Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.

- Inadequate system of authorization and approval of transactions (for example, in purchasing).
- Inadequate record keeping or physical safeguards over cash, inventory, or fixed assets.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of information technology.

Attitudes/Rationalizations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for internal control by overriding existing controls or failing to take appropriate remedial action on known misappropriations, including petty theft.
- Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the employee.

APPENDIX 5

Assertions

In identifying and assessing the risks of material misstatement, the auditor of less complex entities (LCEs) may use the categories of assertions as described below or may express them differently provided all aspects described below have been covered. The auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

An auditor of an LCE may use the following assertions in considering the different types of potential misstatements that may occur. The assertions may fall into the following categories:

Assertions about classes of transactions and events, and related disclosures, for the period under audit:

- Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.
- Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
- Cutoff—transactions and events have been recorded in the correct accounting period.
- Classification—transactions and events have been recorded in the proper accounts.
- Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Assertions about account balances, and related disclosures, at the period end:

- 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 assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
- Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

The assertions described above, adapted as appropriate, may also be used by the auditor in considering the different types of misstatements that may occur in disclosures not directly related to recorded classes of transactions, events or account balances.

APPENDIX 6

Examples of Factors Influencing Sample Size for Tests of Controls and Test of Details

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

Factor Influencing Sample Size for Tests of Controls	**Effect on sample size**
An increase in the extent to which the auditor's risk assessment takes into account plans to test the operating of effectiveness of controls	Increase
An increase in the tolerable rate of deviation	Decrease
An increase in the expected rate of deviation of the population to be tested	Increase
An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population	Increase
An increase in the number of sampling units in the population	Negligible effect

The following are factors that the auditor may consider when determining the sample size for tests of details. These factors, which need to be considered together, assume the auditor does not modify the approach to tests of controls or otherwise modify the nature or timing of substantive procedures in response to the assessed risks.

Factor Influencing Sample Size for Tests of Details	**Effect on sample size**
An increase in the auditor's assessment of the risk of material misstatement	Increase
An increase in the use of other substantive procedures directed at the same assertion	Decrease
An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population	Increase
An increase in tolerable misstatement	Decrease
An increase in the amount of misstatement the auditor expects to find in the population	Increase
Stratification of the population when appropriate	Decrease

APPENDIX 7

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by Part 8.6 of the ISA for LCE. It is assumed in this illustration that the requirement to obtain a written representation relating to 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 Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with [applicable financial reporting framework].

We confirm that:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with [applicable financial reporting framework]; in particular the financial statements are fairly presented (or give a true and fair view) in accordance therewith.
- The methods, the data, and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [applicable financial reporting framework].
- All events subsequent to the date of the financial statements and for which [applicable financial reporting framework] require adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- Any actual or possible litigation and claims whose effects should be considered when preparing the financial statements are accounted for and disclosed in accordance with the applicable financial reporting framework.
- [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 financial statements, 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 accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 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 financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements 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 law or regulation whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 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.
- [Any other matters that the auditor may consider necessary.]

Management   Management

Agenda Item 3–G (Supplemental Paper)

Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Clean Version

This Agenda Item includes a clean version of the first full draft of proposed ISA 240 (Revised).

ISA 240 Requirement	Application Material
Introduction	
Scope of this ISA	
1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200,[1] ISA 220 (Revised),[2] ISA 315 (Revised 2019),[3] ISA 330[4] and ISA 701.[5] [Moved 2nd sentence and combined with paragraph 2(a)]	
Responsibilities of the Auditor, Management and Those Charged with Governance	**Responsibilities of the Auditor, Management and Those Charged with Governance**
Responsibilities of the Auditor	*Responsibilities of the Auditor* (Ref: Para. 2)

[1] International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

[2] ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

[3] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

[4] ISA 330, *The Auditor's Responses to Assessed Risks*

[5] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA 240 Requirement	Application Material
2. The auditor's responsibilities relating to fraud when conducting an audit in accordance with this, and other relevant, ISAs are to: (Ref: Para. A1) (a) Plan and perform the audit to obtain reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud. This includes identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address the assessed risks of material misstatement due to fraud. [Previously paragraph 1A in Agenda Item 5–C December meeting material] [Combined with sentence previously included in paragraph 1] (b) Communicate and report about matters related to fraud.	Considerations Specific to Public Sector Entities A1. The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.
Responsibilities of Management and Those Charged with Governance 3. The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical behavior which can be reinforced by active oversight by those charged with governance.	
Key Concepts in this ISA	**Key Concepts in this ISA** (Ref: Para. 5, 7, 8, 10, 12 and 13)
Characteristics of Fraud	*Characteristics of Fraud* (Ref: Para. 5)

ISA 240 Requirement	Application Material
4. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.	
5. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. (Ref: Para. A2–A6)	A2. Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. **Examples:** • Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target or financial outcome – particularly since the consequences to management for failing to meet financial goals can be significant. Similarly, individuals may have an incentive to misappropriate assets, for example, because the individuals are living beyond their means. • A perceived opportunity to commit fraud may exist when an individual believes internal control can be overridden, for example, because the individual is in a position of trust or has knowledge of specific deficiencies in internal control. • Individuals may rationalize committing a fraudulent act as they may possess an attitude, character or set of ethical values that allow them knowingly and intentionally to commit a dishonest act. However, even otherwise honest individuals can commit fraud in an environment that imposes sufficient pressure on them.

ISA 240 Requirement	Application Material
	A3. Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. It can be caused by the efforts of management to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability. Such earnings management may start out with small actions or inappropriate adjustment of assumptions and changes in judgments by management. Pressures and incentives may lead these actions to increase to the extent that they result in fraudulent financial reporting. Such a situation could occur when, due to pressures to meet market expectations or a desire to maximize compensation based on performance, management intentionally takes positions that lead to fraudulent financial reporting by materially misstating the financial statements. In some entities, management may be motivated to reduce earnings by a material amount to minimize tax or to inflate earnings to secure bank financing. A4. Fraudulent financial reporting may be accomplished by the following: ● Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared. ● Misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information. ● Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure. A5. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud

ISA 240 Requirement	Application Material
	can be committed by management overriding controls using such techniques as intentionally: ● Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives. ● Inappropriately adjusting assumptions and changing judgments used to estimate account balances. ● Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period. ● Omitting, obscuring or misstating disclosures required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation. ● Concealing facts that could affect the amounts recorded in the financial statements. ● Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity. ● Altering records and terms related to significant and unusual transactions. ● Altering reports that would highlight inappropriate activity or transactions. ● Taking advantage of inadequate information processing controls in information technology (IT) applications, including controls over and review of IT application event logs (e.g., modifying the application logic or where users can access a

ISA 240 Requirement	Application Material
	common database using generic access identification, or modify access identification, to conceal activity). A6. Misappropriation of assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect. Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization. **Examples:** Misappropriation of assets can be accomplished in a variety of ways including: ● Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts). ● Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment). ● Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees). ● Using an entity's assets for personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).

ISA 240 Requirement	**Application Material**
Fraud or Suspected Fraud 6. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. While the auditor may suspect or identify the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred.	Fraud or Suspected Fraud (Ref: Para. 7)
7. Fraud or suspected fraud may be identified during the audit when performing audit procedures in accordance with this and other ISAs. Allegations of fraud may also come to the attention of the auditor during the course of the audit. (Ref: Para. A7–A10)	A7. Audit evidence obtained when performing risk assessment procedures and further audit procedures may indicate the existence of fraud or suspected fraud. **Examples:** • When performing risk assessment procedures, the auditor observed that the entity had a substantial volume of small, expensive inventory items that resulted in a fraud risk factor being identified relating to the misappropriation of assets. • When performing further audit procedures to obtain audit evidence to respond to the assessed risk of material misstatement due to fraud, audit evidence was obtained that identified the misappropriation of inventory by employees. A8. Other audit procedures that are performed to comply with the ISAs may also bring instances of fraud or suspected fraud to the auditor's attention such as those performed in accordance with ISA 600 (Revised [6] when responding to assessed risks of material misstatement due to fraud arising from the consolidation process.

[6] ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 38(d)

ISA 240 Requirement	Application Material
	A9. The auditor may use automated tools and techniques to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud or when responding to assessed significant risks. In such circumstances, the use of technology may be beneficial by providing the auditor with, for example, deeper insights into large data sets at an entity that operates in a decentralized manner, or the ability to perform audit procedures related to journal entry testing in a more efficient and effective manner. However, using automated tools and techniques does not replace the exercise of professional judgment and the importance of maintaining professional skepticism especially when undertaking work and drawing conclusions about fraud in an audit of the financial statements. A10. For the purpose of this ISA, allegations of fraud by another party, are treated as suspected fraud once the auditor has been made aware of such allegations. Accordingly, the auditor performs audit procedures to address the suspected fraud.
Nature of the Circumstances Giving Rise to the Fraud and the Identified Misstatements 8. The auditor's determination of whether a fraud is material to the financial statements involves the exercise of professional judgment. Judgments about whether fraud could cause a material misstatement involve consideration of the nature of the circumstances giving rise to the fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)	Nature of the Circumstances Giving Rise to the Fraud and the Identified Misstatements (Ref: Para. 8) A11. The qualitative considerations of the auditor may vary for identified misstatements that are less than materiality determined in quantitative terms for the financial statements as a whole, for example, the auditor may consider: (a) Who has instigated or perpetrated the fraud – a fraud perpetrated by a key member of management may be considered material irrespective of the amount involved. This may in turn give rise to concerns about the integrity of management responsible for the entity's system of internal control.

ISA 240 Requirement	Application Material
	(b) Why the fraud was perpetrated – misstatements that are not material quantitatively, either individually or in the aggregate, may have been made intentionally to "manage" key performance indicators that need to be met in order for the entity to conduct its business according to specific laws or regulations. In such instances, the auditor's responsibilities in accordance with ISA 250 (Revised)[7] also apply.
Inherent Limitations 9. While the risk of not detecting a material misstatement resulting from fraud may be higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance.[8]	*Inherent Limitations* (Ref: Para. 10)
10. Because of the significance of the inherent limitations as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.[9] However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.[10] (Ref: Para. A12)	A12. The risk of not detecting a material misstatement resulting from fraud exists 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. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency

7 ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

8 ISA 200, paragraph 5

9 ISA 200, paragraphs A53-A54

10 ISA 200, paragraph A54

ISA 240 Requirement	Application Material
	and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. [Previously paragraph A5A in the Agenda 5–C December meeting material]
[Previously paragraph 6 in Agenda Item 5–C December meeting material] [Deleted]	[Previously paragraph A5A in Agenda Item 5–C December meeting material] [Moved to paragraph A12]
11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override controls designed to prevent similar frauds by other employees.	
Professional Skepticism and Professional Judgment 12. In accordance with ISA 200,[11] the engagement team is required to plan and perform the audit with professional skepticism and to exercise professional judgment. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when fraud or suspected fraud is identified. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. ISA 220 (Revised)[12] requires the engagement partner to take responsibility for	*Professional Skepticism and Professional Judgment* (Ref: Para. 12) A13. ISQM 1[13] requires the firm to design, implement and operate a system of quality management for audits of financial statements. The firm's commitment to an effective system of quality management underpins the requirement for the auditor to exercise professional skepticism when performing the audit engagement. This commitment is recognized and reinforced in the governance and leadership component, including a: (a) Commitment to quality by the leadership of the firm, such as the tone at the top by leadership contributes to the firm's culture

11 ISA 200, paragraphs 15-16

12 ISA 220 (Revised), paragraph 14

13 International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audit or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

ISA 240 Requirement	Application Material
clear, consistent and effective actions to be taken that reflect the commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing the importance of each engagement team member maintaining professional skepticism throughout the audit engagement. (Ref: Para. A13–A14)	which in turn supports and encourages the auditor to focus on the auditor's responsibilities relating to fraud in an audit of financial statements. (b) Recognition that the resource needs are planned for and resources obtained, are allocated or assigned in a manner that is consistent with the firm's commitment to quality, such as resources with the appropriate specialized knowledge and skills that may be needed when performing audit procedures related to fraud in an audit of financial statements. A14. ISQM 1[14] also explains that the quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an inquiring mind. [Previously paragraph A5A in Agenda Item 5–C December meeting material] [Moved to paragraph A25(a)]
[Previously paragraph 8AB in Agenda Item 5–C December meeting material] [Moved to paragraph 20]	
[Previously paragraph 8B in Agenda Item 5–C December meeting material] [Moved to paragraph A21]	
[Previously paragraph 8C in Agenda Item 5–C December meeting material] [Moved to paragraph A22]	
Non-Compliance with Laws and Regulations 13. If the auditor identifies fraud or suspected fraud, the auditor may have additional responsibilities under law, regulation or relevant ethical	*Non-Compliance with Laws and Regulations* (Ref: Para. 13) A15. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For

[14] ISQM 1, paragraph A31

ISA 240 Requirement	Application Material
requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other ISAs, such as: (Ref: Para. A15) (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed; (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements), or reporting such non-compliance to an appropriate authority outside the entity (e.g., regulatory, enforcement or supervisory authorities); and (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations. ISA 250 (Revised) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. Complying with this responsibility and any additional responsibilities relating to relevant ethical requirements may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).	example, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) requires the group engagement partner to take steps to respond to identified or suspected non-compliance with laws and regulations in the context of an audit of group financial statements and determine whether further action is needed. Such steps may include to have the matter communicated to those performing audit work at the components, legal entities or business units that are part of a group for purposes other than the group audit for example a statutory audit, unless prohibited from doing so by law or regulation.[15]
Relationship with Other ISAs	**Relationship with Other ISAs** (Ref: Para. 14)

[15] For example, paragraphs R360.16–R360.18 A1 of the IESBA Code provide requirements and application material relating to communication with respect to groups.

ISA 240 Requirement	Application Material
14. Some ISAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other ISAs expand upon how this ISA is applied. (Ref: Para. A16)	A16. **Appendix 5** identifies other ISAs that address specific topics that reference fraud or suspected fraud.
Effective Date	
15. This ISA is effective for audits of financial statements for periods beginning on or after [*DATE*].	
Objectives	
16. The objectives of the auditor are: (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; (c) To respond appropriately to fraud or suspected fraud identified during the audit; and (d) To report in accordance with this ISA.	
Definitions	**Definitions** (Ref: Para. 17)
17. For purposes of the ISAs, the following terms have the meanings attributed below:	*Relationship of Fraud with Corruption, Bribery and Money Laundering* (Ref: Para. 17(a))

ISA 240 Requirement	Application Material
(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. (Ref: Para. A17–A20) (b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. (Ref: Para. A21–A22)	A17. Corruption, bribery and money laundering are forms of illegal or unethical acts that may be associated with acts of deception to obtain an unjust or illegal advantage. In particular, corruption, bribery, and money laundering may also be carried out to facilitate or conceal fraudulent activities. **Examples:** • Corruption – Management receives an illegal payment for the selection of a specific supplier to provide equipment for the entity. • Bribery – Management offers inducements to employees for concealing the misappropriation of assets by management. • Money laundering – An employee launders money obtained from embezzling payments for fictitious purchases of inventory through the creation of false purchase orders, vendor shipping documents, and vendor invoices. A18. While the auditor may suspect or identify the occurrence of corruption, bribery or money laundering, the auditor does not make legal determinations of whether such acts have actually occurred. A19. Depending on the nature and circumstances of the entity, certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be relevant to the auditor's responsibilities to consider laws and regulations in an audit of financial statements in accordance with ISA 250 (Revised).[16] *Third-Party Fraud* (Ref: Para. 17(a))

[16] ISA 250 (Revised), paragraphs 6 and A6

ISA 240 Requirement	Application Material
	A20. Fraud or suspected fraud committed against the entity by customers, suppliers, service providers, or other external parties is generally described as third-party fraud. **Examples:** • Management's lack of oversight over significant business processes outsourced to a third-party service provider may create opportunities for the third-party service provider to engage in fraudulent activities affecting the entity. • Cybersecurity risks may create opportunities for external parties that are completely unknown to the entity to gain unauthorized access to the entity's data (e.g., steal customer related intangible assets). *Fraud Risk Factors* (Ref: Para. 17(b)) A21. In applying ISA 315 (Revised 2019)[17] when identifying and assessing the risks of material misstatement whether due to fraud or error, the auditor obtains an understanding of how inherent risk factors affect the susceptibility of assertions to misstatement, which includes the susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk. [Previously paragraph 8B in Agenda Item 5–C December meeting material] A22. Fraud risk factors may relate to incentives, pressures or opportunities that arise from events or conditions that create susceptibility to misstatement, before consideration of controls. Fraud risk factors, which include intentional management bias, are, insofar as they affect inherent risk, inherent risk factors. Fraud risk factors may also relate

[17] ISA 315 (Revised 2019), paragraphs 12(f) and 19(c)

ISA 240 Requirement	Application Material
	to events or conditions that may exist in the entity's system of internal control that provide an opportunity to commit fraud and may be an indicator that other fraud risk factors are present. [Previously paragraph 8C in Agenda Item 5–C December meeting material]
Requirements	
Professional Skepticism	**Professional Skepticism** (Ref: Para. 18–20)
18. In accordance with ISA 200,[18] the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Ref: Para. A23–A26)	A23. Maintaining professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as audit evidence and identified controls in the control activities component, if any, over its preparation and maintenance. Due to the characteristics of fraud, the auditor's professional skepticism is particularly important when considering the risks of material misstatement due to fraud. A24. Although the auditor cannot be expected to disregard past experience of the perceived honesty and integrity of the entity's management and those charged with governance, the auditor's professional skepticism is particularly important in considering the risks of material misstatement due to fraud because there may have been changes in circumstances. A25. As explained in ISA 220 (Revised):[19] (a) Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the

[18] ISA 200, paragraph 15

[19] ISA 220 (Revised), paragraphs A33-35

ISA 240 Requirement	Application Material
	appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. For example, a lack of cooperation or undue pressures imposed by management may negatively affect the engagement team's ability to resolve complex or contentious issues and may indicate the presence of fraud risk factors. [Previously paragraph A5C in Agenda Item 5–C December meeting material] (b) Unconscious auditor bias may impede the exercise of professional skepticism, and therefore the reasonableness of professional judgments made by the engagement team.[20] For example, the auditor may tend to evaluate audit evidence as less relevant and reliable when it contradicts the assertions in the financial statements (confirmation bias) and was received subsequent to audit evidence that corroborates the assertions (anchoring bias). This may occur when audit evidence is obtained near the end of the audit that is inconsistent with other audit evidence obtained in response to a risk of material misstatement due to fraud. The auditor may need to take explicit action to mitigate auditor bias when evaluating the sufficiency and appropriateness of audit evidence. A26. ISA 220 (Revised)[21] provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.
19. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a	A27. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such

[20] Paragraph R112.1 of the IESBA Code requires that that the accountant, when complying with the principle of objectivity, exercise professional judgment without being compromised by bias.

[21] ISA 220 (Revised), paragraph A36

<table>
<tr><th>ISA 240 Requirement</th><th>Application Material</th></tr>
<tr><td>document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A27–A28)</td><td>information. Authenticity is an attribute that may be considered by the auditor in considering the reliability of the information intended to be used as audit evidence. In doing so, the auditor may consider whether the source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered. Irrespective of the auditor's consideration of the authenticity of the information intended to be used as audit evidence, the auditor is not trained as, or expected to be, an expert in the authentication of records or documents.[22] However, when the auditor identifies conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible procedures to investigate further may include:
• Confirming directly with the third party.
• Using the work of an expert to assess the document's authenticity.

Examples:
Conditions that may indicate a document is not authentic include:
• Unexplained alterations to documents received from external sources.
• Serial numbers used out of sequence or duplicated.
• Addresses and logos not as expected.
• Document style different to others of the same type from the same source (for example, changes in fonts and formatting).</td></tr>
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22 ISA 200, paragraph A52

ISA 240 Requirement	Application Material
	• Information that would be expected to be included is absent. • Invoice references or descriptors that differ from other invoices received from the entity. • Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (for example, purchase costs that appear unreasonable for the goods or services being charged for). • Information that appears implausible or inconsistent with the auditor's understanding and knowledge. • A change from authorized signatory. • "Copy" documents presented rather than originals. • Electronic documents with a last edited date that is after the date they were represented as finalized. A28. The auditor may use automated tools and techniques to identify conditions that indicate a document is not authentic or has been altered, such as document authenticity or integrity technology.
[Previously paragraph 15 in Agenda Item 5–C December meeting material] [Covered by paragraph 38(a)]	
20. The auditor shall remain alert throughout the audit engagement for information about fraud, suspected fraud or alleged fraud. (Ref: Para. A29–A30B) [Previously paragraph 8AB in Agenda Item 5–C December meeting material]	A29. The manner in which information about fraud, suspected fraud or alleged fraud that affects the entity, comes to the auditor's attention throughout the audit may vary. For example, fraud or suspected fraud may be identified by:

ISA 240 Requirement	Application Material
	• The auditor during the audit engagement (e.g., when performing audit procedures in accordance with ISA 550,[23] the auditor becomes aware of the existence of a related party relationship that management intentionally did not disclose to the auditor). • Individuals in the internal audit function (e.g., when individuals conduct the annual compliance procedures related to the entity's system of internal control). • Those charged with governance (e.g., when members of the audit committee conduct an independent investigation of unusual journal entries or other adjustments). For example, alleged fraud may be identified when: • An employee files a tip using the entity's whistleblower program. • A former employee sends a complaint via electronic mail to the internal audit function. A29A. **Appendix 3** contains examples of circumstances that may be indicative of fraud. [Moved from paragraph A162] A30. Remaining alert for information about fraud, suspected fraud, or alleged fraud throughout the audit is important, including when performing audit procedures near the end of the audit when time pressures to complete the audit engagement may exist. In such circumstances, information may be obtained that may call into question the reliability of audit evidence obtained or cast doubt on the integrity of management and those charged with governance.

[23] ISA 550, *Related Parties*

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	Examples: Information that may be indicators that fraud or suspected fraud may exist includes: • Audit evidence that is inconsistent with other audit evidence. • Information about overly optimistic projections obtained from listening to the entity's earnings calls with analysts or by reading analysts' research reports that is contrary to information presented in the entity's internal forecasts used for budgeting purposes. • Non-responses to a positive confirmation request, or a confirmation request returned undelivered. • Management's refusal to: ○ Provide a requested written representation. ○ Allow the auditor to send a confirmation request. ○ Allow a discussion between the auditor and management's third-party expert (e.g., an expert in taxation law) regarding a material post-close journal entry (e.g., transaction recorded based on tax advice received relating to an aggressive tax planning strategy). ○ Correct a material misstatement of the other information included in the entity's annual report. A30A. When performing audit procedures at, or near the end of the audit engagement, circumstances may be encountered, such as time pressures imposed on members of the engagement team, that may impede the exercise of professional skepticism or may create threats

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	to compliance with relevant ethical requirements. ISA 220 (Revised)[24] discusses that relevant ethical requirements, for example the IESBA Code, may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with.[25] A30B. The auditor may also address the threat to compliance with relevant ethical requirements, such as the principle of integrity, by communicating timely with those charged with governance, about the circumstances giving rise to the threat. This communication may include a discussion about any inconsistencies in audit evidence obtained at, or near the end of the audit for which a satisfactory explanation has not been provided by management.
21. If any fraud or suspected fraud is identified, the auditor shall perform the additional audit procedures in accordance with paragraphs 54–63.	
Engagement Resources	**Engagement Resources** (Ref: Para. 22)
22. In applying ISA 220 (Revised),[26] the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond	A31. The nature, timing and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and information technology (IT) experts, may vary throughout the audit. **Examples:**

[24] ISA 220 (Revised), paragraph A44

[25] For example, paragraphs R111.1 and R113.1 of the IESBA Code require the accountant to be straightforward and diligent when complying with the principles of integrity, and professional competence and due care, respectively. Paragraph 111.1A1 of the IESBA Code explains that integrity involves having the strength of character to act appropriately, even when facing pressure to do otherwise. Paragraph 113.1 A3 of the IESBA Code explains that acting diligently also encompasses performing an assignment carefully and thoroughly in accordance with applicable technical and professional standards. These ethical responsibilities are required irrespective of the pressures being imposed, explicitly or implicitly, by management.

[26] ISA 220 (Revised), paragraphs 25-28

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to those risks, or evaluate the audit evidence obtained. (Ref: Para. A31–A34)	Matters that, individually or collectively, may affect the engagement partner's determination of whether specialized skills or knowledge are needed, include: • The entity is investigating fraud or suspected fraud that may have a material effect on the financial statements (e.g., when it involves senior management). For example, an individual with forensic skills may assist in planning and performing audit procedures as it relates to the specific audit area where the fraud or suspected fraud was identified. • The entity is undergoing an investigation by an authority outside the entity for fraud or suspected fraud, or for instances of non-compliance or suspected non-compliance with laws and regulations that may have a direct or indirect material effect on the financial statements. For example, an expert with regulatory experience in the relevant jurisdiction may assist with identifying those aspects of the non-compliance or suspected non-compliance that may have a financial statement impact. • The entity is in the process of offering its securities to the public for the first time (i.e., initial public offering) and applying to list its shares on a recognized stock exchange. This may create pressures to omit or obscure required disclosures that may negatively affect the entity's initial public offering price (e.g., pending litigation or regulatory approvals). For example, an individual with legal expertise may assist in reviewing disclosures in securities offering documents such as prospectuses. • The complexity of the entity's organizational structure and related party relationships, including the creation of special

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	purpose entities, may present an opportunity for management to misrepresent the financial position or financial performance of the entity. For example, an expert in taxation law may assist in understanding the business purpose and activities or business units within complex organizations, including how its structure for tax purposes may be different from its operating structure. • The complexity of the industry or regulatory environment in which the entity operates may present an opportunity or pressure for management to engage in fraudulent financial reporting. For example, an individual specializing in bribery and corruption practices in a specific emerging markets may assist in identifying where the financial statements may be susceptible to risks of material misstatement due to fraud. • The complexity of contractual terms may present an opportunity for management (or a third party) to make false representations that are intended to induce a third party (or management) to agree to the terms of the contract. For example, an individual with legal expertise may assist in reviewing contracts for unclear or ambiguous language the purpose of which is to conceal false representations. • The use of complex financial instruments or other complex financing arrangements may present an opportunity to inadequately disclose the risks and nature of complex structured products. For example, a valuation expert may assist in understanding the product's structure, purpose, underlying assets and market conditions, which may highlight fraud risk factors such as discrepancies between

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	market conditions and the valuation of the structured product. A32. Forensic skills, in the context of an audit of financial statements, may combine accounting, auditing and investigative skills. Such skills are applied in an investigation and evaluation of an entity's accounting records to derive possible evidence of fraudulent financial reporting or misappropriation of assets, or in performing audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting. **Examples:** Forensic skills may include specialized skills or knowledge in: • Identifying and evaluating fraud risk factors. • Identifying and assessing the risks of material misstatement due to fraud. • Evaluating the effectiveness of controls implemented by management to prevent or detect fraud. • Analyzing the authenticity of information intended to be used as audit evidence. • Gathering, analyzing and evaluating information or data to identify links, patterns, or trends that may be indicative of fraud. • Applying knowledge in fraud schemes, and techniques for interviews, information gathering and data analytics, in the detection of fraud.

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	• Interviewing techniques used in discussing sensitive matters with management and those charged with governance. • Analyzing financial and non-financial information by using techniques to look for inconsistencies, unusual patterns, or anomalies that may indicate intentional management bias or that may be the result of management overriding controls. A33. In determining whether the engagement team has the appropriate competence and capabilities, the engagement partner may consider matters such as expertise in IT systems or IT applications used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit (e.g., such as the testing of journal entries and other adjustments, or accounting estimates). A34. ISA 220 (Revised) [27] explains that the engagement partner's determination of whether additional engagement level resources are required to be assigned to the engagement team is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement, taking into account any changes that may have arisen during the engagement.
Engagement Performance	**Engagement Performance** (Ref: Para. 23–24)
23. In applying ISA 220 (Revised),[28] the engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work, taking account the: (Ref: Para. A35–A36)	A35. The engagement partner may respond to identified risks of material misstatement due to fraud by, for example, assigning additional individuals with specialized skills or knowledge, such as forensic and IT experts, assigning more experienced individuals to the

27 ISA 220 (Revised), paragraph A77

28 ISA 220 (Revised), paragraph 29

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(a) Skills, knowledge, and experience of the individuals to be given significant engagement responsibilities; and (b) Risks of material misstatement due to fraud identified and assessed in accordance with ISA 315 (Revised 2019). [Previously paragraph 30(a) in Agenda Item 5–C December meeting material]	engagement team, or changing the composition of the engagement team so that more experienced members of the engagement team conduct certain audit procedures for those specific audit areas that require significant auditor attention. [Previously paragraphs A35 and A23Ca bullet #2 (last part of the sentence) in Agenda Item 5–C December meeting material, combined] A36. The extent of supervision of members of the engagement team reflects the assessment of the risks of material misstatement due to fraud and the competencies and capabilities of the engagement team members assigned to perform the work. [Previously paragraph A36 in Agenda Item 5–C December meeting material]
24. In applying ISA 220 (Revised),[29] the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement. In making this determination, the engagement partner shall consider matters identified during the course of the audit engagement, including: (Ref: Para. A37–A38) (a) Events or conditions that have subsequently been identified that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (i.e., additional fraud risk factors are present); (Ref: Para. A39) (b) Fraud, suspected fraud, or alleged fraud; and (c) Control deficiencies related to the prevention or detection of fraud.	A37. ISA 220 (Revised)[30] explains that the identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing or extent of direction, supervision or review. This may include changes that affect the susceptibility of the financial statements to material misstatement due to fraud. **Example:** During the audit engagement, new information came to the engagement team's attention regarding related party transactions that resulted in an additional risk of material misstatement due to fraud being identified. As a result, the engagement partner modified the nature, timing and extent of direction, supervision and review by greater in-person oversight and more in-depth review of certain working papers. The engagement partner also updated the audit plan to reflect the changes to the risk assessment procedures and

29 ISA 220 (Revised), paragraph 30(b)

30 ISA 220 (Revised), paragraph A96

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	the extent of oversight and review of working papers as required by ISA 300.[31]
	A38. Depending on the nature and circumstances of the audit engagement, the engagement partner's approach to direction, supervision and review may include increasing the extent and frequency of the engagement team discussions. A39. Circumstances where it may be beneficial to hold additional discussions among the engagement team members at a later stage in the audit include: • Changes in existing business activity or performance (e.g., decrease in operating cashflows of an entity arising from economic conditions resulting in increased pressure internally by management to meet publicly disclosed earnings targets). • Unexpected changes in the senior management of the entity (e.g., the chief financial officer resigns, with no explanation given for the sudden departure, providing an opportunity for other employees in the treasury department to commit fraud given the lack of senior management oversight).
Ongoing Nature of Communications with Management and Those Charged with Governance	**Ongoing Nature of Communications with Management and Those Charged with Governance** (Ref: Para. 25)
25. The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement. (Ref: Para. A40–A44)	A40. Robust two-way communication between management or those charged with governance, and the auditor assists in identifying and assessing the risks of material misstatement due to fraud. A41. The extent of the auditor's communications with management and those charged with governance depends on the fraud-related facts

31 ISA 300, *Planning an Audit of Financial Statements*, paragraphs 10-11

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	and circumstances of the entity, and the progress and outcome of the fraud-related audit procedures performed in the audit engagement. A42. The appropriate timing of the communications may vary depending on the significance and nature of the fraud-related matters, and the expected action(s) to be taken by management or those charged with governance. **Examples:** • Making the required inquiries of management and those charged with governance about matters referred to in paragraphs 31(c)–31(d) and 32(b) may be performed early in the audit engagement as part of the auditor's communications regarding planning matters. • When ISA 701 applies, the auditor may communicate preliminary views about key audit matters related to fraud risks when discussing the planned scope and timing of the audit. • It may be appropriate to have specific discussions with management and those charged with governance about matters related to fraud risks on a timely basis, as relevant audit evidence is obtained based on the auditor's evaluation of the components of the entity's system of internal control and assessment of the risks of material misstatement due to fraud. These discussions may form part of the auditor's communications on significant findings from the audit. • Communicating significant deficiencies in internal control (including those that are relevant to the prevention or detection of fraud) with the appropriate level(s) of management and those charged with governance on a

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	timely basis in accordance with ISA 265[32] may assist them in taking necessary and timely remedial actions. *Assigning Appropriate Member(s) within the Engagement Team When Communicating with Management and Those Charged with Governance* A43. ISA 220 (Revised)[33] deals with the engagement partner's overall responsibility with respect to engagement resources and engagement performance. Assigning members of the engagement team with the appropriate competence and capabilities and providing appropriate levels of direction, supervision and review of their work is also important for the required communications in accordance with this ISA. This includes involving appropriately skilled or suitably experienced members of the engagement team when communicating with management and those charged with governance. A44. ISA 220 (Revised)[34] deals with the engagement partner's responsibility to make members of the engagement team aware of the relevant ethical requirements, including independence. This is important especially for those members of the engagement team who will be engaging with management and those charged with governance about fraud-related matters to consider the content of the communications and the manner in which such communications are to be conducted.[35]

32 ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

33 ISA 220 (Revised), paragraphs 25-28 and 29-34

34 ISA 220 (Revised), paragraph 17

35 For example, paragraph R111.1 of the IESBA Code requires compliance with the principle of integrity. Paragraph 111.1 A2 explains that acting with integrity involves standing one's ground when confronted by dilemmas and difficult situations; or challenging others as and when circumstances warrant in a manner appropriate to the circumstances.

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Risk Assessment Procedures and Related Activities	**Risk Assessment Procedures and Related Activities** (Ref: Para. 26)
26. In applying ISA 315 (Revised 2019),[36] the auditor shall perform the procedures in paragraphs 30–36 to obtain audit evidence that provides an appropriate basis for the: (Ref: Para. A45–A46) (a) Identification and assessment of risks of material misstatement due to fraud, at the financial statement and assertion levels, taking into account fraud risk factors; and (b) Design of further audit procedures in accordance with ISA 330.	A45. ISA 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ISA refer to, or expand on, what is required by ISA 315 (Revised 2019). A46. As explained in ISA 315 (Revised 2019),[37] obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analyzing information and continues throughout the audit. Therefore, the auditor's expectations with respect to risks of material misstatements due to fraud may change as new information is obtained.
Information from Other Sources 27. In applying ISA 315 (Revised 2019),[38] the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. (Ref: Para. A47–A48)	*Information from Other Sources* (Ref: Para. 27) A47. Information obtained from other sources may be relevant to the identification of fraud risk factors by providing information and insights about:

[36] ISA 315 (Revised 2019), paragraph 13

[37] ISA 315 (Revised 2019), paragraph A48

[38] ISA 315 (Revised 2019), paragraphs 15–16

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	• The entity and the industry in which the entity operates, and its related business risks that may create pressures on the organization to meet targeted financial results. • Management's commitment to integrity and ethical values, including management's commitment to remedy known significant deficiencies in internal control on a timely basis. • Complexity in the application of the applicable financial reporting framework due to the nature and circumstances of the entity that may create opportunities for management to perpetrate and conceal fraudulent financial activity. A48. In some circumstances, subject to law, regulation or relevant ethical requirements, the proposed successor auditor may request the predecessor auditor to provide information regarding identified or suspected fraud. Such information may give an indication of the presence of fraud risk factors or may give an indication of fraud or suspected fraud.
Retrospective Review of the Outcome of Previous Significant Accounting Estimates 28. In applying ISA 540 (Revised),[39] the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous significant accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. [Previously paragraph 33(b)(ii) in Agenda Item 5–C December meeting material]	[Previously paragraph A47 in Agenda Item 5–C December meeting material] [Deleted] [Previously paragraph A48 in Agenda Item 5–C December meeting material] [Deleted]

[39] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14

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Engagement Team Discussion
29. In applying ISA 315 (Revised 2019),[40] when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (Ref: Para. A49–A49B and A52)
(a) An exchange of ideas about fraud risk factors, including: (Ref: Para. A50–A51)
(i) Incentives for management, those charged with governance or employees to commit fraud;
(ii) How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and
(iii) How assets of the entity could be misappropriated.
[Previously paragraph A23Cb bullet #1 in Agenda Item 5–C December meeting material]
(b) A consideration of any:
(iv) Fraud that has occurred at the entity during the current or prior years that has an effect on the entity's financial statements of which engagement team members have been notified, including how such fraud may impact the
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Engagement Team Discussion (Ref: Para. 29)
A49. As explained in ISA 220 (Revised),[41] the engagement partner is responsible for creating an environment that emphasizes the importance of open and robust communication within the engagement team. The two-way engagement team discussion enables the engagement team members to share insights in a timely manner based on their skills, knowledge and experience about how and where the financial statements may be susceptible to material misstatement due to fraud. [Bullet #1 of previous paragraph A23Ca in Agenda Item 5–C December meeting material repurposed]
• [Bullet #2 of previous paragraph A23Ca in Agenda Item 5–C December meeting material:
First part of the sentence moved to paragraph A52 (bullet #3)
Last part of sentence moved to paragraph A35]
• [Bullet #3 of previous paragraph A23Ca in Agenda Item 5–C December meeting material:
First part of the sentence deleted, covered by ISA 315 (Revised 2019) paragraph A42 last bullet)
Last part of sentence moved to paragraph 29(b)(ii)]
A49A. Individuals who have specialized skills or knowledge, such as forensic and IT experts, may attend the engagement team discussion to provide deeper insights about the susceptibility of the entity's financial statements to material misstatement due to fraud. The involvement and contributions of experts with specialized skills or
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40 ISA 315 (Revised 2019), paragraphs 17 and A42-A43

41 ISA 220 (Revised), paragraph 14

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overall strategy and audit plan for the audit engagement; and [New] (v) Allegations of fraud that have come to the attention of engagement team members, including how to respond to these allegations. [First part of sentence is from previous paragraph A23Cb bullet #11 in Item 5–C December meeting material; last part of sentence is from previous paragraph A23Ca bullet #3 in Agenda Item 5–C December meeting material]	knowledge may elevate the quality of the discussion taking place. [New] A49B. In certain circumstances an individual with expertise in a specialized area participating in the engagement team discussion may not be a member of the engagement team if that individual's involvement with the engagement is limited to consultation. ISA 220 (Revised)[42] explains that consultation outside the engagement team on a difficult or contentious matter may be an indicator the matter is a key audit matter. [New] A50. The exchange of ideas is intended to identify events or conditions that may indicate the presence of fraud risk factors. The following approaches may be useful to facilitate the exchange of ideas: • 'What-if' scenarios – may be helpful when discussing whether certain events or conditions create an environment at the entity where one or more individuals among management, those charged with governance, employees, or third parties have the incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act, and if so, how the fraud may occur. [New] • Automated tools and techniques – may be used to support the discussion about the susceptibility of the entity's financial statements to material misstatement due to fraud, including techniques that further the understanding of incentives and pressures, such as industry or sector financial ratio benchmarking which may indicate adverse ratios or trends compared to competitors. [New]

42 ISA 220 (Revised), paragraph A102

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	A51. The exchange of ideas may include, among other matters, whether: • The interactions, as observed by the engagement team, among management (e.g., between the chief executive officer and the chief financial officer) or between management and those charged with governance may indicate a lack of cooperation or mutual respect among the parties. This circumstance in turn may be indicative of an environment that is conducive to the existence of fraud. [New] • Any unusual or unexplained changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team may indicate the possibility of fraudulent activity. [Bullet #6 of previous paragraph A23Cb in Agenda Item 5–C December meeting material] • Known information about frauds impacting other entities that resulted in the misstatement of the financial statements of those entities, such as entities in the same industry or geographical region, may be indicative of risks of material misstatement due to fraud for the entity being audited. [New] • Available information may indicate non-compliance with laws or regulations (e.g., payments of bribes may be a common occurrence in certain industries or geographical regions). [New] • Disclosures, or lack thereof, may be used by management to provide misleading information that may obscure a proper understanding of the entity's financial statements (e.g., by including too much immaterial information, by using unclear or ambiguous language, or by a lack of disclosures such as those disclosures relating to off-balance sheet financing arrangements or leasing arrangements). [Bullet #3 of previous

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	paragraph A23Cb in Agenda Item 5–C December meeting material] • Events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern or may indicate the existence of related party relationships and transactions that may be relevant to the identification and assessment of the risks of material misstatement due to fraud. [New] • [Bullet #1 of previous paragraph A23Cb in Agenda Item 5–C December meeting material moved to paragraph 29(a)] • [Bullet #2 of previous paragraph A23Cb in Agenda Item 5–C December meeting material deleted covered pervasively throughout proposed ISA 240 (Revised) in requirements and application material, including paragraph 30] • [Bullet #4 of previous paragraph A23Cb in Agenda Item 5–C December meeting material deleted covered by paragraphs 30(a)(iii) and A59-A61] • [Bullet #5 of previous paragraph A23Cb in Agenda Item 5–C December meeting material deleted covered by paragraph 29(a)(iii)] • [Bullet #7 of previous paragraph A23Cb in Agenda Item 5–C December meeting material moved to paragraph A52 (bullet #1)] • [Bullet #8 of previous paragraph A23Cb in Agenda Item 5–C December meeting material deleted covered by paragraphs 29(a) and A50]

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	• [Bullet #9 of previous paragraph A23Cb in Agenda Item 5–C December meeting material moved to paragraph A52 bullet #3 and covered by paragraph 44] • [Bullet #10 of previous paragraph A23Cb in Agenda Item 5–C December meeting material moved to paragraph A52 bullet #3] • [Bullet #11 of previous paragraph A23Cb in Agenda Item 5–C December meeting material moved to paragraph 29(b)(ii)] • [Bullet #12 of previous paragraph A23Cb in Agenda Item 5–C December meeting material deleted covered by paragraphs 42 and 48] [NOTE: Certain bullets in extant ISA 240 have been reordered] A52. The engagement partner and other key engagement team members participating in the engagement team discussion may also, as applicable, use this as an opportunity to: • Emphasize the importance of maintaining a questioning mind throughout the audit regarding the potential for material misstatement due to fraud. [Previously paragraph A23Cb bullet #7 in Agenda Item 5–C December meeting material] • Remind engagement team members of their role in serving the public interest by performing quality audit engagements, and the importance of engagement team members remaining objective in order to better facilitate the critical assessment of audit evidence obtained from persons within the financial reporting or accounting functions. [New] • Consider the audit procedures that may be selected to respond appropriately to the susceptibility of the entity's financial statements to material misstatement due to fraud, including

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<tr><td></td><td>whether certain types of audit procedures may be more effective than others and how to incorporate an element of unpredictability into the nature, timing and extent of audit procedures to be performed. [Previously first part of sentence of paragraph A23Ca bullet #2 in Agenda Item 5–C December meeting material, combined with paragraph A23Cb bullets #9 and #10 of previous paragraph A23Cb in Agenda Item 5–C December meeting material]</td></tr>
<tr><td>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control</td><td>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control</td></tr>
<tr><td>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework

30. In applying ISA 315 (Revised 2019),[43] the auditor shall obtain an understanding of matters related to the:

(a) Entity and its environment that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors, including with respect to:

(i) The entity's organizational structure and ownership, governance, objectives and strategy, and geographic dispersion; (Ref: Para. A54–A57)

(ii) The industry; and (Ref: Para. A58)

(iii) The performance measures used, internally and externally, that may create incentives or pressures to</td><td>Understanding the Entity and Its Environment (Ref: Para. 30)

A53. [Not Used] [Previously paragraph A23Da in Agenda Item 5–C December meeting material] [Deleted]

The Entity's Organizational Structure and Ownership, Governance, Objectives and Strategy, and Geographic Dispersion (Ref: Para. 30(a)(i))

A54. Understanding the entity's organizational structure and ownership assists the auditor in identifying fraud risk factors. An overly complex organizational structure involving unusual legal entities may indicate that a fraud risk factor is present.

Example:

Where there are complex intercompany transactions, this increases be in place to manipulate balances or create fictitious transactions.</td></tr>
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[43] ISA 315 (Revised 2019), paragraph 19

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achieve financial performance targets. (Ref: Para. A59–A61) (b) Applicable financial reporting framework and the entity's accounting policies that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. (Ref: Para. A62)	A55. Understanding the nature of the entity's governance arrangements assists the auditor in identifying fraud risk factors. For example, poor governance or accountability arrangements may weaken oversight and increase the opportunity for fraud (see also paragraphs A63–A72). In a larger or more complex entity, the entity may have assigned the responsibility for overseeing the processes for identifying and responding to fraud in the entity to a senior member of management or to someone with designated responsibility. **Example:** If the entity is undergoing significant digital transformation activities, poor governance arrangements over newly implemented technologies impacting the entity's information system relevant to the preparation of the financial statements, may increase the opportunity for fraud. A56. Understanding the entity's objectives and strategy assists the auditor in identifying fraud risk factors. Objectives and strategy impact expectations, internally and externally, and may create pressures on the entity to achieve financial performance targets. **Example:** When the entity has a very aggressive growth strategy, this may create pressures on personnel within the entity to commit fraud to meet the goals set. A57. Understanding the entity's geographic dispersion assists the auditor in identifying fraud risk factors. **Example:**

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	The entity may have operations in locations that may be susceptible to dishonest, illegal or unethical transactions or activities such as bribery and money laundering, or are high on a corruption perception index. Industry (Ref: Para. 30(a)(ii)) A58. Understanding the industry in which the entity operates assists the auditor in identifying fraud risk factors. The auditor may obtain an understanding whether the entity is active in: • An industry where there are greater incentives to commit fraud. (e.g., in the construction industry the revenue recognition policies may be complex and subject to judgment which may create an opportunity to commit fraud). • An industry that is under pressure (e.g., a high degree of competition or market saturation, accompanied by declining margins in that sector). Such characteristics may create an incentive to commit fraud as it may be harder to achieve the financial performance targets. • An industry that is susceptible to acts of corruption, bribery and money laundering. (e.g., the gaming and gambling industry may be particularly vulnerable to money laundering). Performance Measures Used, Internally and Externally (Ref: Para. 30(a)(iii)) A59. Performance measures, whether internal or external, may create pressures on the entity. These pressures, in turn, may motivate management or employees to take action to inappropriately improve the business performance or to misstate the financial statements. Internal performance measures may include employee performance

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	measures and incentive compensation policies. External performance measures may include expectations from shareholders, analysts or other users. **Example:** Automated tools and techniques, such as analysis of disaggregated data, for example by business segment or product line, may be used by the auditor to understand performance measures. A60. The auditor may consider listening to the entity's earnings calls with analysts or reading analysts' research reports. This may provide the auditor with information about whether analysts have unduly aggressive or unrealistic expectations about an entity's financial performance. Auditors may also learn about management's attitudes regarding those expectations based on how management interacts with analysts. Aggressive expectations by analysts that are met by commitments by management to meet those expectations may be indicative of pressures and rationalizations for management to manipulate key performance metrics. A61. Other matters that the auditor may consider include: • Management's compensation package. When a significant portion of management's compensation package is contingent on achieving financial targets, management may have an incentive to manipulate financial results. • Short-selling reports, negative media attention, negative analyst reports. When management is under pressure or intense scrutiny to respond to these matters, management may have an incentive to manipulate financial results.

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	The Applicable Financial Reporting Framework and the Entity's Accounting Policies (Ref: Para. 30(b)) A62. Matters related to the applicable financial reporting framework that the auditor may consider when obtaining an understanding of where there may be an increased susceptibility to misstatement due to management bias or other fraud risk factors, include: • Areas in the applicable financial reporting framework that require: ○ A measurement basis that results in the need for a complex method relating to an accounting estimate. ○ Management to make significant judgments, such as accounting estimates with high estimation uncertainty or where an acceptable accounting treatment has not yet been established for new and emerging financial products (e.g., types of digital assets). ○ Expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. Particularly where management can influence and direct work performed and conclusions reached by management's experts. • Changes in the applicable financial reporting framework. For example, management may intentionally misapply new accounting requirements relating to amounts, classification, manner of presentation, or disclosures. • The selection of and application of accounting policies by management. For example, management's choice of

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	accounting policy is not consistent with similar entities in the same industry. • The amount selected by management for recognition or disclosure in the financial statements of an accounting estimate. **Examples:** • Management may consistently trend toward one end of a range of possible outcomes that provide a more favorable financial reporting outcome for management. • Management may use a model that applies a method that is not established or commonly used in a particular industry or environments.
Understanding the Components of the Entity's System of Internal Control Control Environment 31. In applying ISA 315 (Revised 2019),[44] the auditor shall: (a) Obtain an understanding of how management has created and maintained a culture of honesty and ethical behavior, including how management communicates with its employees its views on business practices and ethical behavior. (Ref: Para. A63–A65)	*Understanding the Components of the Entity's System of Internal Control* Control Environment Entity's culture and management's commitment to integrity and ethical values (Ref: Para. 31(a)) A63. Understanding aspects of the entity's control environment that address the entity's culture and understanding management's commitment to integrity and ethical values assists the auditor in determining management's attitude and tone at the top with regards to the prevention and detection of fraud.

[44] ISA 315 (Revised 2019), paragraph 21

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(b) Obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to address these risks. (Ref: Para. A66–A69) (c) Make inquiries of management regarding management's communications to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. (d) Make inquiries of those charged with governance about: (Ref: Para. A70–A73) (i) Whether they have knowledge of any fraud, suspected fraud, or alleged fraud affecting the entity; (ii) Their views about whether and how the financial statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and (iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.	A64. In considering the extent to which management demonstrates a commitment to ethical behavior, the auditor may obtain an understanding through inquiries of management and employees, and through considering information from external sources, about: • Management's commitment to integrity and ethical values through their actions. Commitment from management through their actions is important as employees may be more likely to behave ethically when management is committed to integrity and ethical behaviors. • The entity's communications with respect to integrity and ethical values. For example, the entity may have a mission statement, a code of ethics or a fraud policy. In larger or more complex entities, management may also have set up a process that requires employees to annually confirm that they have complied with the entity's code of ethics. • Whether the entity has developed fraud awareness training. For example, the entity may require employees to undertake ethics and code of conduct training as part of an ongoing or induction programme. In a larger or more complex entity, specific training may be required for those with a role in the prevention and detection of fraud (e.g., the internal audit function). • Management's response to fraudulent activity. For example, where minor unethical practices are overlooked (e.g., petty theft, expenses frauds), this may indicate that more significant frauds committed by key employees may be treated in a similar lenient fashion. A65. Depending on the nature and circumstances of the entity, the entity may have a formal whistleblower program, in such circumstances,

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	obtaining an understanding of the program may assist the auditor in identifying risks of material misstatement due to fraud. The auditor may: • Obtain an understanding of the whistleblower program reporting mechanisms (e.g., telephone hotline, online forms, in-person reporting, etc.), who is responsible for the program, including who receives the notifications, and how the entity addresses the matters raised. In a larger or more complex entity, the lack of a whistleblower program, or an ineffective one, may be indicative of weaknesses in the entity's control environment. • Inspect whistleblower files for any tips that may allege fraud that are not under investigation by the entity, or for information that may raise questions about management's commitment to creating and maintaining a culture of honesty and ethical behavior. • Follow up on matters that are under investigation by the entity as these matters may be indicative of suspected fraud with financial reporting implications that require a response from the auditor. Oversight exercised by those charged with governance (Ref: Para. 31(b)) A66. In many jurisdictions, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of risks, including risks of fraud and the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by jurisdiction, it is important that the auditor understands their respective responsibilities to enable the auditor to obtain an

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	understanding of the oversight exercised by the appropriate individuals with respect to the prevention and detection of fraud.[45] A67. An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to management fraud, the adequacy of controls that address risks of fraud, and the competency and integrity of management. The auditor may obtain this understanding in a number of ways, such as by attending meetings where such discussions take place, reading the minutes from such meetings or making inquiries of those charged with governance. A68. The effectiveness of oversight by those charged with governance is influenced by their objectivity and familiarity with the controls management has put in place to prevent or detect fraud. For example, the oversight by those charged with governance of the effectiveness of controls to prevent or detect fraud is an important aspect of their oversight role and the objectivity of such evaluation is influenced by their independence from management. Considerations specific to smaller or less complex entities A69. In some cases, all of those charged with governance are involved in managing the entity. This may be the case in a small entity where a single owner manages the entity and no one else has a governance role. In these cases, there is ordinarily no action on the part of the auditor because there is no oversight separate from management. Inquiries of Those Charged with Governance (Ref: Para. 31(d)) A70. The auditor may also inquire of those charged with governance about how the entity assesses the risk of fraud, the entity's controls to

45 ISA 260 (Revised), paragraphs A1–A8 provide guidance about whom the auditor should be communicating with, including when the entity's governance structure is not well defined.

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	prevent or detect fraud, the entity's culture and management's commitment to integrity and ethical values. A71. Specific inquiries on areas that are susceptible to misstatement due to management bias or management fraud may relate to both inherent risk and control risk. Specific inquiries may include management judgment when accounting for significant accounting estimates or unusual or complex transactions, including those in controversial or emerging areas, which may be susceptible to fraudulent financial reporting. A72. Inquiries on whether those charged with governance are aware of any control deficiencies in the system of internal control related to the prevention and detection of fraud may inform the auditor's evaluation of the components of the entity's system of internal control. Such inquiries may highlight conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to rationalize fraudulent actions. For example, incentives or pressures on management that may result in intentional or unintentional management bias, which may help the auditor's understanding of the entity's risk assessment process and understanding of business risks. Such information may affect the auditor's consideration of the effect on the reasonableness of significant assumptions made by, and the expectations of, management. A73. When those charged with governance's ability to objectively assess the actions of management is insufficient or impaired, the auditor may consider performing additional or alternative risk assessment procedures or further audit procedures, seeking legal advice, or considering whether to continue the audit engagement.

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The Entity's Risk Assessment Process 32. In applying ISA 315 (Revised 2019),[46] the auditor shall: (a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A74–A83) (i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist; (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and (iii) Addresses the assessed fraud risks. (b) Make inquiries of management and of other appropriate individuals within the entity about: (Ref: Para. A84–A86) (i) Whether they have knowledge of any fraud, suspected fraud, or alleged fraud affecting the entity; and (ii) Their views that the financial statements may be materially misstated due to fraud.	The Entity's Risk Assessment Process The entity's process for identifying, assessing, and addressing fraud risks (Ref: Para. 32(a)) A74. Management may place a strong emphasis on fraud prevention by implementing a fraud risk management program. The design of the fraud risk management program may be impacted by the nature and complexity of the entity and may include the following elements: • Establishing fraud risk governance policies. • Performing a fraud risk assessment. • Designing and deploying fraud preventive and detective control activities. • Conducting investigations. • Monitoring and evaluating the total fraud risk management program. Identifying fraud risks (Ref: Para. 32(a)(i)) A75. The entity's fraud risk identification process may include an assessment of the incentives, pressures, and opportunities to commit fraud, or how the entity may be susceptible to third-party fraud. A fraud risk identification process may also consider the potential override of controls by management as well as areas where there are control deficiencies, including a lack of segregation of duties. A76. Where legal or regulatory requirements apply, management may consider risks relating to misappropriation of assets or fraudulent financial reporting in relation to the entity's compliance with laws or

46 ISA 315 (Revised 2019), paragraph 22

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	regulations. For example, a fraud risk may include the preparation of inaccurate information for a regulatory filing in order to improve the appearance of an entity's performance in order to avoid inspection by regulatory authorities or penalties.
	Assessing the significance of the identified fraud risks and addressing the assessed fraud risks (Ref: Para. 32(a)(ii)–(iii))
	A77. There are a number of approaches management may use to assess fraud risks and the approach may vary depending on the nature and circumstances of the entity. The fraud risk assessment may be reported in different forms, such as a complex matrix of risk ratings or simple narrative.
	A78. When determining the likelihood of fraud, management may consider both probability and frequency (i.e., the number of fraud incidents that can be expected). Other factors that management may consider in determining likelihood may include the volume of transactions, or the potential nature or quantitative benefit to the individual.
	A79. Management may address the likelihood of a fraud risk by taking action within the other components of the entity's system of internal control or by making changes to certain aspects of the entity or its environment. To address fraud risks, an entity may choose to cease doing business in certain locations, reallocate authority among key personnel, or make changes to aspects of the entity's business model.
	A80. Controls that prevent or detect fraud are generally classified as either preventive (designed to avoid a fraudulent event or transaction from occurring) or detective (designed to discover a fraudulent event or transaction after the initial processing has occurred). Addressing fraud risks may involve a combination of manual and automated fraud

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	prevention and detection controls that enable the entity to monitor for indicators of fraud within the scope of its risk tolerance. **Examples:** Preventive controls • Clearly defined and documented decision makers using delegations, authorizations and other instructions. • Access controls, including those that address physical security of assets against unauthorized access, acquisition, use or disposal and those that prevent unauthorized access to the entity's IT environment and information, such as authentication technology. • Entry level checks, probationary periods, suitability assessments or security vetting to assess the integrity of new employees, contractors or third parties. • Sensitive or confidential information cannot leave the entity's IT environment without authority or detection. Detective controls • Exception reports to identify activities that are unusual or not in the ordinary course of business and have to be further investigated. • Mechanisms for employees of the entity and third parties to make anonymous or confidential communications to appropriate persons within the entity about identified or suspected fraud. • Fraud detection software programs incorporated into the IT infrastructure that automatically analyzes transaction data or

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	enables data monitoring and analysis to detect what is different from what is standard, normal, or expected and may therefore indicate fraud. A81. If the auditor identifies risks of material misstatement due to fraud that management failed to identify, the auditor is required to determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement.[47] The auditor is also required to consider the implications for the auditor's evaluation.[48] Scalability A82. For some entities whose nature and circumstances are more complex, such as those operating in the insurance or banking industries, there may be more complex preventative and detective controls in place. These controls may also affect the extent to which specialized skills are needed to assist the auditor in obtaining an understanding of the entity's risk assessment process. A83. In smaller and less complex entities, and in particular owner-managed entities, the way the entity's risk assessment process is designed, implemented and maintained may vary with the entity's size and complexity. When there are no formalized processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance identify fraud risks related to the

[47] ISA 315 (Revised 2019), paragraph 23(a)

[48] ISA 315 (Revised 2019), paragraph 23(b)

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	misappropriation of assets and fraudulent financial reporting, and assesses the significance of the identified fraud risks. Inquiries of management and others within the entity (Ref: Para. 32(b)) A84. Management accepts responsibility for the entity's system of internal control and for the preparation of the entity's financial statements. Accordingly, it is appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent or detect it. The nature, extent and frequency of management's assessment may vary from entity to entity. In some entities, management may make detailed assessments on an annual basis or as part of continuous monitoring. In other entities, management's assessment may be less structured and less frequent. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment. For example, the fact that management has not made an assessment of the risk of fraud may in some circumstances be indicative of the lack of importance that management places on internal control. A85. Inquiries of management may provide useful information concerning the risks of material misstatements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement resulting from management fraud. Inquiries of others within the entity provide additional insight into fraud prevention controls, tone at the top, and culture of the organization. **Examples:** Others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud include:

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	● Operating personnel not directly involved in the financial 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, chief compliance officer or equivalent person. ● The person or persons charged with dealing with allegations of fraud. A86. Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional skepticism, the auditor may judge it necessary to corroborate responses to inquiries with information from other sources.
The Entity's Process to Monitor the System of Internal Control 33. In applying ISA 315 (Revised 2019),[49] the auditor shall: (a) Understand those aspects of the entity's process that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of control deficiencies (Ref: Para. A87)	The Entity's Process to Monitor the System of Internal Control [Previously paragraph A26A in Agenda Item 5–C December meeting material] [Moved to paragraph A94] Ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud (Ref: Para. 33(a)) A87. Matters that may be relevant for the auditor to consider when understanding those aspects of the entity's process that addresses the ongoing and separate evaluations for monitoring the effectiveness

49 ISA 315 (Revised 2019), paragraph 24

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(b) Make inquiries of appropriate individuals within the internal audit function (if the function exists) about whether they have knowledge of any fraud, suspected fraud, or alleged fraud affecting the entity, and to obtain their views about the risks of fraud. (Ref: Para. A88–A89)	of controls to prevent or detect fraud, and the identification and remediation of such control deficiencies identified, may include: • Whether management has identified particular operating locations, or business segments for which the risk of fraud may be more likely to exist and whether management has introduced different approaches to monitor these operating locations or business segments. • How the entity may monitor fraud mitigation processes in each component of internal control, including the operating effectiveness of anti-fraud controls, and the remediation of control deficiencies as necessary. Inquiries of internal audit (Ref: Para. 33(b)) A88. The internal audit function of an entity may perform assurance and advisory activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. In that capacity, the internal audit function may identify frauds or be involved throughout a fraud investigation process. Inquiries of appropriate individuals within the internal audit function may therefore provide the auditor with useful information about instances of actual, suspected or alleged fraud and the risk of fraud. A89. ISA 315 (Revised 2019) and ISA 610 (Revised 2013) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.[50] **Examples:**

[50] ISA 315 (Revised 2019), paragraphs 14(a) and 24(a)(ii), and ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

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	In applying ISA 315 (Revised 2019) and ISA 610 (Revised 2013) in the context of fraud, the auditor may, for example, inquire about: • The entity's fraud risk assessment. • The entity's controls to prevent or detect fraud. • The entity's culture and management's commitment to integrity and ethical values. • Whether the internal audit function is aware of any instances of management override of controls. • The procedures performed, if any, by the internal audit function during the year to detect fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures. • The procedures performed, if any, by the internal audit function in investigating frauds and suspected violations of the entity's code of ethics and values, and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures. • The fraud related reports, if any, or communications prepared by the internal audit function and whether management and those charged with governance have satisfactorily responded to any findings resulting from those reports. • Control deficiencies identified by the internal audit function that are relevant to the prevention and detection of fraud, and whether management and those charged with

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	governance have satisfactorily responded to any findings resulting from those deficiencies.
The Information System and Communication 34. In applying ISA 315 (Revised 2019),[51] the auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, including understanding how journal entries are initiated, processed and corrected as necessary. (Ref: Para. A90–A92)	The Information System and Communication (Ref: Para. 34) A90. Obtaining an understanding of the entity's information system and communication relevant to the preparation of the financial statements includes the manner in which an entity incorporates information from transaction processing into the general ledger, which ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. This understanding enables the auditor to identify the population of all journal entries and other adjustments that are required to be tested in accordance with paragraph 50(b). Obtaining an understanding of the population may provide the auditor with insights about journal entries and other adjustments that may be susceptible to unauthorized or inappropriate intervention or manipulation. This may assist the auditor in testing journal entries and other adjustments in accordance with paragraphs 50(c) and 50(d). A91. **Appendix 4** includes additional considerations when selecting journal entries and other adjustments for testing, including matters that the required understanding provides the auditor knowledge about. A92. When performing risk assessment procedures, the auditor may consider changes in the entity's IT environment as a result of the introduction of new IT applications or enhancements to the IT infrastructure that may impact the susceptibility of the entity to fraud or create vulnerabilities in the IT environment. For example, changes to the databases involved in processing or storing transactions. There may also be an increased susceptibility to misstatement due to management bias or other fraud risk factors when there are complex

51 ISA 315 (Revised 2019), paragraph 25

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	IT applications used to initiate or process transactions or information, such as the use of artificial intelligence or machine learning algorithms to calculate and initiate accounting entries.
Control Activities 35. In applying ISA 315 (Revised 2019),[52] the auditor shall obtain an understanding of controls over journal entries that prevent or detect fraud. (Ref: Para. A93–A94)	Control Activities (Ref: Para. 35) A93. ISA 315 (Revised 2019)[53] requires the auditor to obtain an understanding of controls over journal entries as part of understanding the entity's system of internal control. This understanding addresses both fraud and error and focuses on the controls over journal entries that address risks of material misstatement at the assertion level. Paragraph 49 of this ISA requires the auditor to test the appropriateness of journal entries and is specifically focused on the risks of material misstatement due to fraud. A94. Information from understanding controls that prevent or detect fraud over journal entries, may also be useful in identifying fraud risk factors that may affect the auditor's assessment of the risks of material misstatement due to fraud. [Previously paragraph A26A in Agenda Item 5–C December meeting material]
Control Deficiencies Within the Entity's System of Internal Control 36. In applying ISA 315 (Revised 2019),[54] based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in	*Control Deficiencies Within the Entity's System of Internal Control* (Ref: Para. 36) A95. In performing the evaluations of each of the components of the entity's system of internal control, the auditor may determine that

52 ISA 315 (Revised 2019), paragraph 26

53 ISA 315 (Revised 2019), paragraph 26(a)(ii)

54 ISA 315 (Revised 2019), paragraph 27

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internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A95)	certain of the entity's controls in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying deficiencies in internal control that are relevant to the prevention and detection of fraud. If the auditor has identified one or more control deficiencies relevant to the prevention or detection of fraud, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with ISA 330.
Identifying and Assessing the Risks of Material Misstatement due to Fraud	**Identifying and Assessing the Risks of Material Misstatement due to Fraud**
Evaluation of Fraud Risk Factors 37. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present. (Ref: Para. A96–A99)	*Evaluation of Fraud Risk Factors* (Ref: Para. 37) [Previously paragraph A28A in Agenda Item 5–C December meeting material] [Deleted] A96. Fraud risk factors cannot easily be ranked in order of importance. The significance of fraud risk factors varies widely. Some of these factors will be present in entities where the specific conditions do not present risks of material misstatement. Accordingly, the determination as to whether fraud risk factors, individually or in combination, indicates that there are risks of material misstatement due to fraud is a matter of professional judgment. [Moved from paragraph A102. Last sentence of paragraph A96 merged with paragraph A102] A97. Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in **Appendix 1**. These illustrative fraud risk factors are classified based on the three conditions that are generally present when fraud exists: ● An incentive or pressure to commit fraud;

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	● A perceived opportunity to commit fraud; and ● An ability to rationalize the fraudulent action. Fraud risk factors reflective of an attitude that permits rationalization of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information through, for example, the required understanding of the entity's control environment.[55] Although the fraud risk factors described in **Appendix 1** cover a broad range of situations that may be faced by auditors, they are only examples and other risk factors may exist. A98. The size, complexity, and ownership characteristics of the entity have a significant influence on the consideration of relevant fraud risk factors. For example, depending on the nature and circumstances of the entity, there may be factors that generally constrain improper conduct by management, such as: ● Effective oversight by those charged with governance. ● An effective internal audit function. ● The existence and enforcement of a written code of conduct. Furthermore, fraud risk factors considered at a business segment operating level may provide different insights when compared with those obtained when considered at an entity-wide level. Scalability A99. In the case of a small entity, some or all of these considerations may be inapplicable or less relevant. For example, a smaller entity may not have a written code of conduct but, instead, may have developed

[55] ISA 315 (Revised 2019), paragraph 21

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	a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example. Domination of management by a single individual in a small entity does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorization can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual can be a potential deficiency in internal control since there is an opportunity for management override of controls.
Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures Inquiries of Management and Inconsistent Responses 38. In applying ISA 500,[56] if the responses to inquiries of individuals within the internal audit function, management, those charged with governance, or others within the entity, are inconsistent with each other, the auditor shall: (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and [Paragraph 38(a) covers previous paragraph 15 in Agenda 5–C December meeting material] (b) Consider the effect, if any, on other aspects of the audit. [Paragraphs 38 and 39 reordered. Previously paragraphs 28B and 27A, respectively, in Agenda Item 5–C December meeting material]	*Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures*

[56] ISA 500, *Audit Evidence,* paragraph 11

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<tr><th>ISA 240 Requirement</th><th>Application Material</th></tr>
<tr><td>Analytical Procedures Performed and Unusual or Unexpected Relationships Identified

39. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. (Ref: Para. A100)

[Paragraphs 38 and 39 reordered. Previously paragraphs 28B and 27A, respectively, in Agenda Item 5–C December meeting material]</td><td>Analytical Procedures Performed and Unusual or Unexpected Relationships Identified (Ref: Para. 39)

A100. The auditor may identify fluctuations or relationships when performing analytical procedures in accordance with ISA 315 (Revised 2019)[57] that are inconsistent with other relevant information or that differ from expected values significantly.

Examples:

When inspecting the interim financial statements of a midsized consumer bank that invested customer deposits in government bonds from countries with solid credit ratings, the auditor observed that the valuation of the portfolio was stable. The auditor identified this as unexpected, since the interest rates of central banks had increased to counter inflation. In general, this led to a depreciation in the market values of government bonds. The auditor concluded that the relevant assertions about the valuation of government bonds may indicate risks of material misstatement due to fraud.

The auditor identified an unusual relationship when comparing the actual rental income reported by a business segment, and the rental revenue projected to be earned by the rental department of a real estate company based on a rolling forecast of realized rental income, actual rent and occupancy rates. The auditor concluded that the relevant assertions about revenue may indicate risks of material misstatement due to fraud.</td></tr>
<tr><td>Identifying and Assessing the Risks of Material Misstatement Due to Fraud</td><td>Identifying and Assessing the Risks of Material Misstatement Due to Fraud (Ref: Para. 40(a))</td></tr>
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57 ISA 315 (Revised 2019), paragraph 14(b)

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40. In applying ISA 315 (Revised 2019),[58] the auditor shall: (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures. (Ref: Para. A101–A104) (b) Treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the design and implementation of the entity's related controls, including control activities, relevant to such risks. (Ref: Para. A105).	A101. Determining whether the risks of material misstatement due to fraud exist at the financial statement level or the assertion level for classes of transactions, account balances and disclosures may assist the auditor in determining appropriate responses to address the assessed risks of material misstatement due to fraud. **Examples:** The following are examples of relevant assertions and the related classes of transactions, account balances or disclosures that may be particularly susceptible to material misstatement due to fraud: • Accuracy, valuation or allocation of revenue from contracts with customers – revenue from contracts with customers may be susceptible to inappropriate estimates of the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. • Existence of cash balances – cash balances may be susceptible to the creation of falsified or altered external confirmations or bank statements. • Valuation of account balances involving significant accounting estimates – account balances involving significant accounting estimates such as goodwill and other intangible assets, expected credit losses, insurance contract liabilities, employee retirement benefits liabilities, environmental liabilities or environmental remediation provisions may be susceptible to high estimation

[58] ISA 315 (Revised 2019), paragraphs 28-34

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	uncertainty, significant subjectivity and management bias in making judgments about future events or conditions. • Presentation of profit before tax from continuing operations – profit before tax from continuing operations may be susceptible to misrepresentation (i.e., earnings management) for example, to minimize tax and other statutory obligations or to secure financing. • Presentation of disclosures – disclosures may be susceptible to omission, or incomplete or inaccurate presentation, for example, disclosures relating to contingent liabilities, off-balance sheet arrangements, financial guarantees, debt covenant requirements, or management defined performance measures (i.e., non-GAAP performance measures). [Previously paragraph A28H in Agenda Item 5–C December meeting material] [Deleted] A102.[Not used] [Previously paragraph A28I in Agenda Item 5–C December meeting material] [Initially renumbered as paragraph A102 then moved and combined with paragraph A96] A103. In applying ISA 315 (Revised 2019),[59] the auditor may determine that the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud. In such circumstances, the auditor is required to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

59 ISA 315 (Revised 2019), paragraph 35

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	[Previously paragraph A28K in Agenda Item 5–C December meeting material] [Deleted] Considerations Specific to Public Sector Entities A104. For public sector entities, misappropriation of assets (i.e., misappropriation of funds) may be a common type of fraud. **Example:** Fraud risk factors may be present when an individual with a significant role in a public sector entity has the sole authority to commit the public sector entity to sensitive expenditure, including travel, accommodation, or entertainment, and that sensitive expenditure provides personal benefits to the individual. Obtaining An Understanding of the Entity's Controls, Relevant to Assessed Risks of Material Misstatement Due to Fraud (Ref: Para. 40(b)) [Previously paragraph A28M in Agenda Item 5–C December meeting material] [Deleted] A105. Management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to accept given the nature and circumstances of the entity. In determining which controls to implement to prevent or detect fraud, management considers the risks that the financial statements may be materially misstated due to fraud.
Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition 41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition,	Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition (Ref: Para. 41) A106. Material misstatement due to fraudulent financial reporting in revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious

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determine which types of revenue, revenue transactions or relevant assertions give rise to such risks. In making this determination, if the auditor identifies fraud risk factors related to revenue recognition as part of the evaluation in accordance with paragraph 37, the auditor shall take into account those fraud risk factors. (Ref: Para. A106–A111)	revenues. It may also result from an understatement of revenues through, for example, improperly deferring revenues to a later period. [Previously paragraph A29A in Agenda Item 5–C December meeting material] [Deleted] A107. The risks of material misstatement due to fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of material misstatement due to fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales or that have complex revenue recognition arrangements (e.g., licenses of intellectual property or percentage of completion). A108. Understanding the entity's business and its environment, the applicable financial reporting framework and the entity's system of internal control helps the auditor understand the nature of the revenue transactions, the applicable revenue recognition criteria and the appropriate industry practice related to revenue. This understanding may assist the auditor identify events or conditions relating to the types of revenue, revenue transactions, or relevant assertions, that could give rise to fraud risk factors.

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	Examples: • When there are changes in the financial reporting framework relating to revenue recognition, which may present an opportunity for management to commit fraudulent financial reporting or bring to light the lack of (or significant deficiency in) controls for managing changes in the financial reporting framework. • When an entity's accounting principles for revenue recognition are more aggressive than, or inconsistent with, its industry peers. • When the entity operates in emerging industries. • When revenue recognition involves significant accounting estimates. • When revenue recognition is based on complex contractual arrangements with a high degree of estimation uncertainty, for example, construction-type or production-type contracts and multiple-element arrangements. • When there is contradictory evidence when performing risk assessment procedures. • When the entity has a history of significant adjustments for the improper recognition of revenue (e.g., premature recognition of revenue). • When circumstances indicate the recording of fictitious revenues. • When circumstances indicate the omission of required disclosures or presentation of incomplete or inaccurate

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	disclosures regarding revenue, for example, to manipulate the entity's financial performance due to pressures to meet investor / market expectations, or due to the incentive for management to maximize compensation linked to the entity's financial performance. A109. When fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors may indicate a risk of material misstatement due to fraud is a matter of professional judgment. The significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. A110. There may be circumstances where it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where the nature of the revenue transaction is simple and the applicable recognition criteria is straightforward and non-complex. **Examples:** • Leasehold revenue from a single unit of rental property, or multiple rental properties with a single tenant. • Rendering one type of service for a fixed fee. • Reselling one type of purchased good for a fixed price. • Simple or straightforward ancillary revenue sources, which are determined by fixed rates or externally published rates

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	(e.g., interest or dividend revenue from investments with level 1 inputs). A111. Paragraph 75(e) specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.
Significant Risk Related to Management Override of Controls 42. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall treat those risks as risks of material misstatement due to fraud and thus a significant risk. (Ref: Para. A112) [Last sentence of previous paragraph 32 in Agenda Item 5–C December meeting material]	Significant Risk Related to Management Override of Controls (Ref: Para. 42) A112. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements 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. [First two sentences of previous paragraph 32 in Agenda Item 5–C December meeting material]
[Previously paragraph 27A in Agenda Item 5–C December meeting material] [Heading and paragraph moved to paragraph 39]	
[Previously paragraph 28B in Agenda Item 5–C December meeting material] [Heading and paragraph moved to paragraph 38]	
Responses to the Assessed Risks of Material Misstatement Due to Fraud	**Responses to the Assessed Risks of Material Misstatement Due to Fraud**
Designing and Performing Audit Procedures in a Manner That Is Not Biased 43. The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner	

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that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.	
Unpredictability in the Selection of Audit Procedures 44. The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures when determining responses to address the assessed risks of material misstatement due to fraud. (Ref: Para. A113–A115) [Previously paragraph 30(c) in Agenda Item 5–C December meeting material]	*Unpredictability in the Selection of Audit Procedures* (Ref: Para. 30(c)44) A113. Incorporating an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed is essential particularly where individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting. Incorporating an element of unpredictability in the selection of audit procedures may also be a possible action that the auditor uses to mitigate the effects of confirmation bias. It is therefore important that the auditor maintains an open mind to new ideas or different perspectives when selecting the audit procedures to be performed to address the risks of material misstatement due to fraud. [Previously paragraph A37 in Agenda Item 5–C December meeting material] A114. ISA 330[60] provides guidance that addresses incorporating an element of unpredictability in the selection of audit procedures when responding to the assessed risks of material misstatement at the assertion level, including when the risks of intentional misstatement or manipulation have been identified. **Examples:** ● Performing further audit procedures on selected account balances or disclosures that were not determined to be

60 ISA 330, paragraphs A11

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	material or susceptible to material misstatement. • Performing tests of detail where the auditor performed substantive analytical procedures in previous audits. • Adjusting the timing of audit procedures from that otherwise expected. • Using different sampling methods or using different approaches to stratify the population. • Performing audit procedures at different locations or at locations on an unannounced basis. • Performing analytical procedures at a more detailed level or lowering thresholds when performing analytical procedures for further investigation of unusual or unexpected relationships. • Using automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation. [Previously paragraph A37 (bulleted list) in Agenda Item 5–C December meeting material] A115. The auditor may, when introducing an element of unpredictability in the nature, timing and extent of audit procedures, refer to **Appendix 2** of this ISA for examples of possible audit procedures to use when addressing the assessed risks of material misstatement due to fraud.

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Overall Responses 45. In accordance with ISA 330,[61] the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A116)	[Previously paragraph A33A in Agenda Item 5–C December meeting material] [Deleted] [Previously paragraph A33B in Agenda Item 5–C December meeting material] [Deleted] *Overall Responses* (Ref: Para. 45) A116. Determining overall responses to address the assessed risks of material misstatement due to fraud generally includes the consideration of how the overall conduct of the audit can reflect increased professional skepticism, for example, through: ● Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions. ● Increased recognition of the need to corroborate management explanations or representations concerning material matters. • Using direct extraction methods or technologies when obtaining data for use in automated tools and techniques to address the risk of data manipulation.
46. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings. [Previously paragraph 30(a) in Agenda Item 5–C December meeting	[Previously paragraph A35 in Agenda Item 5–C December meeting material] [Moved to paragraph A35] [Previously paragraph A36 in Agenda Item 5–C December meeting material] [Moved to paragraph A36] [Previously paragraph A37 in Agenda Item 5–C December meeting material] [Moved heading and paragraph to paragraphs A113–A114]

[61] ISA 330, paragraph 5

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material] [Moved to paragraph 23] [Previously paragraph 30(c) in Agenda Item 5–C December meeting material] [Moved to paragraph 44]	
Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level 47. In accordance with ISA 330,[62] 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. (Ref: Para. A117–A125)	*Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level* (Ref: Para. 47) A117. The auditor's responses to address the assessed risks of material misstatement due to fraud at the assertion level may include changing the nature, timing and extent of audit procedures in the following ways: ● The nature of audit procedures to be performed may need to be changed to obtain audit evidence that is more relevant and reliable or to obtain additional corroborative information. This may affect both the type of audit procedures to be performed and their combination. For example, the auditor may: ○ Physically observe or inspect certain assets to obtain more relevant and reliable audit evidence. For example, this may become important when the auditor has assessed risks of material misstatement due to fraud related to the misappropriation of those assets. ○ Use automated tools and techniques to perform more extensive and relevant testing of digital information. Such automated techniques may be used to test all items in a population, select specific items for testing that are responsive to risk of material misstatement due to fraud, or select items for testing when performing audit sampling. For example, the auditor may stratify the

[62] ISA 330, paragraph 6

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	population based on specific characteristics to obtain more relevant audit evidence that is responsive to the risks of material misstatement due to fraud. ○ Design procedures to obtain additional corroborative information. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmations with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms. ● The timing of substantive procedures may need to be modified. The auditor may conclude that performing substantive testing at or near the period end better addresses an assessed risk of material misstatement due to fraud. The auditor may conclude that, given the assessed risks of intentional misstatement or manipulation, audit procedures to extend audit conclusions from an interim date to the period end would not be effective. In contrast, because an intentional misstatement – for example, a misstatement involving improper revenue recognition – may have been initiated in an interim period, the auditor may elect to apply substantive procedures to transactions occurring earlier in or throughout the reporting period.

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	• The extent of the procedures applied reflects the assessment of the risks of material misstatement due to fraud. For example, increasing sample sizes or performing analytical procedures at a more detailed level may be appropriate. A118. If the auditor identifies a risk of material misstatement due to fraud that affects inventory quantities, examining the entity's inventory records may help to identify locations or items that require specific attention during or after the physical inventory count. Such a review may lead to a decision to observe inventory counts at certain locations on an unannounced basis or to conduct inventory counts at all locations on the same date. A119. The auditor may identify a risk of material misstatement due to fraud affecting a number of accounts and assertions. These may include asset valuation, estimates relating to specific transactions (such as acquisitions, restructurings, or disposals of a segment of the business), and other significant accrued liabilities (such as pension and other post-employment benefit obligations, or environmental remediation liabilities). The risk may also relate to significant changes in assumptions relating to recurring estimates. Information gathered through obtaining an understanding of the entity and its environment may assist the auditor in evaluating the reasonableness of such management estimates and underlying judgments and assumptions. A retrospective review of similar management judgments and assumptions applied in prior periods may also provide insight about the reasonableness of judgments and assumptions supporting management estimates. A119A. Automated tools and techniques may assist the auditor when performing audit procedures to obtain audit evidence about classes of transactions, account balances or disclosures where there are assessed risks of material misstatement due to fraud. For example, the auditor may compare the pattern of revenue recognition at period-end with

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	activity during the month or that of previous months, where a risk of material misstatement due to fraud related to the cut-off of revenue has been identified. External Confirmation Procedures A120. In applying ISA 330,[63] external confirmation procedures may be considered useful when seeking audit evidence to corroborate or contradict a relevant assertion in the financial statements, especially in instances where fraud risk factors have been identified related to the class of transactions, account balance or disclosure. A121. ISA 505[64] requires the auditor to maintain control over the external confirmation requests and to evaluate the implications of management's refusal to allow the auditor to send a confirmation request. If the auditor is unable to maintain control over the confirmation process or obtains an unsatisfactory response as to why management refuses to allow the auditor to send a confirmation request, as applicable, then this may be an indication of a fraud risk factor. A122. The use of external confirmation procedures may be more effective or provide more persuasive audit evidence over the terms and conditions of a contractual agreement. **Example:** The auditor may request confirmation of the contractual terms for a specific class of revenue transactions, such as pricing, payment and discount terms, applicable guarantees and the existence, or absence, of any side agreements.

63 ISA 330, paragraph 19.

64 ISA 505, *External Confirmations*, paragraphs 7 and 8

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	A123. ISA 505[65] includes factors that may indicate doubts about the reliability of a response to an external confirmation request, since all responses carry some risk of interception, alteration or fraud. **Examples:** Doubts about the reliability of a response may be due to an event or condition that indicates the existence of a fraud risk factor, such as when the response to a confirmation request: • Is sent from an e-mail address that is not recognized. • Does not include the original electronic mail chain or any other information indicating that the confirming party is responding to the auditor's confirmation request. • Contains unusual restrictions or disclaimers that do not corroborate the related terms in the signed lending agreement. A124. ISA 505[66] establishes requirements and provides guidance about non-responses and includes examples of alternative procedures that may be performed by the auditor. The alternative procedures may also be performed in instances where there are incomplete responses. Examples of Other Further Audit Procedures A125. Examples of possible audit procedures to address the assessed risks of material misstatement due to fraud are presented in **Appendix 2**. The Appendix includes examples of responses to the auditor's assessment of the risks of material misstatement resulting from both

65 ISA 505, paragraph A11

66 ISA 505, paragraphs 12 and A18-A19

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	fraudulent financial reporting, including fraudulent financial reporting resulting from revenue recognition, and misappropriation of assets.
Audit Procedures Responsive to Risks Related to Management Override of Controls [Previously paragraph 32 in Agenda Item 5–C December meeting materials] [Moved the previous first two sentences to application material in paragraph A112 and the last sentence to the requirement in paragraph 42]	*Audit Procedures Responsive to Risks Related to Management Override of Controls*
48. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 49–53, and determine whether other audit procedures are needed in addition to those in paragraphs 49–53, in order to respond to the identified risks of management override of controls. [Previously paragraph 34 in Agenda Item 5–C December meeting material]	
Journal Entries and Other Adjustments 49. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. (Ref: Para. A126–A129) 50. In designing and performing audit procedures in accordance with paragraph 49, the auditor shall: (a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;	Journal Entries and Other Adjustments (Ref: Para. 49–50) Why the testing of journal entries and other adjustments is performed A126. Testing the appropriateness of journal entries and other adjustments (i.e., entries made directly to the financial statements such as eliminating adjustments for transactions, unrealized profits and intra-group account balances at group level) may assist the auditor in identifying fraudulent journal entries and other adjustments. A127. Material misstatements of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries and other adjustments. This may occur throughout the year or at period end, or by management making adjustments to amounts reported in the

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(b) Obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period; (Ref: Para. A131–A133 and A140) (c) Select journal entries and other adjustments made at the end of a reporting period; and (Ref: Para. A134–A135, A137 and A139–A140) (d) Determine the need to test journal entries and other adjustments throughout the period. (Ref: Para. A134–A135 and A138–A140)	financial statements that are not reflected in journal entries, such as through consolidation adjustments and reclassifications. A128. The auditor's consideration of the risks of material misstatement associated with management override of controls over journal entries[67] is important since automated processes and controls may reduce the risk of inadvertent error but does not overcome the risk that management may inappropriately override such automated processes and controls, for example, by changing the amounts being automatically posted in the general ledger or to the financial reporting system. Further, where IT is used to transfer information automatically, there may be little or no visible evidence of such intervention in the information systems. A129. As part of their involvement in planning the audit,[68] the engagement partner or other key members of the engagement team may need to draw on experience and insight in designing audit procedures to test the appropriateness of journal entries and other adjustments, including planning for the appropriate resources, and determining the nature, timing and extent of the related direction, supervision and review of the work being performed. A130. [Not Used] Obtaining audit evidence about the completeness of the population of all journal entries and other adjustments A131. [Not used] A132. Prior to selecting items to test, the auditor may need to consider whether the integrity of the population of journal entries and other

67 ISA 315 (Revised 2019), paragraph 26(a)(ii)

68 ISA 300, paragraphs 5, 9 and 11

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	adjustments has been maintained throughout all stages of information processing based on the auditor's understanding and evaluation of the entity's information system and control activities (e.g., general IT controls that safeguard and maintain the integrity of financial information) in accordance with the requirements of ISA 315 (Revised 2019).[69] A133. The auditor may also need to consider whether such population includes manual adjustments that are batched in a spreadsheet, or other "top-side" adjustments that are made directly to the amounts reported in the financial statements. Failing do so may limit the audit procedure's effectiveness to identify fraudulent journal entries and other adjustments that are intended to be responsive to the risk of management override of controls. Selecting journal entries and other adjustments A134. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control may assist the auditor in selecting journal entries and other adjustments for testing. **Examples:** The process to select journal entries and other adjustments for testing may be enhanced if the auditor leverages insights based on the auditor's understanding about: • Events and transactions that may be susceptible to material misstatement due to fraud.

69 Proposed ISA 315 (Revised 2019), paragraphs 25-26

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	• The application of accounting principles and methods that may be susceptible to material misstatement due to management bias. • Deficiencies in internal control that present opportunities for those charged with governance, management or others within the entity to commit fraud. A135. **Appendix 4** provides additional considerations by the auditor when selecting journal entries and other adjustments for testing. [Previously paragraph A44 in Agenda Item 5–C December meeting material] [Moved to **Appendix 4**] A136. [Not Used] Timing of testing journal entries and other adjustments A137. Fraudulent journal entries and other adjustments are often made at the end of a reporting period, consequently the auditor is required to select journal entries and other adjustments made at that time. **Example:** Among the journal entries and other adjustments most susceptible to management override of controls are manual adjusting journal entries and other adjustments directly made to the financial statements, which occur after the closing of a financial reporting period and that have little or no explanatory support. A138. Further, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal how the fraud is accomplished, the auditor is required to determine whether there is also a need to test journal entries and other adjustments throughout the period.

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	Examples: The auditor's determination of the need to test journal entries and other adjustments throughout the period may lead the auditor to test journal entries and other adjustments associated with: • Audit evidence obtained from the risk assessment procedures and related activities indicating that one or more fraud risk factors are present that may be strongly linked to fraud schemes that can occur over a long period of time (e.g., complex related party transaction structures that may obscure its economic substance). • Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of automated tools and techniques when testing journal entries and other adjustments. Examining the underlying support for journal entries and other adjustments selected A139. When testing the appropriateness of journal entries and other adjustments, the auditor may need to obtain and examine supporting documentation to determine the business rationale for recording them, including whether the recording of the journal entry reflects the substance of the transaction and complies with the applicable financial reporting framework. This may involve exercising professional skepticism by obtaining audit evidence that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory. Considering the use of automated tools and techniques when testing journal entries and other adjustments

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	A140. Considering the use of automated tools and techniques by the auditor when testing journal entries and other adjustments (e.g., determining the completeness of the population, and selecting items to test) may be impacted by the entity's use of technology in processing journal entries and other adjustments.
Accounting Estimates 51. The auditor shall review accounting estimates for management bias and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. (Ref: Para. A141–A142) 52. In designing and performing audit procedures in accordance with paragraph 51, the auditor shall: (a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and (b) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole. (Ref: Para. A143–A145) [Previously paragraph 33(b)(ii) in Agenda Item 5–C December meeting material] [Moved to paragraph 28]	Accounting Estimates (Ref: Para. 51–52) Why the review of accounting estimates for management bias is performed A141. The preparation of the financial statements requires management to make a number of judgments or assumptions that affect significant accounting estimates and to monitor the reasonableness of such estimates on an ongoing basis. Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates. For example, this may be achieved by understating or overstating all provisions or reserves in the same fashion so as to be designed either to smooth earnings over two or more accounting periods, or to achieve a designated earnings level in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability. A142. ISA 315 (Revised 2019) provides guidance that management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (i.e., indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional.[70] Indicators of possible management bias

[70] ISA 315 (Revised 2019), paragraph 2 of Appendix 2

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	A143. ISA 540 (Revised)[71] includes a requirement and related application material addressing indicators of possible management bias. ISA 540 (Revised) also provides guidance that when an accounting estimate is subject to a high degree of subjectivity, the accounting estimate is likely to be more susceptible to misstatement due to management bias or fraud.[72] Therefore, the auditor may need to focus evaluations made in accordance with paragraph 52(b) on accounting estimates that are subject to a high degree of subjectivity. **Examples:** Indicators of possible management bias in how management made the accounting estimates that may represent a risk of material misstatement due to fraud include: • Changes in methods, significant assumptions, sources or items of data selected that are not based on new circumstances or new information, which may not be reasonable in the circumstances nor in compliance with the applicable financial reporting framework. • Adjustments made to the output of the model(s), which are not appropriate in the circumstances when considering the requirements of the applicable financial reporting framework. • Selection of assumptions from the end of the range that resulted in the most favorable measurement outcome. A144. The auditor may use automated tools and techniques to review accounting estimates for management bias. For example, by

71 ISA 540 (Revised), paragraphs 32 and A133–A136

72 ISA 540 (Revised), paragraph A79

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	analyzing the activity in an estimate account during the year and comparing it to the current and prior period estimates, benchmarking assumptions used for the estimate, using data visualization to understand the location of point estimates within the range of acceptable outcomes, or using predictive analytics to identify the likelihood of future outcomes based on historical data. A145. Where there are strong indicators of possible management bias that may be intentional, the auditor may consider it appropriate to involve individuals with forensic skills in performing the review of accounting estimates for management bias in accordance with paragraphs 51–52. Applying forensic skills through analyzing accounting records, conducting interviews, reviewing internal and external communications, investigating related party transactions, or reviewing internal controls may assist the auditor in evaluating whether the indicators of possible management bias actually represent a risk of material misstatement due to fraud. [Previously paragraph A47 in Agenda Item 5–C December meeting material] [Moved as application material for the requirement in paragraph 28 and subsequently deleted] [Previously paragraph A48 in Agenda Item 5–C December meeting material] [Moved as application material for the requirement in paragraph 28 and subsequently deleted]
Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual 53. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor	Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual (Ref: Para. 53) A146. Indicators that may suggest that significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual, may have been entered into to engage in

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shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: Para. A146–A147)	fraudulent financial reporting or to conceal misappropriation of assets include: ● The form of such transactions appears overly complex (e.g., the transaction involves multiple entities within a consolidated group or multiple unrelated third parties). ● Management has not discussed the nature of and accounting for such transactions with those charged with governance of the entity, and there is inadequate documentation. ● Management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction. ● Transactions that involve non-consolidated related parties, including special purpose entities, have not been properly reviewed or approved by those charged with governance of the entity. ● The transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity under audit. A147. The auditor may use automated tools and techniques to identify significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. For example, reviewing journal entries with unusual characteristics such as a significant time lag between the posting date and the effective date of the journal entry.
[Previously paragraph 34 in Agenda Item 5–C December meeting material] [Moved to paragraph 48]	

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Fraud or Suspected Fraud	**Fraud or Suspected Fraud** (Ref: Para. 54-63)
54. When fraud or suspected fraud is identified, the engagement partner shall: (Ref: Para. A148–A149 and A155) (a) Obtain an understanding of the nature, timing and extent of the fraud or suspected fraud in order to determine the effect on the audit engagement; (Ref: Para. A150–A153) (b) Communicate with management and those charged with governance as required by paragraphs 71–73; and (Ref: Para. A154) (c) Report to an appropriate authority outside the entity as required by paragraph 74.	A148. When fraud or suspected fraud is identified, the firm's policies or procedures may include appropriate actions for the engagement partner to take, depending on the facts and circumstances of the audit engagement. These actions may include one or more of the following: • Consult with others in the firm. • Consult on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). • Obtain legal advice from external counsel to understand the engagement partner's options and the professional or legal implications of taking any particular course of action. A149. In accordance with ISA 220 (Revised),[73] the engagement partner is required to take responsibility for making the engagement team aware of the firm's policies or procedures related to relevant ethical requirements. This includes the responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity. Obtain an Understanding of the Nature, Timing and Extent of the Fraud or Suspected Fraud A150. When obtaining an understanding of the nature, timing and extent of the fraud or suspected fraud, the engagement partner may do one or more of the following, as relevant to the facts and circumstances of the audit engagement:

73 ISA 220 (Revised), paragraph 17(c)

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	• Involve an auditor's expert, such as an individual with forensic skills. • Consider the implications on prior audit engagements. • Make further inquiries of the entity's in-house counsel or external legal counsel. • Request management or those charged with governance to develop a robust plan to investigate the fraud or suspected fraud, including a remediation plan to address the findings as applicable. • Request the entity engage an expert, such as a certified fraud examiner, to perform an independent forensic investigation. • Discuss an extension of the audit reporting deadlines with management and those charged with governance, where an extension is possible under applicable law or regulation. A151. The extent of the understanding of the fraud or suspected fraud by the engagement partner needed to determine the effect on the audit engagement may vary based on the facts and circumstances. **Examples:** • An engagement team member obtains audit evidence that a misappropriation of assets may have occurred. It is determined by the engagement team member to have an immaterial impact on the financial statements. Based on the direction, supervision and review of the engagement team member's work, the engagement partner agrees with the conclusions reached, including that management is not involved in the misappropriation of assets. The facts and circumstances are communicated to management and those

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	charged with governance, as applicable, and the matter is appropriately addressed by the entity. Based on the discussions held and the engagement partner's understanding, the matter is considered resolved to the engagement partner's satisfaction. • A component auditor communicates timely to the group auditor about the existence of a fraud involving component management where the fraud has resulted in a material misstatement of the component information. Since the nature of the fraud involved a complex scheme of kickbacks paid to vendors, the engagement partner held extensive discussions with the component auditor to understand the identified fraud. Given the significance of the matter, the engagement partner also consulted with others in the firm. Once the engagement partner had an appropriate understanding of the matter, the engagement partner communicated timely with management and those charged with governance, as applicable. The matter was then further investigated by the entity and resolved. A152. The information obtained from the understanding (e.g., from the independent report requested by the entity to investigate the fraud or suspected fraud) may provide the engagement partner with audit evidence about whether for example, the fraud or suspected fraud affects the financial statements. A153. Understanding the nature of the fraud or suspected fraud may impact whether and how the engagement partner adjusts the overall audit strategy and audit plan, especially in circumstances when information comes to the engagement partner's attention that differs significantly

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	from the information available when the audit procedures were originally planned.[74] **Examples:** • Based on a preliminary understanding of the matter, the auditor believes the fraud or suspected fraud is inconsequential e.g., limited to the misappropriation of immaterial assets, and consequently the auditor determines to continue with other aspects of the audit engagement while the matter is resolved with management of the entity. • Based on a preliminary understanding of the fraud or suspected fraud, the auditor believes the integrity of management may be in question. Given the significance and pervasiveness of the matter, the auditor believes that no further work may be performed until the matter is appropriately resolved. Communicate with Management and Those Charged with Governance A154. The timing of the communications is dependent on the extent of the understanding needed of the fraud or suspected fraud by the engagement partner in order to have a robust discussion with management and those charged with governance. As a result of these communications, information may be obtained that may inform the engagement partner's understanding of the nature, timing and extent of the fraud or suspected fraud. Unable to Continue the Audit Engagement

[74] ISA 300, paragraphs 10 and A15

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	A155. In exceptional circumstances, based on the understanding obtained by the engagement partner, the engagement partner may be unable to continue the audit engagement (see paragraph 65). This may be the case, for example, where management or those charged with governance do not take appropriate action to address the fraud or suspected fraud, and the engagement partner has significant concern about their competence or integrity.
55. [Not used]	
56. [Not used]	
57. Based on the understanding obtained about the fraud or suspected fraud, the auditor shall determine whether to perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019).[75] (Ref: Para. A156) [Previously paragraph 34G(b) in Agenda Item 5–C December meeting material]	A156. Performing the additional risk assessment procedures to address the risks of material misstatement due to fraud may involve complex considerations and professional judgment. Accordingly, the actions the auditor may consider taking include: • Engaging an auditor's expert with specialized skills or knowledge in the matter. • Consulting internally (e.g., within the firm or a network firm) in accordance with the firm's policies or procedures.
58. [Not used]	
59. The auditor shall perform additional audit procedures to address the identified fraud or suspected fraud including:	A157. ISA 265[76] provides requirements and guidance about the auditor's communication of significant deficiencies in internal control identified during the audit to those charged with governance.

[75] ISA 315 (Revised 2019), paragraphs 35

[76] ISA 265, paragraphs 8 and A6-A7

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(a) Determining if control deficiencies related to the prevention or detection of fraud exist relating to the identified fraud or suspected fraud. (Ref: Para. A157) (b) Assessing whether remediation measures taken by management or those charged with governance to address the fraud or suspected fraud are appropriate. (Ref. Para. A157A) (c) Determining additional responsibilities under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised). (d) If applicable, consider the impact on other engagements, including audit engagements from prior years.	Examples of matters that the auditor considers in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include: • The susceptibility to loss of fraud of the related asset or liability. • The importance of the controls to the financial reporting process, e.g., controls over the prevention and detection of fraud, Indicators of significant deficiencies in internal control include for example evidence of ineffective aspects of the internal control environment, such as the identification of management fraud, whether or not material, that was not prevented by the entity's internal control. A157A. When assessing the appropriateness of the remediation measures taken, the auditor may consider how management: (a) Responded to any misstatements that were identified (e.g., the timeliness of when the identified misstatements were corrected by management). (b) Responded to the fraud e.g., disciplinary or legal sanctions imposed on the individuals involved in perpetrating the fraud. (c) Addressed the control deficiencies regarding the prevention or detection of the fraud.
60. If, based on the additional procedures performed, the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A158–A158A) [Lead-in for previous paragraph 34G in Agenda Item 5–C December meeting material]] (a) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management (in particular, senior	A158. Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Misstatements, such as numerous misstatements at a business unit or geographical location even though the cumulative effect is not material, may also be indicative of a risk of material misstatement due

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management) is involved; and (Ref: Para. A159) [Previously paragraph 34F in Agenda Item 5–C December meeting material] (b) Consider whether circumstances or conditions relating to the misstatement indicate possible collusion involving management, employees or third parties when reconsidering the reliability of management representations and audit evidence previously obtained. [Previously paragraph 34G(b) in Agenda Item 5–C December meeting material]	to fraud. [Previously paragraph A49L in Agenda Item 5–C December meeting material] A158A. When responding to the significant risks of material misstatement due to fraud the auditor may obtain audit evidence that indicates that the identified misstatement is due to error. A159. The implications of an identified misstatement due to fraud on the reliability of information intended to be used as audit evidence depends on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of information previously obtained and intended to be used as audit evidence may be called into question, since there may be doubts about the completeness and truthfulness of representations made and about the genuineness of accounting records and documentation. [Previously paragraph A49M in Agenda Item 5–C December meeting material]
61. In applying ISA 450,[77] the auditor shall determine whether identified misstatements due to fraud are material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement. In doing so, the auditor shall: (Ref: Para. A160–A161) [Previously paragraph 34E in Agenda Item 5–C December meeting material] (a) Conclude that the risk of material misstatements due to fraud has been reduced to an acceptably low level; or (b) Determine that a material misstatement due to fraud has been identified.	A160. ISA 450 and ISA 700 (Revised)[78] establish requirements and provide guidance on the evaluation of misstatements and the effect on the auditor's opinion in the auditor's report. [Previously paragraph A49N in Agenda Item 5–C December meeting material] A161. The following are examples qualitative or quantitative circumstances that may be relevant: **Examples:** Qualitative circumstances include whether a misstatement:

[77] ISA 450, *Evaluation of Misstatements Identified During the Audit*

[78] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

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	• Involves those charged with governance, management, related parties or third parties which may bring into question concerns the auditor may have about the integrity or competence of those involved. • Affects compliance with law or regulation which may also affect the auditor's consideration of the integrity of management, those charged with governance or employees. • Affects compliance with debt covenants or other contractual requirements which may cause the auditor to question the pressures being exerted on management to meet certain earnings release expectations. [Previously paragraph A49J in Agenda Item 5–C December meeting material] Quantitative circumstances include whether a misstatement: • Affects key performance indicators such as earnings per share, net income and working capital, that may have a negative effect on the calculation of compensation arrangements for senior management at the entity. • Affects multiple reporting periods such as when a misstatement has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements. [Previously paragraph A49K in Agenda Item 5–C December meeting material]

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62. If the auditor determines that the financial statements are materially misstated due to fraud, the auditor shall: (a) Determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised). (b) Discuss the matter and an approach to further investigate the matter with an appropriate level of management that is at least one level above those involved, and those charged with governance. (c) If appropriate, obtain advice from legal counsel. [Previously paragraph 34H in Agenda Item 5–C December meeting material]	
63. If the auditor is unable to obtain sufficient appropriate audit evidence as relates to a material misstatement due to fraud, the auditor shall determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).	
[Previously paragraph 34E in Agenda Item 5–C December meeting material] [Moved to paragraph 61 lead-in]	[Previously paragraph A49J in Agenda Item 5–C December meeting material] [Moved to paragraph A161] [Previously paragraph A49K in Agenda Item 5–C December meeting material] [Moved to paragraph A161]
[Previously paragraph 34F in Agenda Item 5–C December meeting material] [Moved to paragraph 60(a)]	[Previously paragraph A49L in Agenda Item 5–C December meeting material] [Moved to paragraph A158]
[Previously paragraph 34G in Agenda 5–C December meeting material] [Moved lead-in to paragraph 60]	[Previously paragraph A49M in Agenda item 5–C December meeting material] [Moved to paragraph A159]

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[Previously paragraph 34G(a) in Agenda Item 5–C December meeting material] [Moved to paragraph 57] [Previously paragraph 34G(b) in Agenda Item 5–C December meeting material] [Moved to paragraph 60(b)]	
[Previously paragraph 34H in Agenda Item 5–C December meeting material] [Moved to paragraph 62]	[Previously paragraph A49N in Agenda Item 5–C December meeting material] [Moved to paragraph A160]
Evaluation of the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. A162)	**Evaluation of the Sufficiency and Appropriateness of Audit Evidence**(Ref: Para. 64)
	A162.ISA 330 requires the auditor, based on the audit procedures performed and the audit evidence obtained, to evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate.[79] This evaluation is primarily a qualitative matter based on the auditor's judgment. Such an evaluation may provide further insights about the risks of material misstatement due to fraud and whether there is a need to perform additional or different audit procedures. [Previously paragraph A50 in Agenda Item 5–C December meeting material] [Last sentence moved to paragraph A29A] A163.[Not used] A164.[Not used]
Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion	Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion (Ref: Para. 64)

[79] ISA 330, paragraph 25

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64. The auditor shall determine whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A165–A166)	A165. ISA 520 explains that the analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.[80] However, the auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional judgment. Unusual relationships involving year-end revenue and income are particularly relevant. These might include, for example: • Uncharacteristically large amounts of income being reported in the last few weeks of the reporting period; • Unusual transactions; • Income that is inconsistent with trends in cash flow from operations; • Uncharacteristically low amounts of revenue at the start of the subsequent period; or • Uncharacteristically high levels of refunds or credit notes at the start of the subsequent period. A166. The auditor may use automated tools and techniques to identify unusual or inconsistent transaction posting patterns in order to determine if there is a previously unrecognized risk of material misstatement due to fraud.

80 ISA 520, *Analytical Procedures*, paragraphs 6 and A17–A19

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Auditor Unable to Continue the Audit Engagement	**Auditor Unable to Continue the Audit Engagement** (Ref: Para. 65)
65. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall: (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; 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. (Ref: Para. A167–A170)	A167. Examples of exceptional circumstances that may arise and that may bring into question the auditor's ability to continue performing the audit include: ● The entity does not take the appropriate action regarding fraud that the auditor considers necessary in the circumstances, even where the fraud is not material to the financial statements; ● The auditor's consideration of the risks of material misstatement due to fraud and the results of audit tests indicate a significant risk of material and pervasive fraud; ● The auditor has significant concern about the competence or integrity of management or those charged with governance; or ● The auditor is unable to address a threat to compliance with the fundamental principles related to the relevant ethical requirements, A168. Because of the variety of circumstances that may arise, it is not possible to describe definitively when withdrawal from an engagement is appropriate. Factors that affect the auditor's conclusion include the implications of the involvement of a member of management or of those charged with governance (which may affect the reliability of management representations) and the effects on the auditor of a continuing association with the entity. A169. The auditor has professional and legal responsibilities in such circumstances and these responsibilities may vary by country. In some countries, for example, the auditor may be entitled to, or required to, make a statement or report to the person or persons who made the audit appointment or, in some cases, to regulatory

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	authorities. Given the exceptional nature of the circumstances and the need to consider the legal requirements, the auditor may consider it appropriate to seek legal advice when deciding whether to withdraw from an engagement and in determining an appropriate course of action, including the possibility of reporting to shareholders, regulators or others.[81] *Considerations Specific to Public Sector Entities* A170. In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of the mandate or public interest considerations.
Implications for the Auditor's Report	**Implications for the Auditor's Report** (Ref: Para. 66–69)
[Previously paragraph 39A in Agenda Item 5–C December meeting material] [Moved to paragraph 68]	
Determining Key Audit Matters 66. In applying ISA 701,[82] the auditor shall determine, from the fraud related matters communicated with those charged with governance, those fraud related matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A171–A177) (a) Significant risks of material misstatement due to fraud; (b) The identification of fraud or suspected fraud; and	*Determining Key Audit Matters* A171. ISA 701[83] requires the auditor to determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor is also required to take into account the matters as set out in paragraph 66. A172. Users of financial statements have expressed an interest in fraud related matters about which the auditor had a robust dialogue with those charged with governance and have called for additional

81 Section 320 of the IESBA Code provides requirements and application material on communications with the existing or predecessor accountant, or the proposed accountant.

82 ISA 701, paragraph 9

83 ISA 701, paragraph 9

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(c) The identification of deficiencies in internal control that are relevant to the prevention and detection of fraud.	transparency about those communications. The considerations in paragraph 66 focus on the nature of matters communicated with those charged with governance that are intended to reflect fraud related matters that may be of particular interest to intended users. A173. In addition to matters that relate to the specific required considerations in paragraph 66, there may be other fraud related matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 67. A174. Fraud related matters often are matters that require significant auditor attention, for example: • The identification of fraud or suspected fraud may require significant changes to the auditor's risk assessment and reevaluation of the planned audit procedures (i.e., a significant change in the audit approach). • Significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. The auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of these transactions. A175. Accounting estimates often are the most complex areas of the financial statements and may be highly dependent on management judgment. Accounting estimates that have a significant effect on the financial statements or accounting estimates that are complex may have an increased susceptibility to misstatements due to intentional management bias and therefore the auditor may identify a risk of material misstatement due to fraud in the related class of

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	transactions, account balance or disclosure. For example, management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosures which may have had a significant effect on the auditor's overall procedures. A176. The auditor may communicate a significant deficiency in internal control to management and those charged with governance that is relevant to the prevention and detection of fraud. Significant deficiencies may exist even though the auditor has not identified misstatements during the audit. . For example, the lack of a whistleblower program may be indicative of weaknesses in the entity's control environment, but it may not directly relate to a risk of material misstatement due to fraud. The auditor is required to communicate significant deficiencies in internal control in accordance with ISA 265. [Previously paragraph A58C in Agenda Item 5–C December meeting material] A177. This ISA requires management override of controls to be a risk of material misstatement due to fraud (see paragraph 42) and presumes that there are risks of material misstatement due to fraud in revenue recognition (see paragraph 41). The auditor may determine these matters to be fraud related key audit matters because significant risks are often matters that require significant auditor attention. However, the auditor may determine that these risks of material misstatement did not require significant auditor attention and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 66.

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67. In applying ISA 701,[84] the auditor shall determine which of the matters determined in accordance with paragraph 66 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A178–A180)	A178. As described in ISA 701,[85] the auditor's decision-making process in determining key audit matters is based on the auditor's professional judgment about which matters were of most significance in the audit of the financial statements of the current period. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.[86] A179. One of the considerations that may be relevant to determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users' understanding of financial statements as a whole.[87] As users of financial statements have highlighted their interest in fraud related matters, these matters ordinarily are matters of most significance in the audit of the financial statements of the current period and therefore are key audit matters. A180. ISA 701[88] includes other considerations that may be relevant to determining which fraud related matters that required significant auditor attention, were of most significance in the current period and therefore are key audit matters.
Communicating Fraud Related Key Audit Matters	*Communicating Fraud Related Key Audit Matters* A181. If a fraud related matter is determined to be a key audit matter and there are a number of separate, but related, considerations that were

[84] ISA 701, paragraph 10

[85] ISA 701, paragraph 10

[86] ISA 701, paragraph A1

[87] ISA 701, paragraph A29

[88] ISA 701, paragraph A29

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68. In applying ISA 701,[89] in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A181–A183) [Previously paragraph 39A in Agenda Item 5–C December meeting material]	of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes that the matter relates to fraud. A182. Relating a matter directly to the specific circumstances of the entity may help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, revenue recognition or management override of controls may be regularly determined as fraud related key audit matters. In describing why the auditor considered the matter to be one of most significance in the audit, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods. Similarly, in describing how the fraud related key audit was addressed in the audit, it may be useful for the auditor to highlight matters directly related to the specific circumstances of the entity, while avoiding generic or standardized language. A183.ISA 701,[90] describes that management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be

89 ISA 701, paragraph 11

90 ISA 701, paragraph A37

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	communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the identification of fraud or suspected fraud or the identification of deficiencies in internal control that are relevant to the prevention and detection of fraud.
[Previously paragraph 39C in Agenda Item 5–C December meeting material] [Deleted]	
[Previously paragraph 39D in Agenda Item 5–C December meeting material] [Deleted]	[Previously paragraph A58C in Agenda Item 5–C December meeting material] [Moved to paragraph A176] [Previously paragraph A58D in Agenda Item 5–C December meeting material] [Deleted]
[Previously paragraph 39E in Agenda Item 5–C December meeting material] [Deleted]	
69. In applying ISA 701,[91] if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no fraud related key audit matters to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report. (Ref: Para. A184–A187A)	A184. The requirement in paragraph 69 may apply in circumstances when: (a) The auditor determines in accordance with paragraph 67 that there are no fraud related key audit matters (see paragraph A187). (b) The auditor determines in accordance with paragraph 14 of ISA 701 that a fraud related key audit matter will not be communicated in the auditor's report and no other matters have been determined to be fraud related key audit matters (see paragraph A187).

[91] ISA 701, paragraph 16

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	(c) The only matters determined to be fraud related key audit matters are those communicated in accordance with paragraph 15 of ISA 701. A185. The following illustrates the presentation in the auditor's report if the auditor has determined there are key audit matters to communicate but these do not include fraud related key audit matters: [Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] We have determined that there are no key audit matters related to fraud to communicate in our report. A186. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one fraud related key audit matter. However, in certain limited circumstances, the auditor may determine that there are no fraud related matters that are key audit matters in accordance with paragraph 67. Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report A187. ISA 701, paragraph 14(b), indicates that it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report and includes guidance on circumstances in which a matter determined to be a key audit matter may not be communicated in the auditor's report. For example: • Law, or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter.

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	• There is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.[92] • The auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. A187A. It may be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements.[93]
Written Representations	**Written Representations** (Ref: Para. 70)
70. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A188–A189) (a) They acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent	A188. ISA 580[94] establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. Although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. In addition, since

92 ISA 701, paragraphs A53–A54

93 For example, except for certain specified circumstances, paragraph R114.2 of the IESBA Code does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

94 ISA 580, *Written Representations*

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or detect fraud and have appropriately fulfilled those responsibilities; (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They 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 financial statements; and (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.	management are in a unique position to perpetrate fraud, it is important for the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence in drawing the conclusion required in accordance with ISA 330.[95] A189. ISA 580[96] also addresses circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of material misstatement due to fraud. [Previously paragraph A60 in Agenda Item 5–C December meeting material] [Deleted]
Communications with Management and Those Charged with Governance	**Communications with Management and Those Charged with Governance** (Ref: Para. 71–73)
	A190. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor

95 ISA 330, paragraph 26

96 ISA 580, paragraphs 16–18

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	is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.
Communication with Management 71. If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention or detection of fraud of matters relevant to their responsibilities. (Ref: Para. A190–A191)	*Communication with Management* (Ref: Para. 71) A191. When the auditor has obtained evidence that fraud exists or may exist, it is important that the matter be brought to the attention of the appropriate level of management as soon as practicable. This is so even if the matter may be considered inconsequential (e.g., a minor defalcation by an employee at a low level in the entity's organization). The determination of which level of management is the appropriate one is a matter of professional judgment and is affected by such factors as the likelihood of collusion and the nature and magnitude of the suspected fraud. Ordinarily, the appropriate level of management is at least one level above the persons who appear to be involved with the fraud or suspected fraud.
Communication with Those Charged with Governance 72. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud involving: (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements,	*Communication with Those Charged with Governance* (Ref: Para. 72) A192. The auditor's communication with those charged with governance may be made orally or in writing. ISA 260 (Revised)[97] identifies factors the auditor considers in determining whether to communicate orally or in writing.[98] Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the financial statements, the auditor reports such matters on a timely basis and may consider it necessary to also report such matters in writing.

[97] ISA 260 (Revised), *Communication with Those Charged with Governance*

[98] ISA 260 (Revised), paragraph A38

ISA 240 Requirement	Application Material
the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A190 and A192–A194)	A193. In some cases, the auditor may consider it appropriate to communicate with those charged with governance when the auditor becomes aware of fraud involving employees other than management that does not result in a material misstatement. Similarly, those charged with governance may wish to be informed of such circumstances. The communication process is assisted if the auditor and those charged with governance agree at an early stage in the audit about the nature and extent of the auditor's communications in this regard. A194. In the exceptional circumstances where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to obtain legal advice to assist in determining the appropriate course of action.
73. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance. (Ref: Para. A190 and A195)	Other Matters Related to Fraud (Ref: Para. 73) A195. Other matters related to fraud to be discussed with those charged with governance of the entity may include, for example: ● Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent or detect fraud and of the risk that the financial statements may be misstated. ● A failure by management to appropriately address identified significant deficiencies in internal control, or to appropriately respond to an identified fraud. ● The auditor's evaluation of the entity's control environment, including questions regarding the competence and integrity of management.

ISA 240 Requirement	**Application Material**
	● Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability. ● Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.
Reporting to an Appropriate Authority Outside the Entity	**Reporting to an Appropriate Authority Outside the Entity** (Ref: Para. 74)
74. If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A196–A200) (a) Require the auditor to report to an appropriate authority outside the entity. (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.	A196. The reporting may be to applicable regulatory, enforcement, supervisory or other appropriate authority outside the entity. A197. ISA 250 (Revised)[99] provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality.[100] A198. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, when not prohibited by law, regulation or relevant ethical requirements, may include:

[99] ISA 250 (Revised), paragraphs A28–A34

[100] For example, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

ISA 240 Requirement	Application Material
	• Any views expressed by regulatory, enforcement, supervisory or other appropriate authority outside of the entity. • Whether reporting the matter would be acting in the public interest. A199. Reporting fraud matters to an appropriate authority outside the entity may involve complex considerations and professional judgments. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action. *Considerations Specific to Public Sector Entities* A200. In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation or other authority.
Documentation	**Documentation** (Ref: Para. 75)
75. In applying ISA 230,[101] the auditor shall include the following in the audit documentation: (Ref: Para. A201) (a) The discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud, the significant decisions reached,	A201. ISA 230[102] addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.

[101] ISA 230, *Audit Documentation*, paragraphs 8-11, A6-A7 and Appendix

[102] ISA 230, paragraphs 11 and A15

ISA 240 Requirement	Application Material
and the fraud risk factors identified, including audit documentation relating to those fraud risk factors in paragraph 29(a). (b) Key elements of the auditor's understanding in accordance with paragraphs 30–34, the sources of information from which the auditor's understanding was obtained, the rationale for the significant decisions reached, and the risk assessment procedures performed. (c) The evaluation of the design of controls over journal entries that prevent or detect fraud, and the determination whether such controls have been implemented, in accordance with the requirement in paragraph 35. (d) The significant risks due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made. [Previously paragraph 46(a) in Agenda Item 5–C December meeting material] (e) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion. [Previously paragraph 48 in Agenda Item 5–C December meeting material] (f) The results of audit procedures performed, including those designed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached. [Previously paragraph 46(b) in Agenda Item 5–C December meeting material)]	

ISA 240 Requirement	Application Material
(g) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached. (h) Matters related to communications about fraud with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters. [Previously paragraph 47 in Agenda Item 5–C December meeting material]	
[Previously paragraph 46 in Agenda Item 5–C December meeting material] [Lead-in deleted] [Previously paragraph 46(a) in Agenda Item 5–C December meeting material] [Moved to paragraph 75(d)] [Previously paragraph 46(b) in Agenda Item 5–C December meeting material] [Moved to paragraph 75(f)]	
[Previously paragraph 47 in Agenda Item 5–C December meeting material] [Moved to paragraph 75(h)]	
[Previously paragraph 48 in Agenda Item 5–C December meeting material] [Moved to paragraph 75(e)]	

Appendix 1

(Ref: Para. A97)

Examples of Fraud Risk Factors

The fraud risk factors identified in this Appendix are examples of such factors that may be faced by auditors in a broad range of situations. Separately presented are examples relating to the two types of fraud relevant to the auditor's consideration – that is, fraudulent financial reporting and misappropriation of assets. For each of these types of fraud, the risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. Also, the order of the examples of risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Fraud risk factors may relate to incentives or pressures, or opportunities, that arise from conditions that create susceptibility to misstatement before consideration of controls (i.e., the inherent risk). Such factors are inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. Fraud risk factors related to opportunities may also arise from other identified inherent risk factors (for example, complexity or uncertainty may create opportunities that result in susceptibility to misstatement due to fraud). Fraud risk factors related to opportunities may also relate to conditions within the entity's system of internal control, such as limitations or deficiencies in the entity's internal control that create such opportunities. Fraud risk factors related to attitudes or rationalizations may arise, in particular, from limitations or deficiencies in the entity's control environment.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, geopolitical, or entity operating conditions, such as (or as indicated by):

- High degree of competition or market saturation, accompanied by declining margins.
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.
- Increased volatility in financial and commodity markets due to fluctuations in interest rates and inflationary trends.
- Significant declines in customer demand and increasing business failures in either the industry or overall economy.
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.

- Rapid growth or unusual profitability especially compared to that of other companies in the same industry.
- New accounting, statutory, or regulatory requirements.
- Pandemics or wars triggering major disruptions in the entity's operations, financial distress and severe cashflow shortages.
- Economic sanctions imposed by governments and international organizations against a jurisdiction, including its companies and products.

Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:

- Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.
- Need to obtain additional debt or equity financing, or qualify for government assistance or incentives, to avoid bankruptcy or foreclosure, or to stay competitive – including financing of major research and development or capital expenditures.
- Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements.
- Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as initial public offerings, mergers and acquisitions, business combinations or contract awards.
- Management enters into significant transactions that places undue emphasis on achieving key performance indicators to stakeholders (e.g., meeting earnings per share forecasts or maintaining stock price).

Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:

- Significant financial interests in the entity.
- Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, cash flow, or other key performance indicators.[103]
- Personal guarantees of debts of the entity.

There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.

Opportunities

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

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103 Management incentive plans may be contingent upon achieving targets relating only to certain accounts or selected activities of the entity, even though the related accounts or activities may not be material to the entity as a whole.

- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions.
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.
- Use of business intermediaries for which there appears to be no clear business justification.
- The entity has a history of modifying, revoking, or amending revenue contracts through the use of side agreements that are typically executed outside the recognized business process and reporting channels.
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.
- Non-traditional entry to capital markets by the entity, for example, through an acquisition by, or merger with, a special-purpose acquisition company.
- Aggressive stock promotions by the entity through press releases, investment newsletters, website coverage, online advertisements, email, or direct mail.

The monitoring of management is not effective as a result of the following:

- Domination of management by a single person or small group (in a non owner-managed business) without compensating controls.
- Oversight by those charged with governance over the financial reporting process and internal control is not effective.
- Weakened control environment triggered by a shift in focus by management and those charged with governance to address more immediate needs of the business such as financial and operational matters.

There is a complex or unstable organizational structure, as evidenced by the following:

- Difficulty in determining the organization or individuals that have controlling interest in the entity.
- Overly complex organizational structure involving unusual legal entities or managerial lines of authority.
- Overly complex IT environment relative to the nature of the entity's business, legacy IT systems from acquisitions that were never integrated into the entity's financial reporting system, or ineffective IT general controls.
- High turnover of senior management, legal counsel, or those charged with governance.

Deficiencies in internal control as a result of the following:

- Inadequate process to monitor the entity's system of internal control, including automated controls and controls over interim financial reporting (where external reporting is required).
- Inadequate fraud risk management program, including whistleblower program.
- Inadequate controls due to changes in the current environment, for example, increased data security risks from using unsecured networks that makes the entity's data and information more vulnerable to cybercrime that could result in breaches of customer data or the entity's proprietary information.
- High turnover rates or employment of staff in accounting, IT, or the internal audit function that are not effective.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Attitudes/Rationalizations

- Management and those charged with governance have not created a culture of honesty and ethical behavior. For example, communication, implementation, support, or enforcement of the entity's values or ethical standards by management and those charged with governance are not effective, or the communication of inappropriate values or ethical standards.
- Nonfinancial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates.
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations, including those dealing with corruption, bribery and money laundering.
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.
- The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts.
- Management and those charged with governance demonstrate an unusually high-risk tolerance or display an unusually high lifestyle, a pattern of significant personal issues, or frequently engage in high risk activities.
- Management and those charged with governance make materially false or misleading statements about other information included in the entity's annual report (e.g., key aspects of the entity's business, products, or technology).
- Management failing to remedy known significant deficiencies in internal control on a timely basis.
- An interest by management in employing inappropriate means to minimize reported earnings for tax-motivated reasons.
- Applying aggressive valuation assumptions in mergers and acquisitions to support high purchase prices or overvalue acquired intangible assets.
- Rationalizing the use of unreasonable assumptions affecting the timing and amount of revenue recognition, for example, in an attempt to alleviate the negative effects of severe economic downturns.
- Rationalizing the use of unreasonable assumptions used in projections to account for impairment of goodwill and intangible assets, for example, to avoid recognizing significant impairment losses.

- Low morale among senior management.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.
- The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:
    - Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.
    - Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.
    - Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
    - Domineering management behavior in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement.

Risk Factors Relating to Misstatements Arising from Misappropriation of Assets

Risk factors that relate to misstatements arising from misappropriation of assets are also classified according to the three conditions generally present when fraud exists: incentives/pressures, opportunities, and attitudes/rationalization. Some of the risk factors related to misstatements arising from fraudulent financial reporting also may be present when misstatements arising from misappropriation of assets occur. For example, ineffective monitoring of management and other deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.

Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

- Large amounts of cash on hand or processed.
- Inventory items that are small in size, of high value, or in high demand.
- Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- Fixed assets which are small in size, marketable, or lacking observable identification of ownership.

Inadequate controls over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.
- Inadequate oversight of senior management expenditures, such as travel and other re-imbursements.
- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations.
- Inadequate job applicant screening of employees with access to assets.
- Inadequate record keeping with respect to assets.
- Inadequate system of authorization and approval of transactions (for example, in purchasing).
- Inadequate physical safeguards over cash, investments, inventory, or fixed assets.
- Lack of complete and timely reconciliations of assets.
- Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of IT, which enables IT employees to perpetrate a misappropriation.
- Inadequate access controls over automated records, including controls over and review of computer systems event logs.
- Inadequate controls in vendor management, including changes in the supply chain, that may expose the entity to fictitious vendors, or unvetted vendors that pay kickbacks or are involved in other fraudulent or illegal activities.
- Oversight by those charged with governance over how management utilized financial aid from governments and local authorities (e.g., bailouts during pandemics, wars, or impending industry collapse) is not effective.

Attitudes/Rationalizations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for controls over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.
- Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
- Changes in behavior or lifestyle that may indicate assets have been misappropriated.

- Tolerance of petty theft.
- Rationalizing misappropriations committed during severe economic downturns by paying the entity back when circumstances return to normal.

Appendix 2

(Ref: Para. A115 and A125)

Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

The following are examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets. Although these procedures cover a broad range of situations, they are only examples and, accordingly they may not be the most appropriate nor necessary in each circumstance. Also the order of the procedures provided is not intended to reflect their relative importance.

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- Visiting locations or performing certain tests on a surprise or unannounced basis. For example, observing inventory at locations where auditor attendance has not been previously announced or counting cash at a particular date on a surprise basis.
- Requesting that inventories be counted at the end of the reporting period or on a date closer to period end to minimize the risk of manipulation of balances in the period between the date of completion of the count and the end of the reporting period.
- Altering the audit approach in the current year. For example, contacting major customers and suppliers orally in addition to sending written confirmation, sending confirmation requests to a specific party within an organization, or seeking more or different information.
- Performing a detailed review of the entity's quarter-end or year-end adjusting entries and investigating any that appear unusual as to nature or amount.
- For significant and unusual transactions, particularly those occurring at or near year-end, investigating the possibility of related parties and the sources of financial resources supporting the transactions.
- Performing substantive analytical procedures using disaggregated data. For example, comparing sales and cost of sales by location, line of business or month to expectations developed by the auditor.
- Conducting interviews of personnel involved in areas where a risk of material misstatement due to fraud has been identified, to obtain their insights about the risk and whether, or how, controls address the risk.
- Conducting interviews with personnel outside of the financial reporting function. For example, sales and marketing personnel.
- When other independent auditors are auditing the financial statements of one or more subsidiaries, divisions or branches, discussing with them the extent of work necessary to be performed to address

the assessed risk of material misstatement due to fraud resulting from transactions and activities among these components.

- If the work of an expert becomes particularly significant with respect to a financial statement item for which the assessed risk of material misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods or findings to determine that the findings are not unreasonable, or engaging another expert for that purpose.
- Performing audit procedures to analyze selected opening balance sheet accounts of previously audited financial statements to assess how certain issues involving accounting estimates and judgments, for example, an allowance for sales returns, were resolved with the benefit of hindsight.
- Performing procedures on account or other reconciliations prepared by the entity, including considering reconciliations performed at interim periods.
- Performing automated tools and techniques, such as data mining to test for anomalies in a population. For example, using automated tools and techniques to identify numbers that have been used frequently as there may be an unconscious bias by management or employees when posting fraudulent journal entries or other adjustments to use the same number repetitively.
- Testing the integrity of computer-produced records and transactions.
- Seeking additional audit evidence from sources outside of the entity being audited.

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Automated tools and techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- Confirming with customers certain relevant contract terms and the absence of side agreements, because the appropriate accounting often is influenced by such terms or agreements and basis for rebates or the period to which they relate are often poorly documented. For example, acceptance criteria, delivery and payment terms, the absence of future or continuing vendor obligations, the right to return the product, guaranteed resale amounts, and cancellation or refund provisions often are relevant in such circumstances.
- Inquiring of the entity's sales and marketing personnel or in-house legal counsel regarding sales or shipments near the end of the period and their knowledge of any unusual terms or conditions associated with these transactions.
- Being physically present at one or more locations at period end to observe goods being shipped or being readied for shipment (or returns awaiting processing) and performing other appropriate sales and inventory cutoff procedures.

- For those situations for which revenue transactions are electronically initiated, processed, and recorded, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.
- Examining customer correspondence files at the entity for any unusual terms or conditions that raise questions about the appropriateness of revenue recognized.
- Analyzing the reasons provided for product returns received shortly after the end of the financial year (e.g., product not ordered, entity shipped more units than ordered).
- Determining that revenue transactions are recorded in accordance with the applicable financial reporting framework and the entity's accounting policies. For example, goods shipped are not recorded as sales unless there is a transfer of legal title in accordance with the shipping terms especially in circumstances when the entity uses a freight forwarder or a third-party warehouse or fulfillment center.

Inventory Quantities

- Examining the entity's inventory records to identify locations or items that require specific attention during or after the physical inventory count.
- Observing inventory counts at certain locations on an unannounced basis or conducting inventory counts at all locations on the same date.
- Conducting inventory counts at or near the end of the reporting period to minimize the risk of inappropriate manipulation during the period between the count and the end of the reporting period.
- Performing additional procedures during the observation of the count, for example, more rigorously examining the contents of boxed items, the manner in which the goods are stacked (for example, hollow squares) or labeled, and the quality (that is, purity, grade, or concentration) of liquid substances such as perfumes or specialty chemicals. Using the work of an expert may be helpful in this regard.
- Comparing the quantities for the current period with prior periods by class or category of inventory, location or other criteria, or comparison of quantities counted with perpetual records.
- Using automated tools and techniques to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.
- Verifying the accurate calibration of tools that are used to record, measure or weigh the quantity of inventory items – for example, scales, measuring devices or scanning devices.
- Using an expert to confirm the nature of inventory quantities for specialized products – for example, the weight of the precious gemstones may be determinable, but an expert may assist with determining the cut. color and clarity of precious gemstones.

Management Estimates

- Using an expert to develop an independent estimate for comparison to management's estimate.

- Extending inquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate.

Specific Responses—Misstatements Due to Misappropriation of Assets

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- Counting cash or securities at or near year-end.
- Confirming directly with customers the account activity (including credit memo and sales return activity as well as dates payments were made) for the period under audit.
- Analyzing recoveries of written-off accounts.
- Analyzing inventory shortages by location or product type.
- Comparing key inventory ratios to industry norm.
- Reviewing supporting documentation for reductions to the perpetual inventory records.
- Performing a computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing a computerized search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.
- Reviewing personnel files for those that contain little or no evidence of activity, for example, lack of performance evaluations.
- Analyzing sales discounts and returns for unusual patterns or trends.
- Confirming specific terms of contracts with third parties.
- Obtaining evidence that contracts are being carried out in accordance with their terms.
- Reviewing the propriety of large and unusual expenses.
- Reviewing the authorization and carrying value of senior management and related party loans.
- Reviewing the level and propriety of expense reports submitted by senior management.

Appendix 3

(Ref: Para. A29A)

Examples of Circumstances that May Be Indicative of Fraud

The following are examples of circumstances that may indicate that the financial statements may contain a material misstatement due to fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorized balances or transactions.
- Last-minute adjustments that significantly affect financial results (e.g., inventory adjustments).
- [Moved to "*Other*"]
- [Moved to "*Other*"]

Conflicting or missing evidence, including:

- Missing documents.
- Missing approvals or authorization signatures.
- Signature or handwriting discrepancies.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial statement ratios or relationships – for example, receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from inquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Subsidiary ledgers, which do not reconcile with control accounts.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Unexplained fluctuations in stock account balances, inventory variances and turnover rates.
- Missing or non-existent cancelled checks in circumstances where cancelled checks are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.

- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Confirmation letters not returned.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.
- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the financial statements to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.

Other

- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Extensive use of suspense accounts.
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's code of conduct.
- Discrepancy between earnings and lifestyle.
- Unusual, irrational, or inconsistent behavior.
- Electronic mail sent at unusual times, with unnecessary attachments, or to unusual destinations.
- Anonymous emails, letters or telephone calls, including tips or complaints to the auditor about alleged fraud. [Moved from "*Discrepancies in the accounting records*"]
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorized duties. [Moved from "*Discrepancies in the accounting records*"]

- Systems being accessed outside of normal hours or from outside the normal work area.
- Higher than average number of failed login attempts.
- Controls or audit logs being switched off.

Appendix 4

(Ref: Para. A91 and A135)

Additional Considerations When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

- Understanding of the entity's information system and communication relevant to the preparation of the financial statements[104] (see also paragraph 34 of this ISA) – obtaining this required understanding provides the auditor with knowledge about:
    - The entity's policies and procedures regarding (including the individuals within the entity responsible for) how transactions are initiated, recorded, processed, corrected as necessary, incorporated in the general ledger, and reported in the financial statements.
    - The types of journal entries (whether standard or non-standard) incorporated in the general ledger and, in turn, reported in the financial statements, including other adjustments made directly to the financial statements.
    - The process of how journal entries and other adjustments are recorded or made (whether automated or manual) as well as the supporting documentation required, based on the entity's policies and procedures.
    - The entity's financial statement closing process.
- Understanding of the entity's control activities relevant to controls that prevent or detect fraud over journal entries[105] (see also paragraph 35 of this ISA) – for many entities, routine processing of transactions involves a combination of manual and automated controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated controls across one or multiple IT systems. Where IT is used in the financial reporting process, journal entries and other adjustments may exist only in electronic form.
    - The types of controls that prevent or detect fraud over journal entries may include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets.
    - The focus of the requirement in paragraph 35 is on controls over journal entries that address a risk(s) of material misstatement due to fraud at the assertion level, and that could be susceptible to unauthorized or inappropriate intervention or manipulation. These controls include:
        - Controls over non-standard journal entries – where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments.

[104] ISA 315 (Revised 2019), paragraph 25

[105] ISA 315 (Revised 2019), paragraph 26

    - Controls over standard journal entries – where the journal entries are automated or manual and are susceptible to unauthorized or inappropriate intervention or manipulation.

  [Moved certain text between bullets when compared to the presentation reflected in the June 2022 Board agenda materials]

- The effectiveness of controls that have been implemented over journal entries and other adjustments – effective controls over the preparation and posting of journal entries and other adjustments may reduce the extent of substantive testing necessary, provided that the auditor has tested the operating effectiveness of the controls.

- The identification and assessment of the risks of material misstatement due to fraud – the evaluation of information obtained from the risk assessment procedures and related activities, including the consideration of information obtained from other sources, could indicate the presence of fraud risk factors. Such fraud risk factors, particularly events or conditions that indicate incentives and pressures for management to override controls, opportunities for management override, and attitudes or rationalizations that enable management to justify override of controls, may assist the auditor to identify specific classes of journal entries and other adjustments for testing. These may include journal entries and other adjustments susceptible to unauthorized or inappropriate intervention or manipulation resulting from:

    - Pressures or incentives to meet or exceed performance measures used, internally and externally (e.g., auto-reversing journal entries made at year-end).

    - Pressures or incentives to minimize or avoid taxes (e.g., inappropriate journal entries to record premature or delayed revenue or expense recognition).

    - Pressures to comply with debt repayment or other debt covenant requirements (e.g., inappropriately offsetting assets and liabilities in the balance sheet by directly making adjustments in the financial statements to achieve a debt covenant on the entity's debt-to-equity ratio, even when the conditions for a right of setoff are not met).

    - Opportunities, arising from the inappropriate segregation of duties, for any individual in the entity to conceal or perpetrate fraud in the normal course of that individual's duties (e.g., journal entries and other adjustments relating to transactions affecting assets, where the individual is responsible for (a) the custody of assets, or (b) the authorization or approval of the related transactions affecting those assets, and (c) the recording or reporting of related transactions).

    - Opportunities arising from deficiencies in internal control (e.g., journal entries and other adjustments related to purchase payments to unauthorized vendors or made by terminated or transferred employees).

    - Opportunities arising from privileged access granted to individuals involved in the financial statement closing process (e.g., journal entries and other adjustments made by individuals with administrative or powerful users' access).

    - Opportunities arising from calculations based on end-user computing tools that support accounting estimates susceptible to misstatement due to management bias or fraud (e.g., journal entries and other adjustments based on calculations of impairment of goodwill and other intangible assets using spreadsheet software).

- The characteristics of fraudulent journal entries or other adjustments – inappropriate journal entries or other adjustments often have unique identifying characteristics. The auditor may use recent information, such as data on actual perpetrated frauds or reports regarding trends in occupational fraud, to inform the auditor as to characteristics of fraudulent journal entries. Such characteristics may include entries:
    - Made to unrelated, unusual, or seldom-used accounts.
    - Made by individuals who typically do not make journal entries.
    - Recorded at the end of the period or as post-closing entries that have little or no explanation or description.
    - Made either before or during the preparation of the financial statements that do not have account numbers.
    - Containing round numbers or consistent ending numbers.
- The nature and complexity of the accounts – inappropriate journal entries or adjustments may be applied to accounts that:
    - Contain transactions that are complex or unusual in nature.
    - Contain significant estimates and period-end adjustments.
    - Have been prone to misstatements in the past.
    - Have not been reconciled on a timely basis or contain unreconciled differences.
    - Contain intercompany transactions.
    - Are otherwise associated with an identified risk of material misstatement due to fraud.
- Journal entries or other adjustments processed outside the normal course of business – non-standard journal entries may not be subject to the same nature and extent of controls as those journal entries used on a recurring basis to record transactions such as monthly sales, purchases and cash disbursements.

Appendix 5

(Ref: Para. A16)

Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud

This Appendix identifies other ISAs with specific requirements that refer to fraud or suspected fraud. The list does not include other ISAs with requirements that refer to fraud or error (e.g., ISA 210,[106] ISA 315 (Revised 2019), ISA 700 (Revised)). The list is not a substitute for considering the requirements and related application and other explanatory material in the ISAs.

- ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraph 19
- ISA 505, *External Confirmations* – paragraphs 8(b) and 11
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 32
- ISA 550, *Related Parties* – paragraphs 19, 22(e) and 23(a)(i)
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraphs 38(d), 45(h), 55, 57(d) and 59(g)(i)

106 ISA 210, *Agreeing the Terms of Audit Engagements*

Complexity, Understandability, Scalability and Proportionality

Drafting Principles and Guidelines
[DRAFT]

International Auditing
and Assurance
Standards Board

About the IAASB

This document has been prepared by the International Auditing and Assurance Standards Board's Staff. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Assurance Engagements or other of the IAASB's International Standards

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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Contents

Introduction

These drafting principles and guidelines outline a drafting framework for International Standards on Auditing (ISAs), to enable the writing of standards that result in the consistent understanding and effective application of the ISAs. Writing standards in this way serves the public interest benefit of making the IAASB's expectations clear to all users of its standards.

The drafting principles and guidelines aim to achieve the following:

- Provide a common understanding to IAASB Staff, Task Forces and the IAASB about how the ISAs are drafted.
- Establish a set of drafting principles and guidelines to promote consistency, clarity and uniformity while drafting ISAs.
- Encourage a reflective mindset while drafting with respect to complexity, understandability, scalability and proportionality.
- Enable a more consistent understanding and effective application of the ISAs through a focus on how the ISAs are written and presented.

The drafting principles and guidelines are non-authoritative. It is intended that they be updated [at least annually] to determine the need for any updates through revising existing content or adding new content. In consultation with the Planning Committee and taking into account feedback from the Board, as appropriate, the Program and Technical Director with concurrence by the IAASB Chair or Deputy Chair authorizes Staff to undertake an update.

The drafting principles and guidelines provide direction for Staff of the IAASB on how to write ISAs and also include writing tips and examples. They are intended to guide IAASB Staff who would follow the drafting principles and apply the guidance provided while writing new and revising existing standards. They are also intended to facilitate IAASB Staff in their engagement with Task Forces while developing and revising ISAs.

The drafting principles and guidelines may be a useful tool for National Standard Setters (NSS) who adopt the ISAs in their jurisdictions and to ensure consistency when drafting national standards or guidance. They are also relevant more broadly for other users of the ISAs, including those stakeholders engaged in processes of translation of standards, as they outline how the ISAs are being drafted and therefore facilitate better understanding.

The drafting principles and guidelines are written in the context of the ISAs. Some principles and guidelines may be useful to the development of other IAASB International Standards[1] that are more closely linked to the ISAs, while for other standards further adaptations would be necessary to accommodate the distinguishing features of those standards.

[1] These include: International Standards on Quality Management (ISQMs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs).

Drafting Principles

The drafting principles are intended to be considered as a whole while drafting ISAs.

> The drafting principles for each element relating to drafting are presented in boxes like this.

The drafting principles include statements about what to do and what not to do while drafting (i.e., the 'do's and don'ts' and what to adhere to when drafting an ISA). Staff are expected to follow these, and need to discuss deviations from these principles with senior Staff.

Some of the drafting principles are more overarching, stated at a higher level, and aim to promote a reflective mindset while drafting with respect to complexity, understandability, scalability and proportionality, others are specific to the sections within each ISA or relate to general matters of drafting.

Drafting Guidelines

The drafting guidelines include further explanations of the drafting principles and help clarify how to apply the principles. The drafting guidelines are best practice recommendations that are considered helpful to be referred to while drafting ISAs.

Examples and Relevant Guidance

Examples are provided in gray boxes and tables to help clarify the drafting principles and guidelines and demonstrate the elements relating to drafting ISAs.

Relevant guidance that is considered useful to draw the reader's attention to a certain matter and provide additional context to the drafting guidelines is presented in blue boxes when applicable.

1. Basic Structure of an ISA

Individual ISAs are drafted in accordance with a standard structure that includes uniform sections that provides consistency across the comprehensive body of standards. All of the sections of an ISA collectively form the standard. The authority of each section is set out in ISA 200.[2]

1.1. Sections of an Individual ISA

Drafting Principle(s)

1.1.1. The contents of an individual ISA is organized in sections that include an introduction, objective(s), and requirements section, together with application and other explanatory material.

1.1.2. The scope and effective date are always included in the introduction section of each ISA.

Drafting Guideline

1.1.3. Optional sections of individual ISAs:

An ISA may contain additional introductory material within the introductory section, a definitions section and appendices.

1.1.4. Contents of individual ISAs:

The contents of each standard will vary according to the subject matter and is organized in the following way:

- Table of Contents [reflecting only first- and second-level headings]
- Introduction
  - Scope of this ISA
  - *Other Introductory Material (optional)*
  - Effective Date
- Objective(s)
- *Definitions (where needed)*
- Requirements [headings suitable to the subject matter]
- Application and Other Explanatory Material [headings that correspond to the requirements above, as appropriate]
- *Appendices (optional) [numbered if there is more than one]*

All ISAs should be read in conjunction with ISA 200. This is because ISA 200 is the foundational standard that sets out the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs. Each ISA includes a box indicating that it should be read in conjunction with ISA 200.

[2] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

1.2. Titles and Numbers of ISAs

Drafting Principle(s)

1.2.1. Each ISA is identified by a unique number and has a succinct title referring to its subject matter.

1.2.2. Numbers assigned to ISAs remain unchanged when they are revised.

1.2.3. The title "Revised" is added to the number when referring to standards that have been revised. If the standard is revised again, the year of the latest revision is added (e.g., ISA 610 (Revised 2013)).[3]

Drafting Guidelines

1.2.4 Titles of ISAs:

Titles of ISAs are short while clearly summarizing the ISA's content.

1.2.5 Revisions of ISAs:

The title "Revised" is only added when there is a revision to the ISA. When conforming and consequential amendments are made as a result of revisions to other ISAs, the title "Revised" is not included in the title of the standard.

A comprehensive list of the number and title of each ISA is included in the Contents section of the IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (Part I).

Published ISAs are thematically grouped and ordered by their subject matter into the following sections:

- General Principles and Responsibilities (200-series)
- Risk Assessment and Response to Assessed Risks (300 and 400-series)
- Audit Evidence and Specific Elements of the Audit Engagement (500-series)
- Using The Work of Others (600-series)
- Audit Conclusions and Reporting (700-series)
- Specialized Areas (800-series)

New and revised ISAs that are not yet effective are presented under a separate section.

[3] ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

2. Clear, Simple and Concise Language, Formatting and Style

The IAASB aims to set high quality international standards that are understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of practice worldwide.

To achieve its aim, the IAASB drafts principles-based ISAs that are:

- *Clear—drafted in an easy to understand and unambiguous way.*
- *Simple—avoiding unnecessary words and elements and by using plain language.*
- *Concise—avoiding unnecessary repetition.*

2.1. Clear, Simple and Concise Language

Drafting Principle(s)

2.1.1. The sole official text of the ISAs is that published by the IAASB in the English language.

2.1.2. ISAs are drafted by use of short sentences, with clear, simple and concise and simple language appropriate to the subject matter of each ISA.

Drafting Guidelines

2.1.3. Type of English language:

The form of English language used by the IAASB is that used in the United States (i.e., American English).

2.1.4. Sentences:

A sentence expresses just one idea.

Sentences longer than a line and a half may be too lengthy. Consider parsing such sentences or restructuring them into two or more separate sentences. Using lists (e.g., lists that use sub-letters or lists that use bullet points) can also be helpful when restructuring long sentences. Avoid subordinate clauses, "like this," in sentences.

Example: Sentence in order: 'subject – verb – object'

"The auditor shall exercise professional judgment in planning and performing an audit of financial statements". (ISA 200, paragraph 16)

Sentences are best written in the order subject – verb – object. While it is sometimes necessary to depart from this, it usually results in sentences that are harder to read.

2.1.5. Paragraphs:

Paragraphs may consist of more than one sentence. Each paragraph refers to only one concept by providing a logical link between the ideas of each sentence.

A topic sentence expresses the main point of a paragraph and helps for the other sentences in the paragraph to relate to the topic sentence. Using topic sentences supports focused writing and guides the reader through the connected ideas of each sentence included in the paragraph.

2.1.6. Using simple language:

Use of simple language supports consistent application and translation of the ISAs.

While drafting, apply the following:

- Simplify complex grammatical structures.
- Use the active voice instead of the passive voice.
- Avoid legalistic or archaic terms, nuances, and superfluous adjectives or adverbs.
- Don't use words that suggest an implied obligation because the obligation is unclear (i.e., "should",," "ought to," "recommend," "needs").
- In application and other explanatory material, avoid the present tense as it creates an implied obligation (see also 10.1.6).
- Don't use words that suggest certainty or absolutes for the auditor (e.g., "ensure," "guarantee," "assert," etc.).
- Don't use more words than necessary (e.g., use "The auditor shall obtain evidence for XYZ" instead of "The auditor shall obtain evidence in relation to XYZ").
- When a word or term is known to be problematic to translation (e.g., as indicated by previous responses to an exposure draft), consider alternative wording or define it.

Examples:

Complex grammatical structure

A long sentence may have several relative pronouns (e.g., which, that), subordinate clauses, or multiple use of "and" "or" in a single sentence.

These structures make it difficult to find out which phrases are being compared or modified.

Active versus passive voice

In active voice, the subject of the sentence performs the action (e.g., "The auditor obtains audit evidence").

In a sentence written in the passive voice the subject receives the action (e.g., "Audit evidence is obtained by the auditor").

Present tense

In its simple form: "…the auditor does [something]…"

'Standard-setting' is hyphenated when used as an adjective. When used as a noun, there is no hyphen for 'standard setting'.

Some wording that is used in the ISAs is so fundamental that a change cannot be made. In other cases, consider using alternative wording or clarify the meaning in order to alleviate a translation concern. It is challenging to come up with a complete list of known words that are difficult to translate considering the diversity of languages worldwide, but the following examples can be helpful:

- Be consistent in the use of terms (e.g., when referring to the “auditor” “an auditor,” “risks of material misstatement” and “…free from material misstatement”).
- Avoid including two or more words that are known to be difficult to translate in a single sentence.
- The combination of a singular form and a plural form can be difficult to translate. Subjects and verbs have to agree (i.e., plural subject = plural verb).

2.1.7. <u>“Last minute changes”</u>

Pay particular attention to changes made at the last phases of an approval process of an exposure draft or final standard. In the rush to finalize a standard, it is easy for clear, simple and precise language to be replaced with complex, dense and vague language.

2.2. Lengthy, Educational and Repetitive Material

Drafting Principle(s)

2.2.1. Don’t include material in ISAs that is lengthy, educational or background in nature.

2.2.2. Avoid repeating material that is available elsewhere in the ISAs.

Drafting Guidelines

2.2.3. <u>Concise material:</u>

Avoid including material in ISAs that is lengthy, educational, repetitive or background in nature. Step back and consider whether such material needs to be included in the standard, or whether it can be positioned better elsewhere (e.g., in non-authoritative guidance).

Questions to help make standards more concise	
Do you need a long introduction section?	Introductory material should be kept to a minimum and is included only when necessary. This will help highlight the introductory material in those ISAs where it is necessary to elaborate on the scope or context of the particular ISA (see also Drafting Principle 6.3.2 and Drafting Guideline 6.3.4).
Can the introduction section and the definitions be written clearly such that they stand on their own without the need for further application and other explanatory material?	The application and other explanatory material are principally reserved to provide further explanation and guidance for carrying out the requirements of an ISA. Providing application and other explanatory material to the introduction or definitions may cause confusion about the status of such material. This may however be needed in some cases when it is necessary for an

Questions to help make standards more concise	
	understanding of the context in which the standard or definition is intended to be read (see also Drafting Principle 4.1.4).
Are there instances of subsequent cross-references to the same application and other explanatory material?	When there are subsequent cross-references to the same application and other explanatory material, this may signal that the requirements or the application and other explanatory material need to be improved. (see also Drafting Guideline 4.1.9).
Is the application and other explanatory material necessary?	Not every requirement needs application and other explanatory material. When necessary, the application and other explanatory material provides further explanation of the requirements of an ISA and guidance for carrying them out. In particular, it may explain more precisely what a requirement means or is intended to cover and includes examples of procedures that may be appropriate in the circumstances (see also Drafting Guideline 10.1.4).
Is the application and other explanatory material relevant mainly for first time implementation?	Material that supports first-time implementation of an ISA in the initial period after a final standard is published forms part of the IAASB implementation support activities. Such material is better positioned in non-authoritative guidance rather than in the ISA (see also Drafting Guideline 10.1.4).
Are appendices necessary?	Consider whether any material proposed for inclusion in the appendices is needed. Material in the appendix has the same status as the other application and explanatory material (i.e., relevant to a proper application of the requirement). Some material may therefore be better positioned in non-authoritative guidance rather than in the ISA (see also Drafting Guideline 10.1.9).

2.2.4. Repetition:

To the extent that there is no loss of understandability of an ISA, avoid repeating requirements that exist in another ISA, including a "related ISA" (e.g., when drafting a subject-matter-specific standard, there is no need to repeat a requirement from the "umbrella standard").

Consider:

- Anchoring the requirement back to the original requirement (e.g., using the phrase "in accordance with ISA [Number]"). This is for those cases when in the requirements section repetition is considered necessary for understanding and for context.
- Paraphrasing briefly the requirement in the application and other explanatory material while remaining careful not to change the meaning.
- Using a footnote.

Example: "Umbrella Standard"

ISA 500, *Audit Evidence* is applicable to all the audit evidence obtained during the course of the audit (i.e., "umbrella standard"). Other related standards, as for example, ISA 501, *Audit Evidence—Specific Considerations for Selected Items* deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to certain aspects of inventory, litigation and claims, and segment information in an audit.

While considering whether there is a need to repeat the requirement of another ISA for purpose of understandability, remember that the reader is a competent auditor, whose training, knowledge and experience have assisted in developing the necessary competencies and who has the necessary level of familiarity with all the other ISAs included in the IAASB Handbook.

2.3. Formatting and Style

Drafting Principle(s)

2.3.1. The formatting and style of the ISAs, including matters of grammar and punctuation, follows the 'Chicago Manual of Style.' Follow the IFAC formatting guide for all publications.

2.3.2. The readability of an ISA is supported through use of consistent formatting and style. Use formatting techniques such as bullet points, headings and sub-headings to improve the flow of an ISA.

Drafting Guidelines

2.3.3. Headings:

The use of specific fonts and styles for headings (i.e., to indicate heading levels) is intended to provide a hierarchy in both the requirements and application and other explanatory material sections of an ISA.

2.3.4. Numbering of paragraphs:

Each paragraph of an ISA is consecutively numbered, as follows:

- Paragraphs from beginning of the introduction to end of the requirements section, by using consecutive numbers: 1., 2., 3., ….
- Numbering of paragraphs in the application and other explanatory material section follows the following format: A1., A2., A3., ….
- Numbering of paragraphs from the beginning of each Appendix to their end restarts from 1., followed by consecutive numbers 2., 3., ….

> When conforming and consequential amendments are made as a result of revising another ISA, new paragraphs in the application and other explanatory material are numbered by adding letters to the original paragraph number (e.g., A1a.). Paragraphs are only renumbered when the new standard and the conforming and consequential amendments become effective.

2.3.5. Long Lists:

Presenting very long lists (e.g., using multiple layers of bulleted points), becomes difficult to read and understand and may be perceived as a checklist rather than a principles-based approach. Instead evaluate whether all the items are necessary to be included (in case of application and other explanatory material) or try to use separate paragraphs (in the case of requirements).

2.3.6. Lists that use sub-letters:

Sub-lettering (e.g., (a), (b),) is used when expressing a complete list or when the sub-letters may need to be referred to. This is usually the case when dealing with lists in the requirements section.

2.3.7. Lists that use bullet points:

Bullet points lists are used when expressing a list that is not intended to be complete and this is usually the case when dealing with lists in the application and other explanatory material section.

Where the lead in to a bullet list contains "The following sets out xxx, including:" the bullet list that follows may not be a complete list of all relevant matters.

2.3.8. Use of 'and' 'or' in a bulleted list:

In a bulleted list 'and' means all items need to be taken into account.

In a bulleted list 'or' means that there could be one or more relevant matters within that list.

2.3.9. Enhanced presentation techniques:

Boxes and tables are used to help enhance and separately identify examples presented in the application and other explanatory material, see for example ISA 315 (Revised 2019),[4] paragraph A17 or A23.

2.3.10. Footnotes:

[4] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- Footnotes do not include substantive content (i.e., content other than that used for purpose of cross-referencing).
- Titles of sections and standards are stated in the footnotes on first mention. Titles are not repeated subsequently.
- Footnotes that are not written in sentence form (i.e., footnotes that refer to other standards) do not end with a period.
- The footnote reference is inserted after any punctuation next to the ISA number (e.g., "ISA 210, [5]…").
- When using a footnote to cross-reference to another ISA use: "ISA [Number], [Title if first mention (in italics)], paragraph x [or paragraphs x–y when referring to consecutively numbered paragraphs and paragraphs x–y and z when referring to non-consecutive numbered paragraphs]". Alternatively use "see ISA [Number], paragraph x."
- Footnote numbering restarts at 1 in each Appendix (if applicable).

3. Scalability and Proportionality in the Requirements

When drafting requirements and application and other explanatory material, scalability and proportionality are integral to the ability of the ISAs to be capable of being appropriately applied to a wide range of entities with varying circumstances, including different sizes and complexities. Scalability and proportionality apply at both the overarching level in respect of an ISA, as well as for individual requirements within an ISA.

Drafting Principle(s)

3.1.1. An ISA, and its requirements, reflect the public interest appropriately when they are drafted in a manner that is:

- Scalable by allowing the auditor to calibrate the magnitude of the response in the context of the circumstances (i.e., the ability to calibrate an appropriate response to a wide range of entities and for varying circumstances, including circumstances from less complex to more complex).[6]
- Proportionate to the public interest through reflecting standards and requirements that are appropriate to the nature and circumstances of the entity.

Drafting Guidelines

3.1.2. Scalability and proportionality test:

[5] ISA 210, *Agreeing the Terms of Audit Engagements*

[6] Some ISAs developed and revised up to ISA 600 (Revised), *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)*, include scalability considerations in the context that the ISA is intended to apply for audits of all entities, regardless of *size or complexity* (see also Drafting Guideline 6.3.5). In addition, the ISAs developed and revised prior to ISA 315 (Revised 2019) included relevant considerations for "smaller entities" to illustrate scalability (see also Drafting Guideline 11.1.3). As ISAs are updated and revised, references to "size or complexity" or paragraphs addressing "considerations specific to smaller entities" should be reconsidered.

The requirements in the ISAs are drafted in a manner that illustrates both scalability and proportionality.

The following considerations are relevant for *scalability*:

- Does the requirement sufficiently allow the application of judgment for differing circumstances of complexity in light of the varying circumstances of the audit?
- Can the ISA and its requirements be consistently applied and be capable of globally operability across entities of with a wide range of circumstances, including varying sizes and complexities, considering the different conditions that may be prevalent in various jurisdictions?

The following considerations are relevant for *proportionality*:

- Do the benefits of having the requirement outweigh its costs?
- Is it clear when the requirements are applicable to the specific circumstances of the entity?

3.1.3. <u>The standard-setting toolbox for scalability and proportionality:</u>

Standard setting tools that help address scalability and proportionality of the ISAs, in the requirements and the application and other explanatory material, include:

- Scope statements that identify for which audits or circumstances the ISA (and therefore all of its requirements) applies. Sometimes it is necessary to expand these statements to clarify when the standard does not apply, what it does not deal with, or when there is a specific limitation to the applicability of the ISA (see also Drafting Guideline 6.1.3).
- Inclusion of an explanation about "scalability" in the introductory material of the standard, or application or other explanatory material for a particular requirement, to help emphasize how the ISA is intended to be scalable for audits of all entities, regardless of size or complexity (see also Drafting Guideline 6.3.5).
- Requirements that are sufficiently principles-based that allow the requirements to be applied in a wide range of circumstances (i.e., remaining neutral as to complexity, as well as being less prescriptive) (see also Drafting Principle 9.1.5).
- Identifying any conditionality for a requirement at the beginning of the requirement to help make clear that there are limits to the relevance and applicability of that specific requirement (see also Drafting Guideline 9.1.8).
- Use of the application and other explanatory material to help the auditor by illustrating how a particular requirement can be 'scaled' up or down for more or less complex circumstances. Such explanatory material is included in a separate section titled "Considerations Specific to Less Complex Entities (LCEs)." (some ISAs (e.g., ISA 315 (Revised 2019)) include examples in the application and other explanatory material under the heading "Scalability" to illustrate such circumstances). These specific paragraphs can be used to explain or provide examples of how a requirement applies to all entities regardless of whether their nature and circumstances are less complex or more complex (see also Drafting Principle 11.1.1 and Drafting Guideline 11.1.3).
- Describe relevant factors in the application and other explanatory material that can be taken into account when determining when and how to scale the requirement to the circumstances.

- Limiting the application of a requirement when there is a need to differentiate when the requirement is only applicable for certain types of entities (e.g., for listed entities) (see also Drafting Guideline 9.1.14).
- Use of the application and other explanatory material to explain specific considerations that are relevant for entities that operate in a specific sector (e.g., consideration specific to public sector entities) (see also Drafting Guideline 11.1.4).

Examples: Scalability and Proportionality

Scope statements

ISA 610 (Revised 2013), paragraph 2

"This ISA does not apply if the entity does not have an internal audit function."

Scalability

ISA 315 (Revised 2019), paragraph 9

"…This ISA is intended for audits of all entities, regardless of size or complexity and the application material therefore incorporates specific considerations specific to both less and more complex entities, where appropriate. While the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex."

Conditionality

ISA 505, *External Confirmations*

"If management refuses to allow the auditor to send a confirmation request, the auditor shall: […]"

Limiting the applicability of a requirement

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 50(l)

"…For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat."

Considerations specific to public sector entities

ISA 315 (Revised 2019), paragraph A93

"Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority..."

Scalability considerations

ISA 315 (Revised 2019), paragraph A92

"The way in which the entity's system of internal control is designed, implemented and maintained varies with an entity's size and complexity. For example, less complex entities may use less structured or simpler controls (i.e., policies and procedures) to achieve their objectives."

4. Cross-Referencing

Cross-references in the ISAs are used as follows:

- *Cross-referencing and referencing of paragraphs in each ISA.*
- *Cross-referencing to other ISAs or paragraphs of other ISAs.*
- *References to international standards other than the ISAs.*

Cross-referencing can improve understandability (by connecting concepts that might otherwise be missed by the reader) but it can also be distracting (by forcing the reader to jump around a document or between documents) and impede readability (by excessive repetition).

4.1. Cross-References and References to Paragraphs Within Each ISA

Drafting Principle(s)

4.1.1. Do not use footnotes when cross-referencing and referencing to paragraphs in the same ISA.

4.1.2. Most application and other explanatory material is cross-referenced back to related material in the requirements sections.

4.1.3. The objectives and effective date paragraphs do not have application and other explanatory material and are not cross-referenced.

4.1.4. Do not cross-reference from the introduction or definitions sections to the application and other explanatory material unless necessary for an understanding of the context in which the standard or definition is to be read (see also Drafting Guideline 2.2.3).

4.1.5. Cross-references to an appendix are made from the application and other explanatory material, not the requirements. The heading in the appendix includes a cross-reference back to the application and other explanatory material.

Drafting Guidelines

4.1.6. <u>Use of cross-references and references within each ISA:</u>

Cross-referencing and referencing to paragraphs within each ISA is used for:

- Connecting the requirements and application material, and application and other explanatory material to the other sections of an ISA (i.e., “cross-references”).
- Referring to another paragraph in the same ISA (i.e., “internal references”).

4.1.7. <u>Cross-references within the requirements of the ISAs are precise:</u>

Requirements are cross-referenced to specific paragraphs in the application and other explanatory material rather than to general sections or groups of paragraphs.

4.1.8. <u>Position of cross-references:</u>

In the requirements, cross-references appear at the end of the paragraph, or at the end of a bullet point.

If a requirement has more than one bullet point and there is application and other explanatory material related to each bullet point, the cross-reference appears after each bullet point. When the application and other explanatory material relates to all bullet points of a requirement, then the cross-reference is stated after the colon and before the bulleted requirements.

In the application and other explanatory material the cross-references appear in the section heading or sub-heading.

4.1.9. <u>Consecutive cross-references (see also Drafting Guideline 2.2.3):</u>

Application and other explanatory material is organized, as much as possible, so that the cross-references from the requirements to the application and other explanatory material are consecutive.

The first section of the application and other explanatory material relates to the first time there is a cross-reference in the requirements. To the extent possible avoid subsequent cross-references to this same application and other explanatory material.

4.1.10. <u>Internal references:</u>

Internal references (i.e., references to another paragraph in the same ISA) can be made:

- In the requirements section: To another paragraph of the requirements; and
- In the application and other explanatory material: to another paragraph in the requirements, the application and other explanatory material or to an appendix.

Examples:

Cross-References in each ISA

ISA 230, *Audit Documentation,* paragraph 7 and A1

7. The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)

Timely Preparation of Audit Documentation (Ref: Para. 7)

A1. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. […]

Internal references in each ISA – requirements:

ISA 210, *Agreeing The Terms of Audit Engagements,* paragraph 20

20. If the conditions outlined in paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall […]

Internal references in each ISA – application and other explanatory material:

ISA 210, *Agreeing The Terms of Audit Engagements,* paragraph A28

A28. If, in the circumstances described in paragraphs A23 and A29, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in paragraph 6(b).[…]

When referring to another paragraph in the same standard, the reference is "paragraph x," not "paragraph x of this standard" or "paragraph x above/below."

4.2. Cross-References to Other ISAs or Paragraphs of Other ISAs

Drafting Principle(s)

4.2.1. Only include references to other ISAs or paragraphs of other ISAs to simplify the text of the standard or to convey necessary information to the reader about a related requirement in another ISA.

4.2.2. Provide sufficient content in references to explain the provision of the other ISAs but avoid repeating the content of the other provision.

Drafting Guidelines

4.2.3. <u>Format of references:</u>

References to requirements in other ISAs can be:

- By use of a footnote.
- Anchoring the requirement back to the original requirement by reference to the other ISA (e.g., "…in accordance with ISA [Number]," "…required by ISA [number]…)."
- Paraphrased and included in application and other explanatory material, by using for example the following phrases: "the auditor is required to [do something] in accordance with ISA [number]…," "ISA [number] requires the auditor to [do something]," "ISA [number] provides guidance [for something] …," or in a similar manner. As long as the text is congruent with the quoted requirement, the present tense may be used.

In some ISAs the phrase "In applying ISA [Number]" is used which is meant to mean in addition or alongside performing all the requirements in another standards, the auditor also does something else.

4.2.4. <u>Specificity of references:</u>

References can be made to a whole standard, a group of requirements, or to a specific paragraph in another standard. In most circumstances, a more specific reference is the most useful, but the decision which is most helpful to the reader is dependent on the circumstances.

When referring to a requirement in another standard, include the appropriate paragraph in that standard (by way of footnote or by reference to the paragraph of that ISA).

4.2.5. <u>Circular and serial references:</u>

References refer back to the paragraph where the initial provision is first explained.

Avoid circular references (i.e., references to a paragraph that itself refers back to the initial provision) and serial references (i.e., references to a provision that itself refers to another provision).

Example: Cross-references to other ISAs or paragraphs of other ISAs

ISA 300, *Planning an Audit of Financial Statements,* paragraph 12

The auditor shall include in the audit documentation: [x] *[…]*

[x] ISA 230, *Audit Documentation*, paragraphs 8-11, and A6

ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements,* paragraph 29

In accordance with ISA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. [x] *(Ref: Para. A34)*

[x] *ISA 330, paragraph 5*

ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report,* paragraph 25

When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of ISA 700 (Revised) to include the word "qualified" or "adverse,", as appropriate.

ISA 530, *Audit Sampling,* paragraph A20

[…] ISA 330 provides guidance when deviations from controls upon which the auditor intends to rely are detected. [x]

[x] ISA 330, *The Auditor's Responses to Assessed Risks,* paragraph 17

4.3. References to International Standards Other than the ISAs

Drafting Principle(s)

4.3.1. ISAs are framework neutral and do not make references to specific financial reporting, ethical, quality management or other frameworks except by example and to the extent necessary to clarify the IAASB's intent.

Drafting Guidelines

4.3.2. <u>ISQM 1:</u> [7]

References to ISQM 1 initially use the following phrase "ISQM 1 or national requirements that are at least as demanding." After this initial reference to other national requirements, the text can refer to ISQM 1 without further reference to national requirements.

[7] International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

4.3.3. IESBA Code: [8]

References to the IESBA Code are included in:

- The definitions (e.g., the definition of "relevant ethical requirements" by reference to requirements which ordinarily include the provisions established by the IESBA Code, together with national requirements that are more restrictive).
- The application and other explanatory material to highlight certain provisions of the IESBA Code.

ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* defines the term "relevant ethical requirements" and establishes the auditor's responsibility to comply with those requirements, including the IESBA Code. As such, other ISAs usually refer only to "relevant ethical requirements" unless a specific provision of the IESBA Code needs to be highlighted.

When including references to the IESBA Code in the application and other explanatory material, take into account that the IESBA Code is intended to be applied as a whole, rather than focusing only on particular sections or requirements.

References to the IESBA Code follow the format "IESBA Code" or alternatively "IESBA Code, paragraph x" (where a paragraph is referred to) On first mention, the full name is used as follows: "International Ethics Standards Board of Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)."

4.3.4. Financial reporting frameworks:

Because the ISAs are framework neutral, references to a commonly used framework such as IFRS[9] and IPSAS[10] are only used to help readers understand the IAASB's intent and generally only used for illustrative purposes.

Specific references to other international standards in the ISAs creates a maintenance burden as they will need to be updated when there are changes to those other international standards.

Footnote references to financial reporting frameworks follow the format "IFRS [number], [Title]" or alternatively "IFRS [number], [Title]."

[8] International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

[9] International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB).

[10] International Public Sector Accounting Standards promulgated by the International Public Sector Accounting Standards Board (IPSASB).

Example: References to International standards other than ISAs

ISA 230, paragraph A23*

ISQM 1 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance for the retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards. [x] *[…]*

[x] *ISQM 1, paragraph 31(f)*

** Example sourced from the Conforming Amendments to ISAs from the Quality Management Projects.*

ISA 220 (Revised), paragraph A44

Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards. [x]

[x] *IESBA Code, paragraph 330.3 A2*

ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A47

For example, with respect to fair value estimates, IFRS 13 [x] *indicates that, if multiple valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. […]*

[x] *IFRS 13, Fair Value Measurement, paragraph 63*

5. Terminology Used In and Across the ISAs

The constructs and terms used across the IAASB's literature aims to aid readers by using the same terms to mean the same action/circumstance. Using the same terms also helps to avoid proliferation of terminology that complicates the ISAs.

Drafting Principle(s)

5.1.1. Do not develop new terms or terminology for existing concepts. The terminology used in new or revised ISAs must be as consistent as possible with already established terms used in existing standards.

Drafting Guidelines

5.1.2. Consistent terminology:

For consistency, the following is recommended:

- In the ISAs we refer to "nature, timing and extent" rather than "nature, timing, and extent." Oxford commas, while normally used in other instances, are not applied in this case.
- Use "for example" or "that is" when used outside of brackets, and "e.g.," or "i.e.," when used within brackets.
- Avoid using the word "review" when referring to circumstances when the auditor examines the contents of documentary evidence as the term has a broader meaning in relation to review engagements. Use "inspect" if this would be appropriate. The use of "review" is permitted in the context of direction, supervision, and review.
- Use "may" rather than "might."
- Use "obtain an understanding of…" rather than "understand."
- Use "modified opinion" rather than "modified report."

Example: Oxford (or serial) commas

Oxford or serial commas are commas used after the second to last item in a list of three or more items, before "and" or "or."

5.1.3. Management's responsibilities:

Avoid the formulation "management is responsible" or "those charged with governance are responsible" as this can leave the impression that the IAASB is setting requirements for management or those charged with governance. The preferred formulation is to state the authority that "[source] requires [management or those charged with governance] to …." For example:

"The application of the applicable financial reporting framework often requires management to consider changes in the environment or circumstances that affect the entity."

5.1.4. Withdrawal from the engagement:

The term "withdraw" should be used rather than the term "resign." ISA 200 clarifies that, for purposes of the ISAs, the term "withdraw" has the same meaning as "resign."

In connection with withdrawal from the engagement, use "where possible under applicable law or regulation." This also avoids suggesting that withdrawal must be explicitly permitted and recognizes that this may not be an option in all jurisdictions.

In connection with other circumstances, use the phrase "unless prohibited" unless inappropriate in the circumstances. ISA 200 explains that "depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit."

5.1.5. Law or regulation:

Refer to "law or regulation" rather than to legislation (except for public sector perspectives).

In ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* the plural form "laws and regulations" is used. This is because in this ISA there is a need to determine compliance with laws and regulations

Unless the context suggests otherwise, reference is made to "law or regulation" (which is more inclusive than "law and regulation" and more generic than the plural form “laws and regulations”).

5.1.6. Policies or procedures:

Use “policies or procedures” instead of “policies and procedures.”

5.1.7. Use of “and” and “or”:

In a sentence:

- “and” means both A as well as B.
- “or” means either one or the other, i.e., could be either A or B (exclusive “or”) or both, i.e., could be A and B (inclusive “or”). With an exclusive “or” use:
  - “Either” in instances when there are only two choices;
  - “One of the following” for a choice of more than two; and
  - “One or more of the following” if more than one can be true.

  In some cases, these phrases are not needed for an exclusive “or” because the exclusivity is clear from the context.

When considering the use of “and” and “or” within a sentence, check whether the logic of their use is appropriate.

When changing the structure of a sentence or changing an assertion within a sentence from a positive to a negative one, determine whether you need to change the use of “and” and “or” in the sentence.

5.1.8. Terms that describe likelihoods of occurrence:

Various terms are used in ISAs to describe likelihood of occurrence. Broadly, these terms can be classified into the following general categories:

- Those that convey the probability of an event occurring (e.g., likely, rare, unlikely, etc.); and
- Those that are associated with the term risk (e.g., audit risk, risk(s) of material misstatement, the spectrum of inherent risk, etc.).

Differences in languages and culture can lead to differences in interpreting the various terms used. For example, some terms of likelihood could be interpreted differently in different contexts or there may be translation difficulties around certain terms.

Appendix 1 provides further information and examples for each category of terms to describe the likelihood of occurrence in the ISAs. These examples are useful to drive consistent use of these terms and help mitigate potential difficulties in understanding and translation.

6. Introduction Section of ISAs

The introduction section includes the scope and effective date of an ISA. The introduction section may also include other introductory material necessary to clarify the context of the standard.

6.1. Scope of an ISA

Drafting Principle(s)

6.1.1. The scope of a specific ISA is a statement that explains to what the standard applies and to what the standard does not apply.

6.1.2. The scope of each ISA is always made clear in the standard.

Drafting Guidelines

6.1.3. Content of scope paragraphs (see also Drafting Guideline 3.1.3):

The scope paragraphs may be expanded to clarify:

- When the standard does not apply or what it does not deal with. Such clarification may be necessary when there are other standards with a similar scope in order to clarify that their requirements are not in conflict and to maintain coherence within the overall body of ISAs.
- When there is any specific limitation of the applicability of an ISA.

6.1.4. Drafting scope paragraphs:

When drafting scope paragraphs, consider the following:

- References to the auditor's responsibilities follow the construct “the auditor's responsibilities for …” rather than “regarding,” “about,” etc.

Use "This ISA is written in the context of…" rather than "drafted in terms of…."

Examples: Scope paragraphs

Standards with similar scopes:

For example, while ISA 260 (Revised), *Communication with Those Charged with Governance,* provides an overarching framework for the auditor's communication with those charged with governance, ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, establishes specific requirements regarding the communication of significant deficiencies in internal control identified by the auditor to those charged with governance.

Clarification what the ISA does not deal with:

For example, the scope statement of ISA 620, *Using the Work of an Auditor's Expert*, explains the specific situations that are not covered by this ISA as they are dealt with by requirements of other standards.

Limitations on the applicability of a specific ISA:

For example, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, indicates that the standard applies to listed entities or those required by law and regulation, with voluntary application allowed for entities other than listed entities.

6.2. Effective Date of an ISA

Drafting Principle(s)

6.2.1. The effective date is always stated under the title of the standard and within the standard under the heading "Effective Date."

6.2.2. Unless otherwise stated in the ISA, the auditor is permitted to apply an ISA before the effective date specified therein.

Drafting Guidelines

6.2.3. Effective Date Paragraphs:

The effective date reads as follows: "This ISA is effective for audits of financial statements [or group financial statements] for periods beginning on or after [month day, year]." Alternately, the effective date may be for periods ending on or after [month day, year], (commonly used in the 700-series).

For standards of the 800-series, the effective date reads as follows: "This ISA is effective for [specify type of statement, report, etc.] for periods ending on or after [month day, year]."

The decision as to which convention should be used in the effective date paragraphs is based on when the auditor would expect to apply the provisions of the standard. For example, if the provisions apply to the planning stages of the engagement, "beginning on or after" is appropriate to be used, however, if the provisions only apply in completing the engagement then "ending on or after" can be used.

6.3. Introductory Material

Drafting Principle(s)

6.3.1. Material in an ISA's introduction section that provides contextual information relevant to a proper understanding of the ISA, but does not directly relate to the scope of the ISA, is presented within a separate heading.

6.3.2. Keep introductory material to a minimum (see also Drafting Guideline 2.2.3).

Drafting Guidelines

6.3.3. Content of introductory material:

Introductory material may be needed to explain:

- The purpose of the ISA, including how the ISA relates to other ISAs.
- The respective responsibilities of the auditor and others in relation to the subject matter of the ISA.
- The context in which the ISA is set.

6.3.4. Minimal introductory material (see also Drafting Guideline 2.2.3):

Avoid lengthy introductory sections. Unless absolutely necessary, the intent is not to discuss the topic of the. This approach helps minimize any confusion over the status of such material and helps to highlight those circumstances where emphasis is needed.

If there is something in the standard that expands on the topic addressed by the standard/context of the standard, consider the following:

- Can it be subsumed in application and other explanatory material relating to a requirement?
- Consider whether non-authoritative material is a better location for material of such nature.

6.3.5. Scalability (see also Drafting Guideline 3.1.3):

Some ISAs include a paragraph on "scalability" in the introductory material of the standard. Such a paragraph is intended to further emphasize and explain how the ISA is intended to apply for audits of all entities, while being scalable in the context of the nature and circumstances of each audit. This includes that the ISA applies regardless of size or complexity of an entity. The scalability paragraph may also highlight circumstances specific to the subject matter of the standard that allows the auditor to calibrate the magnitude of the response in the those circumstances.[11]

7. Objective(s) of the Auditor in ISAs

The objectives stated in individual ISAs provide linkage between the requirements and the overall objectives of the auditor in the context of the ISAs. The auditor uses the objectives in the ISAs while planning and performing the audit to determine whether any audit procedures in addition to those required by the ISAs

[11] See ISA 315 (Revised 2019), paragraph 9, and ISA 220 (Revised), paragraph 8, and ISA 600 (Revised), paragraph 10. As explained for Drafting Principle 3.1.1., as ISAs are updated and revised, extant references to "size or complexity" should be reconsidered and updated to refer to "complexity" alone.

are necessary, and to evaluate whether sufficient appropriate audit evidence has been obtained to achieve the overall objectives of the auditor.

Drafting Principle(s)

7.1.1. Each ISA has one or more objectives to be achieved by the auditor in relation to its subject matter.

7.1.2. The objective is a statement of the end result of what the auditor aims to achieve by applying the standard, while being specific enough to assist the auditor in:

- Understanding what needs to be accomplished and, when necessary, the appropriate means of doing so; and
- Deciding whether more needs to be done to achieve the the specific objective(s) in the particular circumstances of the audit.

7.1.3. The proper application of the requirements in the ISA is expected to provide a sufficient basis to demonstrate the auditor's achievement of the objectives.

Drafting Guidelines

7.1.4. General form of objective(s):

The objectives generally take the following form: "The objective(s) of the auditor is to [achieve outcome]."

Objectives that are procedural in form may diminish the benefits of specifying objectives and blur the distinction between them and the requirements. On the other hand, setting objectives at too high a level may make it difficult to determine if the objective was fulfilled.

The objective of ISA 230 is to prepare documentation that achieves certain characteristics and therefore it is stated at a higher level than the documentation requirements of ISA 230 itself. However some objectives in ISAs, due to the nature of their subject matter, are closer to the key requirements of the standard to avoid misinterpretation of the scope of the ISA (e.g., ISA 250).

7.1.5. Drafting objective(s):

Objectives do not repeat the requirements of the standard (the requirements are designed to enable the auditor to achieve the objective specified in the standard). Rather, objectives are drafted to indicate the intended outcomes of the auditor's efforts in applying the ISA, together with sufficient references to the requirements to provide necessary context. Objectives and requirements should be set so that compliance with the requirements will, in most cases, result in achieving the objective.

While drafting the objectives, the following is applied:

- Use "to obtain sufficient appropriate audit evidence regarding [something]" rather than "to obtain sufficient appropriate audit evidence about whether [something]."
- Use "conclude, based on audit evidence obtained" in objectives rather than "conclude" on its

own.[12]

- Use "an instance of [something] or suspected [something]" rather than "identified or suspected [something]."

When drafting the objective avoid including anything aspirational in the objective that interferes with the ability to measure whether the objective has been achieved (e.g., "to achieve quality…").

Example: Objective(s)

Some objectives require the auditor "to determine [something]" and then to take action based on that determination. For example: ISA 620, *Using the Work of an Auditor's Expert*, paragraph 5:

The objectives of the auditor are:

(a) To determine whether to use the work of an auditor's expert; […]

Some objectives direct the auditor to obtain sufficient appropriate audit evidence about whether a matter is accounted for and presented in accordance with the applicable financial reporting framework. In such cases, the adverb "appropriately" is preferred, unless another term is more relevant to commonly used financial reporting frameworks. For example: ISA 560, *Subsequent Events*, paragraph 4:

The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and […]

7.1.6. Essential material following the objective:

In extremely limited circumstances, some foundational standards have essential material following the objective (e.g., ISA 200, paragraph 12).

8. Definitions in the ISAs

Definitions are provided to explain terms used in the ISAs and to assist in the common and consistent interpretation and translation of the ISAs. The intent for use of the Definition section in the ISAs is to:

- *Define terms authoritatively.*
- *Highlight new key terms being introduced by an ISA, which are helpful to readers and translators.*
- *Define certain terms without disturbing the flow of the requirements.*

[12] See, for example, ISA 550, *Related Parties*, paragraph 9(a)(ii).

The IAASB Glossary of Terms incorporates all definitions included in the International Standards issued by the IAASB[13] *and certain additional commonly used terms. The IAASB Glossary of Terms is not an authoritative document. It is updated by Staff in connection with the finalization of the IAASB Handbook.*

8.1. Definition Section of the ISAs

Drafting Principle(s)

8.1.1. An ISA may include, in a separate section under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of that ISA or the ISAs more broadly.

8.1.2. Definitions already defined in other ISAs are not repeated.

8.1.3. Only terms that appear in the requirements section of the ISAs are defined.

8.1.4. Definitions do not include examples.

8.1.5. Do not use defined terms in the definitions section of an ISA to mean something different to how the term is used in another ISA.

Drafting Guidelines

8.1.6. Considering whether to include a term in the definitions section:

Consider whether the term is fundamental to understanding the requirements of the ISA (i.e., is it important to define the term?), and whether the particular ISA is the logical one for the definition.

If it relates to a term used only in the application and other explanatory material, the meaning is described there rather than in the definitions section or cross-referenced back to the ISA where the term is used.

Example: Definition versus description

Definition:

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.

Description:

Misappropriation of assets—Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.

[13] These include: International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs) and International Standards on Quality Management (ISQMs).

8.1.7. Definition versus description:

When thinking about whether to include something in the definitions section, consider whether it is a definition or a description. Something may be a description, rather than a definition, when it states that the [term] includes [this or that]. If the definition reads as an explanation, it is likely a description that is included in application and other explanatory material.

8.1.8. Limited application and explanatory material for definitions:

Most often, the definitions do not have application and other explanatory material. Limited application and other explanatory material may be considered in some rare cases when it is necessary for an understanding of how the definition is to be read.

8.1.9. Terms with a specific meaning in the context of an ISA:

Terms which are defined in the Definition section of an ISA are used consistently across the ISAs without modification.

When a term has been previously described in the application and other explanatory material of another ISA or in the Glossary of Terms, but has a specific meaning for the context of the ISA which is fundamental to its proper understanding, then this is explained in the application and other explanatory material. In these cases, additional context is added to the already existing description.

Example: Terms with a specific meaning for the context of an ISA

The term "Significance" is described in the Glossary of Terms.

The application and other explanatory material of ISA 315 (Revised 2019), paragraph A10 and ISA 701, paragraph A1 provide further explanation of the term "Significance" for the context of those standards.

8.2. Glossary of Terms

Drafting Principle(s)

8.2.1. All definitions included in new or revised pronouncements that have come into effect are included in the IAASB Glossary of Terms.

Drafting Guidelines

8.2.2. Interpretations of definitions for the context of a certain IAASB International Standard:

When definitions included in the Glossary of Terms have specific interpretation for the context of a certain IAASB International Standard, then this is specifically differentiated.

For example, Relevant ethical requirements (in the context of the ISAs) or Relevant ethical requirements (in the context of ISRS 4400 (Revised)).[14]

[14] ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

8.2.3. The Glossary of Terms also includes, in limited cases, descriptions that are relevant to all ISAs that have not been included in the Definitions.

9. Requirements of an ISA

The requirements section includes actions that the auditor undertakes in achieving the objective(s) stated in the ISA.

Drafting Principle(s)

9.1.1. All paragraphs that impose obligations on the auditor are included in the requirements section of an ISA.

9.1.2. The requirements of ISAs are expressed by using the word "shall."

9.1.3. Requirements focus on what the auditor is required to do. Explanations of why the requirement exists or how it could be executed are, in most cases, included in the application and other explanatory material.

9.1.4. The requirements of an ISA are expected to collectively provide a sufficient basis for the auditor's achievement of the objectives.

9.1.5. The ISAs are intended to be principles-based. This means that the requirements are primarily written in terms of principles or outcomes rather than procedures or steps which allow the auditor to apply professional judgment in planning and performing the audit.

9.1.6. While essential material can be included in the requirements, it should be avoided and included only when considered critical to the understanding of the requirements.

Drafting Guidelines

9.1.7. Contents of requirements:

The requirements establish "what" the auditor is required to achieve. Requirements do not generally explain "how to apply the requirement" or "why" the requirement is needed (this is set out in the application and other explanatory material when necessary).

Requirements are drafted with the following attributes in mind:

- The requirement is necessary to achieve the objective(s) stated in the ISA.
- The requirement is responsive to the public interest.
- Unless identified as applicable only in identified circumstances, the requirements are applicable in virtually all audits to which the ISA is

The auditor exercises professional judgement in planning and performing an audit. ISA 200, paragraph A26 explains that the distinguishing feature of the professional judgement expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

relevant or relate to matters of overriding importance to the public interest (this prevents the need for the auditor to depart from a relevant requirement).

- Requirements are sector neutral.
- The requirements apply to all entities and circumstances and, if not, are clearly conditional.
- Any conditionality attaching to a requirement is made clear to identify the limits to their relevance and applicability.
- Requirements apply to both complex and less complex circumstances.
- The requirement is written to be principles-based.
- The required action is clear, understandable, enforceable and is stated as simply and concisely as practical.

9.1.8. Conditionality (see also Drafting Guideline 3.1.3):

If a requirement is conditional on [something], then:

- The condition is stated at the beginning of the requirement.
- The conditionality is made clear by making the condition explicit, rather than implicit.

The following general approach is recommended for purpose of consistency:

- Use "if" when it is unknown whether the condition will exist or not ("If the entity has an internal audit function, the auditor shall…").
- Use "when" when the condition will definitely happen at some point (e.g., "When the auditor performs risk assessment procedures, the auditor shall…").
- Sparingly, use "where" to describe "in the situation or circumstances in which" or when dealing with phrases concerning place, location or space.

ISA 200 explains that the conditionality of a requirement will either be explicit or implicit:

► The requirement to modify the auditor's opinion if there is a limitation of scope is an explicit conditional requirement.

► The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance, which depends on the existence of such identified significant deficiencies, is an implicit conditional requirement.

In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the auditor may be required to withdraw from the audit engagement, when withdrawal is possible under applicable law or regulation, or the auditor may be required to do something, unless prohibited by law or regulation. Depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit.

9.1.9. Sequencing and order of requirements:

The requirements of an ISA follow a logical order. In most cases, the requirements should begin with overall obligations and move to more specific obligations, in the order in which an auditor typically approaches the matter at hand (recognizing that undertaking an audit is an iterative process).

The requirements for written representations, communication with those charged with governance and documentation in individual ISAs are presented toward the end of the requirements section under separate headings (see also Guidelines 12.1.3 and 13.1.8).

9.1.10. <u>Essential material:</u>

The requirements can contain essential material and these sentences do not include "shall." However, inclusion of essential material is limited to circumstances when it is absolutely necessary to include such material to make the requirements understandable.

> **Example: Essential Material**
>
> ISA 200, paragraph 24
>
> *If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). <u>Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230.</u>*

9.1.11. <u>Multiple requirements in one paragraph:</u>

Avoid including multiple requirements in one paragraph. An indication that separate requirements may be appropriate can be multiple uses of "shall" within one paragraph, unless needed to give effect to the requirement (e.g., if the requirement begins with a conditional sentence). Instead, if a requirement includes a list of requirements, consider whether each item in the list is its own requirement.

9.1.12. <u>Form of a requirement:</u>

Requirement paragraphs always use the term "shall." They never include other forms such as "should," "must" or "will."

When drafting the requirement, the following format is recommended: "The subject [e.g., the auditor, engagement partner] shall…."

9.1.13. <u>Negative form of a requirement:</u>

A requirement may take the negative form (i.e., the auditor shall not [do something]). Negative requirements are not used very often in ISAs and should be avoided.

> **Example: Negative Form of Requirement**
>
> ISA 705 (Revised), paragraph 29
>
> *Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report <u>shall not</u> include a Key Audit Matters section in accordance with ISA 701 or an Other Information section in accordance with ISA 720 (Revised).*

9.1.14. <u>Limits to the application of a requirement (see also Drafting Guideline 3.1.3):</u>

When drafting requirements, consider when it is appropriate to limit the application of a requirement, or to differentiate the requirement, for engagements performed for different types of entities. For example, ISA 720 (Revised)[15] differentiates requirements that are applicable for listed entities.

[15] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* paragraphs 21-22

9.1.15. Work effort verbs:

The choice of verbs in a requirement signals the work effort that the IAASB intends auditors to apply. The choice of verb is important as it affects the nature and extent of work that the auditor needs to undertake to comply with the requirement.

Minor variations in the choice of verbs can make a requirement hard to read or translate because the verbs are synonyms or their dictionary definitions are too close to each other for there to be a real difference in work effort. To aid the IAASB and staff in choosing appropriate verbs, Appendix 2 lists many of the verbs in common use, provides a summary of how they are to be used, and lists what possible work effort and documentation implications may exist.[16] As with the rest of this document, Appendix 2 is not authoritative. As far as possible, staff should avoid using new verbs to signal a work effort similar to the verbs in Appendix 2.

10. Application and Other Explanatory Material of ISAs

The guidance included in the application and other explanatory material supports the proper application of the requirements. Although the auditor has a responsibility to consider the entire text of the ISAs in carrying out an audit, the application and other explanatory material is not intended to impose a requirement for the auditor to perform the suggested procedures or actions.

Drafting Principle(s)

10.1.1. The content of the application and other explanatory material of the ISAs:

- Explains more precisely what a requirement means or is intended to cover, "how" a procedure or action is meant to be undertaken, as well as in some cases "why" a procedure or action is needed.
- Includes examples of procedures that may be appropriate in the circumstances (expanding on "the how").

10.1.2. Application and other explanatory material is distinguished and separated from the requirements to make clear that such guidance does not in itself impose a requirement.

10.1.3. The present tense is not used in the application and other explanatory material (the present tense is allowable only for statement of facts or repetition of the requirements).

Drafting Guidelines

10.1.4. Not all requirements need application and other explanatory material (see also Drafting Guideline 2.2.3):

In some cases, a requirement may need some guidance to provide context (even if only a few sentences).

16 The "work effort verbs" are to be used going forward in considering which work effort verb may be most appropriate for achieving the aim of a requirement. Appendix 2 was not available in the past and, therefore, it is appropriate that work effort verbs used in the ISAs developed and revised prior to April 2022 be considered in the context of the intent of the Board at the time as reflected in Board materials, Board deliberations and Basis of Conclusions documents.

While considering if a requirement needs application and other explanatory material the following may be useful:

- Avoid drafting lengthy, educational, or too much contextual material in the application and other explanatory material section of the ISAs.
- Guidance that is better suited to first-time implementation of an ISA forms part of the non-authoritative IAASB material. Such guidance is important to assist with the effective implementation of new and revised standards in the initial period after a final standard is published.
- Guidance that addresses a specific or targeted issue or that is related to a specific industry or other particular context may be better positioned as non-authoritative IAASB material.
- The application and other explanatory material is written with the presumption that the reader is a competent auditor, who has undergone an initial and continuing education program in accordance with International Education Standards and has attained and maintained technical competencies, professional skills, and professional values, ethics and attitudes.

The IAASB *Framework for Activities* outlines the activities to support implementation of IAASB International Standards, which are non-authoritative in nature. These include First time implementation support activities and Non-authoritative support materials:

- First time implementation support activities assist with the effective implementation of new and revised standards in the initial period after a final standard is published and include Basis for Conclusion Documents and a General Fact Sheet. In addition, they may include as needed one or more of the following outputs: First-time implementation guides, other Fact Sheets, Staff Publications, such as Questions and Answers (or FAQs), flow charts, examples or illustrations, diagrams, presentations (including multimedia presentations), webinars, videos, etc.
- Non-authoritative support materials address a specific or targeted issue (including, as applicable, related to a specific industry or other particular context) to contribute to the proper and consistent implementation and application of the IAASB's International Standards. These include International Practice Notes (including International Auditing Practice Notes (IAPNs), Non-Authoritative Guidance Documents, Staff Practice Alerts, Other Staff Publications aimed at providing practical assistance to auditors and to help raise auditors' awareness of significant new or emerging issues by referring to existing requirements and application and other explanatory material, or to direct their attention to relevant provisions of IAASB pronouncements.

10.1.5. Do not extend a requirement:

Be careful not to extend a requirement to imply an obligation (see also 10.1.6).

For example, if a requirement says: "The auditor shall (do something)," and the application and other explanatory material says: "(Doing something) includes doing X, Y and Z," this is extending the requirement. If it is important to the clarity of the requirement, then include it as part of the requirement. If it is strictly application guidance, then use appropriate qualifiers (e.g., (Doing something) may include consideration of such matters as, for example …")

10.1.6. Implied obligations:

Application and other explanatory material cannot impose a requirement. As such, it is important that application and other explanatory material does not appear to create implied obligations, as may occur if, for example, the present tense is used in application and other explanatory material for matters that go beyond the words used in the requirements.

Do not use phrases in the application and other explanatory material such as "the auditor does (something)," "the auditor would do (something)" or "the auditor needs to…." Such wording format implies that the procedure or action taken by the auditor would be done in all circumstances. If this is the case, it is a requirement and not application and other explanatory material.

Appendix 3 provides examples of how application and other explanatory material drafted in the present tense could be amended.

10.1.7. Wording to use:

Examples of wording to use in application and other explanatory material includes:

- "The auditor may consider the following (list of items)" rather than "the auditor considers the following (list of items) …"
- "The auditor may do (something)," but caution is needed so as it does not nullify another requirement (i.e., when the "something" is a requirement of the same or another ISA).
- "Examples of procedures the auditor may perform include …"
- "The following factors may be relevant in [performing requirement]:"
- Use wording that states "ISA [Number] establishes requirements and provides guidance…" instead of "ISA [Number] provides standards and guidance…"
- When referring to a requirement from elsewhere in the application and other explanatory material, use the phrase, for example "In accordance with ISA [Number and full name in footnote when used for the first time], the auditor is required to…"

Whenever possible, avoid simply adding a "may", as in practice, the matter being illustrated may not be as discretionary as the "may" implies. Generally, the thought or concept can be communicated by writing the paragraph differently.

10.1.8. Negatively worded clarifications:

The application and other explanatory material of certain ISAs includes negatively worded clarifications that explain what the auditor does not need to do. These clarifications are usually expressed through use of the following phrases: "…the auditor is not…" and "...the auditor need not…." Note that these use the present tense.

Example: Negative worded clarifications

ISA 230, paragraph A4

The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

10.1.9. Appendices (see also Drafting Guideline 2.2.3):

Appendices form part of the application and other explanatory material and have the same status as the other authoritative material in the standard.

An appendix may:

- Provide a more detailed example that would not be appropriate to be presented comprehensively elsewhere in the application and other explanatory material.
- Include illustrative documents, such as auditors' reports, illustrative engagement letters, and illustrative representation letters. Such illustrative documents may contain suggestions where the content of the report or letter may be customized. Such customized material is typically identified through the use of italics and square brackets. Staff may consider whether to include a footnote to explain when or how the material may be customized.
- Contain flowcharts that depict a decision tree or process followed by the auditor, lists of standards that contain requirements of a certain nature and detailed examples.

Titles of appendices are stated in the Table of Contents, but are not repeated within the ISA. When referring to an appendix in paragraphs of the application and other explanatory material, it can be referred to as "the Appendix" (if there is only one appendix) or "Appendix [Number]" (if there are multiple appendices).

10.1.10. When drafting application and other explanatory material consider the following:

- Avoid language that repeats the requirement without adding something new.
- To the extent possible, try to avoid using qualifiers in the application and other explanatory material relating to the activities of the auditor, such as "ordinarily," "normally" and "usually." Such terms create ambiguity as to whether they form part of the requirements. If needed, the term "ordinarily" is preferred for circumstances when the application and other explanatory material needs to send a stronger message.

> **Example: Use of term "ordinarily" in application and other explanatory material**
>
> ISA 230, paragraph A21
>
> *[…] An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.*

- Whether any long sentences or paragraphs could be further simplified and streamlined (e.g., bullet points) to improve readability.
- Avoid phrases such as "it is important that the auditor [do something]," unless made in reference to an action specified in the requirements of the ISA or another ISA.
- Whether the application and other explanatory material needs to address how to scale the application of the requirement to different circumstances.

11. Scalability and Proportionality in the Application and Other Explanatory Material

Scalability and proportionality considerations specific to audits of smaller entities (ISAs developed and revised before ISA 315 (Revised 2019)) or less complex entities (LCEs) (ISAs developed or revised from ISA 315 (Revised 2019)), and considerations specific to public sector entities, are included in the application and other explanatory material of an ISA when appropriate. These considerations do not limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs. These considerations aim to assist in the application of the requirements in the audit of such entities.

Drafting Principle(s)

11.1.1. The application and other explanatory material of an ISA includes, where appropriate, scalability and proportionality considerations specific to audits of smaller entities / less complex entities[17] and considerations specific to public sector entities.

11.1.2. The considerations are highlighted throughout by the use of specific sub-headings within the application and other explanatory material of an ISA.

Drafting Guidelines

11.1.3. Scalability considerations and examples (see also Drafting Guideline 3.1.3):

In drafting application and other explanatory material, consider whether there is anything more of a specific nature that can be said that would contribute to a better understanding of how a requirement might be applied in an entity with less complex circumstances.

Some ISAs (e.g., ISA 315 (Revised 2019)) include examples in the application and other explanatory material under the heading "Scalability" to illustrate the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. These examples of less complex situations are contrasted with considerations for audits of more complex entities to help illustrate the scalability of the requirement to entities with different complexities.

Some ISAs place the guidance on 'Scalability' at the start of the relevant application and other explanatory material sections, to help auditors where the circumstances are less complex be able to more appropriately consider the material that follows in context (e.g., ISA 315 (Revised 2019)). In other ISAs, the guidance on scalability considerations related to smaller entities is placed following the application and other explanatory material related to the requirement.

[17] The ISAs developed and revised prior to ISA 315 (Revised 2019) included relevant considerations for "smaller entities" to illustrate scalability. As ISAs are updated and revised, these paragraphs should be reconsidered and updated for "considerations specific to LCEs." See also Drafting Guideline 11.1.3.

11.1.4. Considerations specific to public sector entities (see also Drafting Guideline 3.1.3):

In drafting application and other explanatory material, consider whether there is anything more that is only relevant to public sector audits, or if there is a unique issue to the public sector, that would contribute to a better understanding of how a requirement might be applied in the public sector.

The public sector auditor's responsibilities may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements. These additional responsibilities are not dealt with in the ISAs.

Some individual ISAs include other types of specific considerations. These are used to further clarify or explain how to apply the requirements in a specific context or circumstance. For example:

- Considerations specific to group audits in ISA 700 (Revised).
- Considerations specific to automated tools and techniques included in ISA 315 (Revised 2019).

12. Addressing Specific Requirements in Individual Standards Other than ISA 260 (Revised) and ISA 580

ISA 260 (Revised) is an overarching standard that provides the framework for communications with those charged with governance. Certain other ISAs contain specific communication requirements with those charged with governance that are intended to clarify the application of ISA 260 (Revised) in the particular circumstances of those ISAs. The scope of ISA 260 (Revised) [18] *explicitly recognizes that specific communication requirements of other ISAs complement and does not limit the application of this overarching standard.*

ISA 580[19] *deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance. Other ISAs contain subject-matter specific requirements for written representations and the scope of ISA 580 recognizes that these specific requirements do not limit the application of ISA 580.*

Drafting Principle(s)

12.1.1. Requirements for matters to be communicated and specific written representations are presented under separate headings within an ISA. These requirements in an individual ISA uses consistent wording and references back to the overarching standard. This avoids any doubt about the relationship between the subject-matter requirements and the overarching standard.

[18] ISA 260, paragraph 3

[19] ISA 580, *Written Representations*

Drafting Guidelines

12.1.2. Format of communication and written representation requirements in individual ISAs:

The lead-in paragraphs with respect to communication and written representation in the individual ISAs follow a consistent format.

The following wording is usually used with respect to the communication requirements in individual ISAs:

"…unless all of those charged with governance are involved in managing the entity,[20] the auditor shall communicate with those charged with governance …" (including the footnote).

The following wording is usually used with respect to the written representation requirements in individual ISAs:

"…the auditor shall request written representations from management and, where appropriate, those charged with governance …"

Such wording assists in avoiding doubt about the relationship between the requirements of the overarching standard and the other ISAs.

12.1.3. Presentation of communication and written representation requirements:

Communication requirements with management and those charged with governance (as relevant) in individual ISAs are presented toward the end of the requirements section, often under the heading "Communication with …" (after any requirements on written representation and before the documentation requirements).

Written representation requirements in individual ISAs are presented toward the end of the requirements section under the heading "Written Representations" (before any communication requirements with those charged with governance).

ISA 260 and ISA 580 include an Appendix with a listing of all paragraphs in other ISAs that require communication of specific matters with those charged with governance and subject-matter specific written representations.

[20] ISA 260, paragraph 13

13. Addressing Specific Documentation Requirements in Individual Standards Other than ISA 230

The documentation paragraphs are an integral part of the requirements section of an ISA. In some cases these documentation requirements are supported by relevant application and other explanatory material that further explains how the documentation requirement can be implemented.

Drafting Principle(s)

13.1.1. ISA 230 is the overarching documentation standard and is relied upon for most of the documentation required in an audit file. Individual ISAs do not necessarily require specific documentation requirements unless:

- The intention is to clarify how the ISA 230 documentation requirements apply in the circumstances of those individual ISAs.
- There are concerns that ISA 230 may not be consistently applied in practice in the circumstances of those individual ISAs.

13.1.2. The "experienced auditor" test in ISA 230, paragraph 8 is to be applied in determining the extent of documentation requirements.

13.1.3. It is unnecessary to require documentation when compliance with a requirement(s) is demonstrated by documents already required to be included in the audit file, such as the engagement letter.

Drafting Guidelines

13.1.4. <u>Factors to consider when deciding whether a specific documentation requirement is necessary:</u>

A documentation requirement in an individual ISA enables the auditor to demonstrate that the related requirement(s) in that individual ISA has been complied with.

In determining whether a documentation requirement in an individual ISA is necessary, consideration is given to the following:

- Is the documentation requirement addressed by ISA 230? If not, a documentation requirement may be necessary in an individual ISA in specific circumstances.
- Does the documentation requirement:
  - Clarify how ISA 230 applies?
  - Drive more consistent application in practice?

  If yes, a documentation requirement may be necessary.

- Is compliance with a requirement(s) demonstrated by documents already required to be included in the audit file? If yes, a documentation requirement is likely not to be necessary.

Examples of when specific documentation requirements may be needed:

Clarity:

► The subject matter represents an audit area with higher inherent risk. Examples may include fraud or accounting estimates, which may require specific documentation requirements even though documentation is covered by ISA 230.

Consistency:

► Responses to comment letters from audit regulators (from inspection findings) may indicate that documentation requirements are not consistently applied; or

► Documentation related to certain subject matters should not be left to the professional judgment of the auditor.

Compliance:

► The requirement implies that a document must be prepared, such as a documented audit plan.

13.1.5. The "experienced auditor" test:

Documentation requirements are drafted to enable the auditor to prepare documentation so that an "experienced auditor" is able to understand:

- The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
- The results of the audit procedures performed, and the audit evidence obtained; and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Note that "experienced auditor" is a defined term. This means that certain assumptions may be made about what documentation needs to be prepared and the detail needed. However, it is important that the experienced auditor test not be seen as reducing the need for documentation, rather it affects what needs to be documented.

13.1.6. Contents of documentation requirements:

The documentation requirements establish "what" the auditor is required to document. Documentation requirements do not explain "why" the documentation is needed or "how" to apply the documentation requirement (this may, however, be explained in the application and other explanatory material).

13.1.7. Format of documentation requirements in individual ISAs:

Documentation requirement lead-in paragraphs in the individual ISAs follow a consistent format. For example:

"In applying ISA 230, the auditor shall include in the audit documentation: …"

Documentation requirements should set clear and understandable expectations for the auditor and be stated as simply and concisely as is practical.

13.1.8. Presentation of individual documentation requirements:

Documentation requirements in individual ISAs are presented at the end of the requirements section under the heading "Documentation" (after any communication requirements with those charged with governance).

14. Conforming and Consequential Amendments to ISAs

For adoption of an ISA, the IAASB develops conforming and consequential amendments to other ISAs which are exposed for public comment in accordance with its due process. In certain instances, limited conforming amendments to the ISAs are made as a result of changes to other international standards (e.g., ISQM or the IESBA Code) to ensure the ISAs can continue to be applied effectively together with these international standards without any conflicts.

Drafting Principle(s)

14.1.1. Conforming and consequential amendments to the ISAs are made to the minimal extent necessary to:

- Resolve actual or perceived inconsistencies; and
- Maintain the coherence with the overall body of standards so these can be applied together without conflict.

Drafting Guidelines

14.1.2. Identifying conforming and consequential amendments:

In order to identify possible conforming and consequential amendments, staff should search the IAASB Handbook for:

- References to the existing standard number and title;
- References to the subject matter or key words associated with the subject matter; and
- Any existing concepts or words that are replaced with new concepts or words.

Staff will need to review each "hit" from the above search to determine the extent of revision necessary.

14.1.3. Conforming versus consequential amendments:

Both conforming and consequential amendments may be necessary in the scope, requirements, application and other explanatory material or elsewhere in an ISA.

Conforming amendments are minor, simple, obvious, straightforward and editorial in nature. For example, they consist of replacing a superseded number, title and reference to a revised ISA. They may also include amendments that generally involve little or no judgment in preparing them as there are very limited options for amending the wording. Conforming amendments do not involve re-consideration of the scope, objectives, requirements and application and other explanatory material of an ISA.

Consequential amendments are of a more significant nature. They require further analysis to determine the extent of the necessary change required to resolve the inconsistency so as to maintain the coherence of the ISAs and enable these to be applied together without conflict. Such analysis requires application of judgement, keeping in mind that the proposed changes should be as minimal as possible.

All conforming and consequential amendments must be exposed for public comment as part of IAASB's due process.

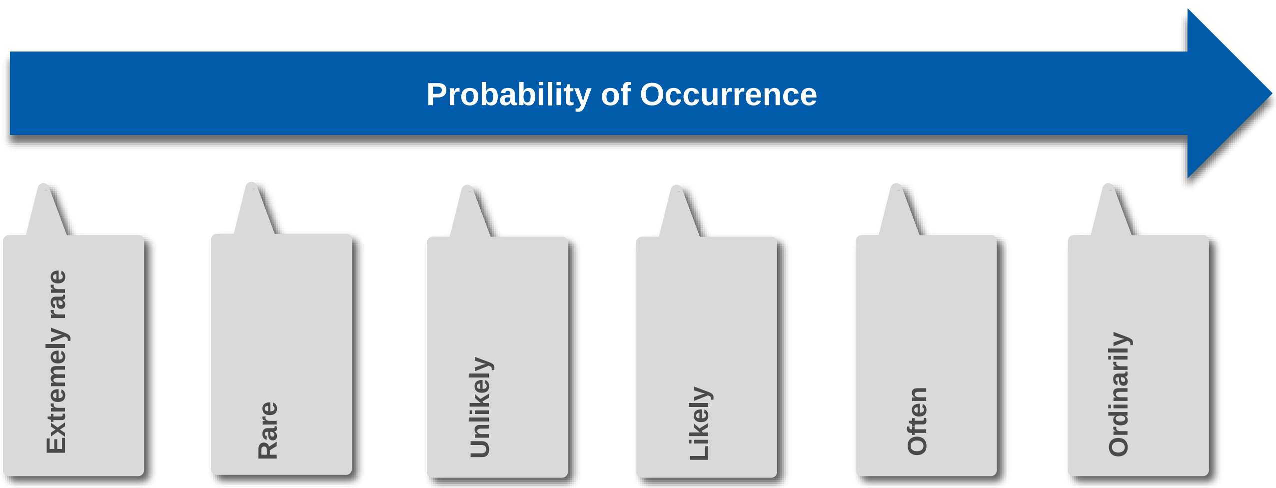
Appendix 1

Terms to Describe Likelihoods of Occurrence in ISAs

The chart below provides a continuum with key terms in the ISAs that convey the probability of an event occurring, ranking these terms from least to highest probability of occurrence.

In future drafting, to consolidate the variation of terms used in the ISAs that convey the probability of an event occurring, it is recommended to use the following terms:

The following spectrum of terms conveying the probability of an event occurring is to be used when drafting ISAs. These terms are to be used in preference to other terms describing probabilities.



The table below shows how probability terms have often been used in the ISAs in the past. Terms that are to be used going forward are highlighted in yellow. The other terms are provided for context.

Examples of Use: Terms that Convey Probability of an Event Occurring

Term	Requirements	Application and Other Explanatory Material	Definitions
Exceptional	► Consistently used in the context of "exceptional circumstances." ► Referred to as a condition, i.e., by use of the construct: "if" followed by "exceptional circumstances," except for in ISA 200, when the following construct is used: "In" followed by	► In some cases, the application and other explanatory material provide examples or refer to other ISAs for examples of the "exceptional circumstances."	► n/a

Term	Requirements	Application and Other Explanatory Material	Definitions
	"exceptional circumstances."		
Extremely Rare	► Consistently used in the context of "extremely rare circumstances." ► Frequently stated as a condition. ► Used most frequently in the 700-series.	► Used as "extremely rare," "extremely rare cases" and "extremely rare circumstances."	► Applicable financial reporting framework definition to describe departures from a requirement of a fair presentation framework, i.e., "*expected to be necessary only in extremely rare circumstances.*"
Rare	► Used only in ISA 700 (Revised) and consistently referred to as "rare circumstances."	► Used as "rare," "rare cases," "rare circumstance(s)," "rarely"	► n/a
Unlikely	► Used only in the context of fraud (e.g., "…*fraud is unlikely to be an isolated occurrence…)"*	► In the context of fraud ("...*inquiries are unlikely to provide useful information*…" "...*an instance of fraud is unlikely to be an isolated occurrence*…)" ► Evaluating the effect of uncorrected misstatements ("…*it is unlikely that it can be offset by other misstatements*…)" ► Selecting Items for testing to obtain audit evidence ("...*100% examination is unlikely in the case of tests of controls*…)"	► n/a

Term	Requirements	Application and Other Explanatory Material	Definitions
Likely **(including More & Less Likely)**	► Examples of use: "likely to exist" (in the context of risk of fraud), "likely to have" (in the context to evaluate whether non-compliance has occurred), "likely to result" (in the context of the need to express a qualified opinion or to disclaim an opinion).	► Often used in the scalability and specific considerations of ISAs (e.g., "…*smaller or less complex entities are likely…*" "*...likely to be the case in a smaller or less complex entity…*"). ► In addition to likely, referred also in cases as "more likely," "most likely," and "less likely."	► Significant component (referred to as "likely"). ► Sampling risk (referred to as "more likely").
Often	► Essential material in requirements of ISA 240: "*While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.*"	► Used in smaller or less complex entity and public sector considerations ("*...often a single individual…*" "*often have fewer employees*") ► Misappropriation of Assets ("…*is often perpetrated by employees in relatively small and immaterial amounts.*") ► Fraudulent financial reporting ("*often involves management override of controls that otherwise may appear to be operating effectively.*") ► Applicable financial reporting framework ("…*often encompasses financial reporting standards established by* ...")	► Stratification ("…*often monetary value*")
Frequently	► n/a	► Used across several ISAs in the context of external confirmation procedures (i.e., in ISA 330, ISA 500 and ISA 505):	► n/a

Term	Requirements	Application and Other Explanatory Material	Definitions
		"External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items."	
Usually	► n/a	► *"The fact that fraud is usually concealed can make it difficult to detect."* "*The description of key audit matter is not usually of itself original information…"*	► Annual report ► Auditor ► Misappropriation of assets ► Sampling Risk
Normally	► n/a	► *"The auditor's report is normally addressed to those for whom the report if prepared…"* "*…such information is normally presented…*"	► Supplementary information
Generally	► In ISA 250 (Revised) "*The auditor shall obtain sufficient appropriate audit evidence 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 financial statements*."	► Used in smaller or less complex entity and public sector considerations ("...*public sector audits generally mandate the appointment*…" "…*documentation for the audit of a smaller or less complex entity is generally less extensive*…") ► *"Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time"* ► "*… in accordance with accounting principles generally accepted in Jurisdiction X* …"	► n/a

Term	Requirements	Application and Other Explanatory Material	Definitions
Ordinarily	► n/a	► The term “ordinarily” is preferred for circumstances when the application and other explanatory material needs to send a strong message. For example, “*The retention period for audit engagements ordinarily is no shorter than five years…*”	► Relevant Ethical Requirements ► Financial Statements

Risk

The ISAs have a variety of terms to describe risk. The table below explains how each is used.

Examples of Use: Terms Associated with “Risk”	
Risk	**Glossary of Terms and Instances of Use in ISAs**
Engagement Risk	► *‘Reasonable Assurance Engagement—An assurance engagement in which the auditor reduces engagement risk to an **acceptably low level** in the circumstances of the engagement as the basis for the auditor’s conclusion.’* *Glossary of Terms*
Detection Risk	► *‘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.’* *Glossary of Terms, ISA 200, paragraph 13(e)*
Audit Risk	► *‘To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an **acceptably low level** and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.’* *ISA 200, paragraph 17* ► *‘Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an **acceptably low level**, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion, is a matter of professional judgment…’* *ISA 200, paragraph A33*
Sampling Risk	► *‘The auditor shall determine a sample size sufficient to reduce sampling risk to an **acceptably low level.**’* *ISA 530, paragraph 7*

Risk	Glossary of Terms and Instances of Use in ISAs
Risk(s) of Material Misstatement	► *Risk of material misstatement exists when there is a* ***reasonable possibility*** *of (a) a misstatement occurring (likelihood) and (b) being material if it would occur (magnitude)).'* *ISA 200, paragraph A15a** ► *Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an* ***acceptably low level*** *of audit risk.* *ISA 200, paragraph A38* ► *The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the* ***acceptably low level****.* *ISA 330, paragraph A4**
Significant Risk	► *'An identified risk of material misstatement: (i) For which the assessment of inherent risk is* ***close to the upper end of the spectrum of inherent risk*** *due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur. […]'* *ISA 315 (Revised 2019), paragraph 12(l)* ► *'The determination of significant risks allows for the auditor to focus more attention on those risks that are on the* ***upper end of the spectrum of inherent risk****, through the performance of certain required responses, including…'* *ISA 315 (Revised 2019), paragraph A218* ► *'The determination of which of the assessed risks of material misstatement are* ***close to the upper end of the spectrum of inherent risk****, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA…'* *ISA 315 (Revised 2019), paragraph A220*
Inherent Risk	► *'The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk* ***close to the lower end of the spectrum of inherent risk****.'* *ISA 540 (Revised), paragraph A68** ► *'Conversely, the inherent risk factors may, either individually or in combination, affect complex accounting estimates to a greater degree, and may lead the auditor to assess inherent risk at the* ***higher end of the spectrum of inherent risk****.'* *ISA 540 (Revised), paragraph A69* ► *'Testing the operating effectiveness of controls may be appropriate when inherent risk is assessed as* ***higher on the spectrum of inherent risk****, including for significant risks.'* *ISA 540 (Revised), paragraph A85**

** Conforming and consequential amendments to other standards as a result of ISA 315 (Revised 2019)*

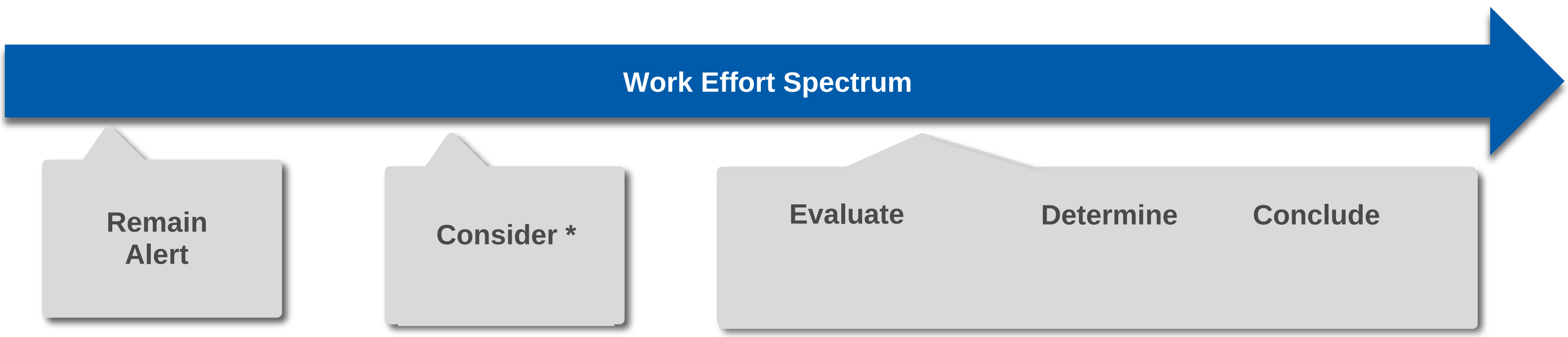
Appendix 2

Work Effort Verbs

This Appendix describes the spectrum of work effort implied by commonly used verbs in the ISAs (in addition to these there are other verbs used in the ISAs). It also includes possible documentation implications for the work effort described. In places, common dictionary definitions of terms are included when the terms are not defined in the IAASB Glossary. This is not meant to be definitive or definitional but rather suggests a spectrum that may be useful in distinguishing work effort and considering what may be necessary to demonstrate, through documentation, the work that was performed. Verbs also are used throughout the ISAs within a particular context linked to different stages of the audit process, which also is relevant in understanding their meaning.

The table below provides a convenient reference framework to be used going forward in considering which work effort verb may be most appropriate for achieving the aim of a requirement. This table was not available in the past and, therefore, it is appropriate that work effort verbs used in the ISAs developed and revised prior to April 2022 be considered in the context of the intent of the Board at the time as reflected in Board materials, Board deliberations and Basis of Conclusions documents.

The following spectrum of work effort is to be used when drafting ISAs. These terms are to be used in preference to other terms describing work effort.



** Use "Consider" instead of "Take into Account."*

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
Remain Alert	► n/a	► Be aware of, or vigilant for.	► Not actively obtaining audit evidence about the subject matter, but responding if information comes to the auditor's attention in performing procedures that may generate additional audit evidence that impacts or is contradictory to other auditor knowledge about the audit. Also known as "trip over."	► Document if a matter comes to the attention of the auditor that requires auditor action.
Take Into Account *(Do not use. Use "consider" instead)*	► n/a	► To consciously think about something when judging a situation.	► In performing procedures, actively thinking about or being influenced by relevant matters but only taking action when the matter is applicable.	► Document if a matter that has been "taken into account" has resulted in an auditor action.
Consider	► n/a	► Think carefully about (something), typically before making a decision.	► A more active reflection by the auditor about a specific matter or relevant matters in the circumstances. Also known as "reflect upon."	► If the auditor's consideration is significant in the context of a particular engagement, documentation may include (although not necessarily expected for each factor unless significant) the auditor's rationale for the decision made (which may be a specific decision or a decision as reflected in the

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
				auditor's subsequent action), or the conclusion reached.[21]
Evaluate	► Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk.	► [Addressed in the Glossary]	► If the preparation of the relevant subject matter or analysis (i.e., the source) is the responsibility of management or those charged with governance, the ISAs generally describe the work effort as "shall evaluate." Elsewhere, the auditor "shall evaluate" whether or how matters affect the auditor's actions or the implications of a matter(s) for the auditor's purposes. The auditor is required to identify and analyze the relevant issues or matters, to come to a specific conclusion. The key difference with earlier verbs is the need to come to a conclusion.	► The underlying requirement(s) may identify or specify certain minimum actions to be performed or criteria to be used in performing the evaluation; or the application and other explanatory material may explain how the evaluation may be performed - the auditor uses professional judgment in applying paragraph 8 of ISA 230. ► Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor's conclusion.
Determine	► n/a	► To conclude or ascertain, as after reasoning, observation, etc.	► The auditor is required to identify and analyze the relevant issues or matters, to come to a specific conclusion.	► The underlying requirement(s) may identify or specify certain minimum actions to be performed or criteria to be used in making the determination; or the application and other

21 ISA 230, paragraph A10

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
			► Similar to "evaluate" above, but if the preparation of the relevant information or analysis is the responsibility of the auditor, the ISAs generally describe the work effort as "shall determine." The construct is often that in undertaking a certain action or having undertaken an action(s), the auditor "shall determine".	explanatory material may explain how the determination may be performed - the auditor uses professional judgment in applying paragraph 8 of ISA 230. ► Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor's conclusion.
Conclude	► n/a	► Arrive at a view or judgment by reasoning.	► The relevant standard ordinarily sets out those matters to be determined or evaluated for the auditor to be able to conclude, or the matters that may influence the auditor's judgment.	► Where the auditor is required to conclude on a matter, document the conclusion reached and the basis for the auditor's conclusion. For example, the basis for the auditor's conclusion on the reasonableness of areas of subjective judgments should be documented.[22]

22 ISA 230, paragraph A10

Appendix 3

Present Tense Redrafting Examples

A common present tense is "The auditor considers the standards and guidance in ISA [number] when…" This is usually for purposes of cross-referencing rather than to establish a requirement (such a requirement exist by virtue of the need for the auditor to comply with relevant requirements). This can often be redrafted by stating "ISA [number] establishes requirements and provides guidance relating to/dealing with…"

In redrafting sentences in the present tense that are judged not to represent requirements, consider the following:

- Is it needed at all, or can a cross reference suffice, if it simply paraphrases a new or existing requirement in the ISA or another ISA?
- Can the action words simply be deleted (that is, has action been reflected because of the style of drafting, where the real purpose of the sentence is to provide further explanation of why something is important)? (for example, "the auditor considers the entity's…." may be changed to "the auditor relevant considerations may include the entity's…").
- Can "may" or "for example" be inserted to highlight the action as a suggested or possible procedure? (for example, "Given the exceptional nature of the circumstances, the auditor may consider it appropriate to…" or "Examples of matters that the auditor may consider include…"

Below are further examples of how this could be amended.

Example 1: Corrected by 'Flipping' the Sentence	
Original	**Revised**
The relevance of the accounting policies to the entity, and the clarity with which they have been presented, <u>are important</u> in the auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies applied.	The auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies applied <u>may include consideration of matters such as</u> the relevance of the accounting policies to the entity, and the clarity with which they have been presented.

Example 2: Corrected by Using Examples	
Original	**Revised**
Matters the auditor considers in evaluating the understandability of the financial statements include whether: ► The financial statements, including disclosures, are appropriately classified…; and ► The disclosures do not undermine ….	Evaluating the understandability of the financial statements <u>[may] include, for example</u>, whether: ► The financial statements, including disclosures, are appropriately classified …. ► The disclosures do not undermine ….

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AUASB Meeting - June 2023
Agenda Item 8.1

PIOB Update
AUASB 14 June 2023

Robert Buchanan
PIOB Member

PIOB

MIND THE GAP

BEYOND EXPECTATIONS

PIOB
Enhancing Public Interest

Talking Points

- Update on the ecosystem and the PIOB
- Top of Mind for the PIOB: oversight, nominations
- Feedback on Public Interest issues

The auditing, assurance and ethics ecosystem

PIOB

Driving principles

- Multi-stakeholder Standard Setting Boards (SSBs), independent of the accounting profession
- A standard setting process that considers stakeholder interest, public interest and appropriately balances alternative outcomes
- Independent oversight of strategies, due process and responsiveness to the public interest by the PIOB

Recent enhancements

- Roles of the SSBs and PIOB more clearly defined
- Formalised arrangements to advance the goals of the standard-setting process: skills matrices, SSB and PIOB terms of reference, heightened transparency
- Public Interest Framework (PIF), PIOB's Public Interest Issues and observation reports
- Tackling the perception of influence/control by the profession
  - Multi-stakeholder (SSBs and PIOB): moving to 5/16 practitioners on SSBs (from previous 50%)
  - SSB nomination process run by the PIOB (previously IFAC)
  - International Ethics and Auditing Foundation (IFEA) now established as an independent legal entity housing the SSBs (previously IFAC)

PIOB

The PIOB today…

The PIOB Members

To see the PIOB members' full curricula vitae, please visit ipiob.org/who

Linda de Beer | Chair

Robert Buchanan

Tom Furusawa

Philippe Christelle

Tshego B. Modise

Begoña Giner

Sandra Peters

Janine van Diggelen

Michael Hafeman

Dave Sullivan

PIOB

ULTIMATE GOAL

To ensure relevant audit, assurance, and ethical standards that are responsive to the Public Interest

PIOB

Our Activities

OVERSIGHT

SSB NOMINATIONS

Oversight over standards, strategies and work plans

- Public interest responsiveness in terms of PIF and of due process
- Provide public certification of the SSBs' approval of new or revised standards, strategies and work plans

Appointments for membership of IAASB and IESBA

- Appointing SSBs' members and chairs at the recommendation of the SSBs NomCo (a committee of the PIOB)
- Maintain a written policy on conduct that governs potential conflicts of interest of the members and staff of the SSBs

Other

- Assessment of SSBs Chairs and effectiveness of SSBs' delivery of the strategies and work plans
- Participation as trustees on the board of IFEA
- Workshops and awareness campaigns ("Mind the Gap")

Our Public Interest Issues - Impact

- **Reinforcing the SSBs´ confidence** in pursuit of critical public interest initiatives

- **Challenging prioritizations** in relation to the timing of work notwithstanding other projects competing for resources

- **Challenging whether proposals go far enough** to address underlying public interest concerns – for example, by stimulating further consideration of the adequacy of the level of specificity in requirements

- **Prompting reflection on the weight** to be given to certain stakeholder views

- **Reiterating thematic public interest objectives** as the SSBs bring forward proposals – for example, in relation to robust transparency when considering disclosures

- **Bringing new public interest dimensions** to light for SSB consideration – for example, in relation to the level of importance attaching to “profession neutrality” of sustainability standards

PIOB

Top of Mind

PIOB

Oversight

Sustainability

- A single global assurance standard for Sustainability reports (to include assurance providers beyond auditors)
- Ensuring that preparers, experts and assurance providers (of any profession) involved in sustainability reporting and assurance are held to the same high level of skills and independence requirements
- Ensuring confidence of capital markets in sustainability reporting and assurance: risk of parallel standards being set without public interest oversight

Other projects

- Enhancing the auditor’s role, work effort and reporting in respect of **Fraud** and **Going Concern**
- Avoiding the risk of fragmentation that could dilute the credibility of audits through a global standard on the audit of **less complex entities**
- Credibility and independence of PAs in providing **Tax Services** to clients (an IESBA project)

Nominations

- Working towards multi-stakeholder IAASB and IESBA and reducing the practitioner members on each board to a maximum of five
- First successful (2023) nominations cycle already completed, 2024 cycle well under way
- Stipends for SSB members where their own forms of support (e.g. from a national regulator or a firm) are not available
- Stakeholder Advisory Council to be established and operational by 2024; as a first step Alan Johnson, Past President of IFAC, has been appointed the Chair

Discussion points for our session …

- Feedback on our Public Interest Issues (May 2023 update attached), in particular the current projects on Sustainability, Going Concern, Fraud, and Audit Evidence
- Sustainability: comments on the IOSCO March 2023 statement (attached) and how it affects public interest definition from the perspective of (i) capital markets and (ii) other users of sustainability reports
- Feedback on the IAASB's Strategic Work Plan and future priority projects

MIND THE GAP

BEYOND EXPECTATIONS

PIOB

Enhancing Public Interest

PIOB
Enhancing Public Interest

PIOB's Public Interest issues: IAASB projects

The PIOB's recommendations are based on the proposals discussed by the IAASB as of March 2023.

For further information and details about the IAASB projects, please refer to the IAASB website: iaasb.org/consultations-projects

Update of this document: May 11, 2023

ONGOING PROJECTS/INITIATIVES

Assurance on Sustainability Reporting (ISSA 5000)

Leadership role in developing assurance standards on sustainability reporting and timeliness

Reporting on non-financial information, including sustainability, is a global demand, actively included in the agenda of international standard setters. Assurance of such reports is critical for investor confidence and the integrity of such reports. The complex and multi-disciplinary nature of sustainability reporting bring very significant challenges to providing assurance, including by the audit profession.

Along with diverse initiatives in the sustainability and ESG reporting arena, many stakeholders have called on the IAASB to prioritize a global standard on the assurance of such reporting as part of its 2022-2023 Work Plan and for the upcoming 2024-2027 Strategy and Work Plan.

The PIOB appreciates the timely response by the IAASB to dedicate resources to the assurance on sustainability reporting, in its 2022-2023 Work Plan and proposed 2024-2027 Strategy, which will help to ensure that resource allocation is consistent with the focus on this high priority project. The current expected completion date is before the end of 2024, in line with the market expectations.

The PIOB supports the IAASB's collaboration with key stakeholders, including the IESBA, other standard setters, and the regulatory community, to ensure convergence and alignment in the process. The PIOB also supports the input from the two Reference Groups (experts in sustainability, including professional accountants and other assurance providers) and recommends ensuring broad geographic diversity in both.

Assurance on Sustainability Reporting (ISSA 5000)

The PIOB commends the IAASB for the progress made with respect to the drafting of an overarching sustainability assurance standard (ISSA 5000), addressing the priority areas identified at the inception of the project.

Scope of an Assurance Standard(s) on Sustainability Reporting

The PIOB supports the approach undertaken by the IAASB to develop a stand-alone standard for sustainability assurance (i.e. ISSA 5000) which is "neutral" with respect to both the reporting framework and the type of assurance provider, and which addresses both limited and reasonable assurance.

Content and terminology in ISSA 5000

Language in the standard is a key factor to ensure applicability and understandability to a broad range of stakeholders. To meet the public interest and the objectives of the project, ISSA 5000 should use clear, neutral and simplified language, to allow not only accountants but also professionals other than accountants to understand and apply the standard.

The draft standard discussed in March 2023 uses technical terminology or complex language (e.g. the concept of "underlying subject matter") that might be familiar primarily to professional accountants. The PIOB encourages the IAASB to continue to take steps to ensure the standard will be responsive to the public interest by eliminating terminology that might represent a "barrier to entry" for assurance providers other than professional accountants and that may not meet market expectations in other respects, especially taking into consideration the past criticisms of ISAE 3000 by some stakeholders. The Public Interest Framework (PIF) includes clarity as one of the qualitative characteristics which is a fundamental aspect to consider in the development of the standard.

As the IAASB advances ISSA 5000, the PIOB recommends that the IAASB is sensitive to the standard's responsiveness to the public interest by reviewing key definitions and concepts such as "sustainability information", "disclosures", "performance materiality" and "double materiality", to include enhanced references to sustainability matters, allow accessibility to professionals other than accountants, and facilitate the use of the standard in relation to different reporting frameworks. Further work is also needed on how best to include the "double materiality" concept in the requirements, not only in the application material, to ensure applicability of the standard, regardless of the sustainability reporting framework used.

For future consideration, the IAASB could strengthen requirements on the use of "Other information". This information may be relevant in corroborating or contradicting the evidence provided by management, particularly given the likelihood that qualitative sustainability information will be less "mature" than financial information.

Additionally, the IAASB could consider whether it would be in the public interest to allow the assurance provider to include key audit matters (KAMs) in the assurance report where the entity is a public interest entity (PIE). Making provision for KAM reporting would enable assurance providers to provide further insight about significant risks assessed, and difficult areas encountered, in the course of the engagement.

Ethical and quality matters

The IAASB has recognized the need for the standard to require a level of ethical and quality requirements that will enable the standard to be robust as well as capable of being used alike by accountants and professionals other than accountants. This is a key public interest consideration. Given the need to have assurance that can be relied upon, a balance needs to be found on what would be reasonable to require, in terms of ethical requirements included in ISSA 5000 and the quality management system at firm level.

Coordination with the IESBA

It is crucial that the IAASB coordinates its Sustainability project with the IESBA. Both Boards have identified this as a critical issue. The approach, the terminology, definitions, and the activities undertaken by the two Boards need to be consistent and aligned, to ensure public interest responsiveness of the respective standards.

Related public interest matters beyond the remit of the IAASB

The PIOB is encouraging the IAASB to advance the development of an assurance sustainability standard as it is in the public interest to have a global standard, set with a robust level of public interest oversight, to avoid fragmentation and potential market confusion, in respect of the work effort and the level of assurance provided by all professionals on sustainability reports. Regulators and those charged with governance have a role in

Assurance on Sustainability Reporting (ISSA 5000)

ensuring that those preparing the sustainability information and also assurance providers have the appropriate skills, experience and comply with robust ethical requirements.

Going Concern Project

In light of recent corporate and audit failures and the additional going concern risk placed on entities due to the global economic and geopolitical risks, auditors have an important role to play in this regard, to serve the public interest.

The PIOB considers Going Concern a high priority project in the IAASB's Strategy and Work Plan. The PIOB notes the update in the completion of this project to ensure the best prioritization of its resources and alignment with the completion of the Fraud project, encourages the IAASB to communicate the reasons for the change with interested stakeholders (especially in the regulatory community), and gather feedback for the finalization of the 2024-2027 Strategy and Work Plan.

The PIOB welcomes and supports the approval of an exposure draft to strengthen the risk assessment and response procedures in relation to going concern, including the auditor's evaluation of management's assessment of going concern, and transparency requirements for auditor reporting, in line with the project objectives noted below.

Objectives of the Going Concern Project

The PIOB welcomes and supports the project on Going Concern and agrees with the key public interest objectives to be addressed, namely: (i) driving consistency in auditors' behavior, and (ii) strengthening audit procedures in ISA 570 (revised) as a basis for (iii) transparency through the auditor's report with the aim of better informing users of financial information and narrowing the expectation gap.

The PIOB commends the IAASB's proposals acting within its own remit to strengthen procedures and increase transparency. Nevertheless, the PIOB continues to encourage further dialogue with the International Accounting Standards Board about the need for enhanced reporting requirements on going concern, more notably given recent developments in the banking sector.

Going Concern Project

Strengthening the auditor's evaluation of management's assessment of going concern

Extant ISA 570 (revised) requires the auditor to assess the reasonableness of management's assessment of an entity's ability to continue as a going concern, considering management's process and scope of the assessment performed by management. It is important that, to achieve the objectives above, the revisions to extant ISA 570 (revised) consider how to enhance an auditor's evaluation of management's assessment (for example, by developing their own expectation of the analysis and assessment provided by management), and the basis of such evaluation (for example, being based on the auditor's risk assessment procedures and other information gathered, and through the exercise of professional skepticism and professional judgment).

In addition, audit procedures in ISA 570 (revised) should be strengthened in relation to the identification of events and conditions that may contradict management's assessment of the entity's ability to continue as a going concern, the evaluation of cash-flow forecasts, underlying assumptions and scenarios and the impact on the going concern assessment of subsequent events (e.g. pandemic, war).

In summary, the PIOB supports the IAASB's proposals in the exposure draft, including additional procedures required when the auditor identifies "events or conditions" not considered by management, which address the PIOB concerns that the auditor should consider the risks to going concern beyond those identified by management.

The PIOB also encourages the IAASB to consider whether the proposed revisions would strengthen extant ISA 570 sufficiently to better enable the auditor to identify and deal with risks to going concern such as those highlighted by recent issues in the banking sector.

Explicit reference to Going Concern in the Auditor's Report

The PIOB is of the view that it would be in the public interest for auditors' reports to make explicit reference to going concern. The PIOB encouraged the IAASB to explore how this might be implemented. For example, it might require a conclusion as to whether the going concern assumption applied in the preparation of the financial statements in terms of the relevant financial reporting framework was appropriate. The auditor may consider reporting on what audit work has been performed in assessing and concluding on going concern.

Going Concern Project

The PIOB welcomes the IAASB's proposals in the exposure draft to include an explicit conclusion in the auditor report about management's use of the going concern assumption.

The PIOB encourages the IAASB to consider further the transparency requirements and to assess, in case of close calls or when a material uncertainty exists, whether "original information" might be included in the audit report to appropriately communicate to users of financial statements the situation of the entity and ensure that the auditor meets expectations of stakeholders. The PIOB looks forward to feedback from users on these aspects resulting from the public consultation.

Furthermore, the PIOB supports the proposals in the exposure draft whereby the auditor should determine whether it may be required, or appropriate under the circumstances, to communicate directly with external authorities, such as regulators or prudential supervisors, in case of doubts about the entity's ability to continue as a going concern.

The PIOB welcomes the coordination among different IAASB task forces, such as the Fraud and PIE task forces, that are also addressing transparency enhancements in the auditor's report, to ensure alignment and overall coherence of the different proposals. The PIOB looks forward to the discussion, under the PIE project, on whether additional disclosures related to going concern proposed for listed entities should also apply to PIEs.

Fraud Project

In light of corporate and audit failures in the past and the global economic and geopolitical risks, auditors have an important role to play in this regard, to serve the public interest.

The PIOB considers Fraud a high priority project in the IAASB's Strategy and Work Plan.

Objectives of the Fraud Project

The PIOB supports the Fraud project and is of the view that it would be in the public interest to strengthen, and not just to clarify, the auditor's responsibilities within ISA 240 and other related standards, in relation to the identification and reporting of fraud in financial statements audits.

Fraud Project

As the IAASB's work progresses, the PIOB encourages the Board to holistically evaluate the necessary considerations by the auditor, such as elements of the audit risk model (including inherent risk, internal controls and detection risk), their interrelationship and how they assist to further address the expectation gap.

The PIOB notes the importance of the IAASB coordinating with the IESBA (for potential changes needed in the Code of Ethics), and with the other stakeholders involved in the corporate reporting ecosystem. However, changes elsewhere in the ecosystem do not diminish the need to strengthen the auditor's responsibilities in relation to fraud.

Auditor's obligation to obtain reasonable assurance that financial statements are free from material misstatements due to fraud

The PIOB is of the view that a number of key elements need to be strengthened in ISA 240. First, it is important that the standard emphasizes that the existence of fraud can result in financial statements being misstated and reinforce the importance of the auditor obtaining reasonable assurance that the financial statements are free from material misstatements due to fraud. In this regard, the tone of ISA 240 could be strengthened to ensure that the auditor understands the need to place the same level of importance on identifying misstatements due to fraud as on identifying misstatements due to error. Inherent audit limitations should not be perceived as diminishing an auditor's responsibilities to identify material misstatements due to fraud. The standard should clearly articulate the auditor's work effort in respect of fraud to sufficiently address the risk of misstatements and to bring this risk to an acceptably low level.

The PIOB encourages the IAASB, in pursuing the project objective, to explore how the auditor should consider aspects such as external sources of information, culture, tone at the top, the role of the group auditor in respect of the risk of material misstatement at a component level, and the use of IT tools, and consider how these could impact the detection of fraud.

It is important that the Fraud project focuses not only on ISA 240, but also on identifying future revisions to strengthen requirements in other standards that have the potential to drive significant changes in the attitude and behavior of auditors throughout the audit process, including testing internal controls and through the exercise of professional skepticism and professional judgment.

Fraud Project

Transparency through Communication with TCWG and in the Auditor's Report

It is in the public interest that auditors report fraud that they identify and provide early warning on suspected fraud through communication with those charged with governance (TCWG), external authorities and in the auditor's report. Such disclosure would contribute to appropriate communication of fraud risks, procedures performed, deficiencies identified by the auditor and whether management has taken appropriate action to address the risks and deficiencies.

The PIOB supports the IAASB proposals to enhance the two-way and ongoing communication by the auditor with TCWG, through additional requirements in ISA 240.

The PIOB acknowledges the outreach conducted by the IAASB to specific groups of stakeholders (preparers, TCWG, users, etc.), which gathered input on the options for enhancing transparency in the auditor's report. The PIOB believes that the option to include a separate section in the auditor's report describing the identified and assessed fraud risks, the auditor's response and the relevant findings/observations, would strengthen transparency and is in the public interest. The alternative to include such information under the Key Audit Matters (KAMs) section may reduce emphasis given to fraud. The PIOB looks forward to the future consultation and encourages the IAASB to continue pursuing the public interest. Consideration of significant deficiencies in internal controls, which may help preventing or detecting fraud, is also an important aspect. What the auditor needs to disclose can be expected to drive changes in auditor behavior, and in turn contribute to enhanced transparency in management's and TCWG's reporting on fraud, thus helping to address the expectation gap. The PIOB looks forward to the consideration by the IAASB of the views from a broad group of stakeholders about transparency in the auditor's report.

While transparency on fraud is an important consideration for the auditor's report, the PIOB notes that other projects, including Going Concern, also have implications for the auditor's report. The PIOB therefore welcomes the coordination among the different task forces considering issues involving enhanced transparency.

Audits of Less Complex Entities (LCEs) – ISA for LCEs

Expectations of a separate ISA for LCEs

The PIOB welcomes the IAASB project to address needs and concerns related to the audits of LCEs. The PIOB acknowledges the IAASB's efforts to develop requirements that are scalable and proportionate to the typical nature and circumstances of an LCE audit while ensuring that assurance is not weakened, either in fact or perception.

The PIOB supports the IAASB's efforts to develop a robust international standard for the audits of LCEs, which would contribute to high quality audits and promote consistency across jurisdictions. The IAASB will need to consider the concerns raised by the respondents to the exposure draft, which relate to a stand-alone ISA for LCEs and the perceived lower level of audit quality which may result from applying the standard.

Scope of a separate ISA for LCEs

The scope of the standard should be sufficiently restrictive to limit application to the correct entities (i.e. those that are truly less complex). The PIOB appreciates the difficulty in establishing the categories of entities that should be excluded from the scope, listed in the "Authority" of the ISA for LCEs.

The PIOB is supportive of the decision taken by the IAASB to clarify and narrow the scope of the standard, by further explaining qualitative characteristics and envisaging quantitative thresholds to be established by local jurisdictions. Guidance provided by the IAASB on quantitative thresholds that may be established by local jurisdictions could be helpful.

In addition, the PIOB encourages the IAASB to consider how to address circumstances of an LCE which is not auditable (e.g. due to the internal control environment), or an unmodified audit opinion cannot be expressed.

The PIOB looks forward to the outcome of the consultation by the IAASB on the inclusion (with limitations) of group audits in the scope of the standard. The PIOB also notes the IAASB's proposals on how to deal with complex accounting estimates, in alignment with ISA 540 (Revised), and looks forward to further guidance in the final standard.

The PIOB stresses that an important aspect of the standard's public interest responsiveness is the balance it should achieve between the scalability and proportionality of the standard and ensuring that the standard enables the same level of assurance and audit quality as when applying the full suite of ISAs.

Audits of Less Complex Entities (LCEs) – ISA for LCEs

Importance of outreach

The PIOB welcomed the consultation and encouraged the IAASB to seek responses from a broad and diverse range of relevant stakeholders, including those that do not customarily respond to exposure drafts of the ISAs (e.g. users of the financial statements of LCEs).

It is important that, as it moves to finalize the standard, the IAASB continue to convey the message that a LCE audit is of equal quality and level of assurance, not to dilute the value of the ISAs and audits in general. The PIOB is aware of the concerns raised in the consultation of the exposure draft, especially in respect of the perception that two levels of audits may be created with the introduction of a separate ISA for LCEs, which requires careful consideration by the IAASB.

The PIOB reiterates in particular the importance of the IAASB continuing to reach out to the regulatory community to explain the purposes and the intended benefits of the standard, including the potential it has to avoid jurisdictional fragmentation of standards.

Audit Evidence – ISA 500

Relevance and urgency of the project

The project on Audit Evidence has become even more important as the Covid pandemic has introduced a high level of uncertainty that affects how information is obtained and that impacts accounting estimates and the risk of material misstatements. This requires more work from auditors, as well as exercise of professional skepticism, and reinforces the need for a timely project.

Objective of the project

The PIOB urges the IAASB to ensure that the revision of ISA 500 goes beyond embedding concepts already used in the audit practice (such as automated tools and techniques, blockchain, etc.).

The IAASB could consider the following topics in order to strengthen ISA 500: (i) the auditors' role in respect of the relevance and reliability of information which is used as audit evidence, in view of possible fraudulent information or unreliable sources of information, (ii) encouraging auditors, where appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client, (iii)

Audit Evidence – ISA 500

addressing new technologies (digital information), (iv) strengthening of professional skepticism in evaluating whether there is sufficient appropriate audit evidence obtained to support the opinion and regarding the reliability of information which will be used as audit evidence, (v) clarifying the minimum level of audit evidence resulting from internal control testing and its impact on audit evidence needed from substantive testing, (vi) giving consideration to the balance between Application Material and Requirements in the revised standard, in view of driving improved behavior, clarity and enforceability (e.g. persuasiveness of audit evidence).

The PIOB welcomes the IAASB's approval of the exposure draft and the explanatory memorandum which describes and explains its thought process, and looks forward to feedback from stakeholders about whether the exposure draft achieves the right balance.

Coordination among task forces and the Standard Setting Boards

Audit Evidence is deeply interrelated with Technology, Fraud and other projects and requires close coordination among the working groups and task forces for both the IAASB and the IESBA, to avoid duplication of efforts and to ensure appropriate sharing of information.

Technology

Importance of Technology as a theme throughout the suite of ISAs

The IAASB should continue to integrate and consider the pervasive impact of technology in the consideration of its standards and the value of non-authoritative guidance as a potential approach for a timely response to public interest needs.

The PIOB welcomes the IAASB's work in terms of its Disruptive Technology initiative to anticipate and prepare for the impact of emerging technology on audit and assurance.

The PIOB suggests that the IAASB continue its efforts to get broad perspectives on the impact of technology which could benefit audit quality or about what in current standards may represent a barrier to the adoption of technology. Assessing the most significant inspection findings reported by regulators (e.g. IFIAR's survey) would be a useful source of information, especially in terms of main causes/factors which affect or prevent audit quality.

A further discussion with regulators about the risks entailed in overreliance on technology tools in audit (e.g. to what extent technology tools provide audit evidence) and about overreliance by auditors on IT General Controls

Technology

(ITGCs) at their clients, would be useful, to obtain further input and address regulators' concerns.

Definition of PIEs

Coordination with the IESBA to ensure alignment between the ISAs and QMS, and the Code

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the ISAs, Quality Management standards and the Code.

The PIOB notes the coordination between the IESBA and the IAASB, which is of critical importance to ensure alignment of the ISAs with the Code of Ethics and the application of the two sets of standards consistently. The PIOB welcomes and supports the IAASB's proposals to include in the ISQMs and ISAs the relevant provisions related to the definition of PIEs from the Code and to include the definition of "publicly traded entity" in the Glossary, replacing "listed entity". This is a good example of leveraging the work of the IESBA and moving in the direction of harmonization with the IESBA Code.

In order to continue to ensure the alignment of the ISAs with the Code, differential requirements in the ISAs and Quality Management Standards, extant or proposed, should generally apply to all categories of PIEs. For those cases where the IAASB concludes it would not be appropriate to apply the same differential requirements to all categories of PIEs, they should provide an explanation for the exception.

The PIOB acknowledges the case-by-case assessment done by the IAASB to ensure that replacing "listed entities" with "PIEs" in the current ISAs and Quality Management Standards do not create unintended consequences and supports the preliminary conclusion to extend the application of extant differential requirements to all categories of PIEs. The PIOB notes the only proposed exception, relating to ISA 720 (Revised), for which the IAASB have proposed to limit the differential requirement to publicly traded entities and to request specific feedback in the consultation.

Transparency needed on the entities treated as PIEs

Definition of PIEs

Transparency is key to ensure there is certainty for the users of the auditor's report and financial statements as to the criteria applied to classify an entity as a PIE, or not, and to achieve enhanced confidence in the audit of PIEs.

The PIOB welcomed the provision in the Code that requires disclosure when an audit firm has applied the independence requirements of PIEs. The PIOB urged both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users.

The PIOB welcomes the broad support for the IAASB's exposure draft which proposes that audit firms be required to disclose when differential independence requirements were applied, in the auditor's report.

The PIOB notes that such disclosure would be conditional on the differential requirements, including a disclosure mandate (i.e. such as that included in the Code); and that the consultation showed different views and level of support for the conditional requirement depending on the stakeholder group. The PIOB believes that an unconditional requirement would achieve greater consistency based on full transparency for users, but also acknowledges that practical implementation challenges need to be taken into consideration. To ensure public interest responsiveness the IAASB should ensure these challenges, as well as the rationale of those that favored an unconditional requirement, are appropriately balanced and that the eventual conclusion is clearly explained.

The PIOB welcomes the proposed changes to ISA 260 (Revised), resulting from feedback received to the exposure draft, that will require, for all entities, to communicate to those charged with governance the application of relevant ethical requirements for independence.

Timing and coordination

The PIOB notes the proposed delay in the completion of this project to ensure the best prioritization of its resources. However, the PIOB encourages the IAASB to communicate the reasons for the change with interested stakeholders (especially in the regulatory community) and gather feedback for their finalization of the 2024-2027 Strategy and Work Plan.

May 2023

Consultation Paper

Exposure of the IAASB's *Proposed ISA 570 (Revised), Going Concern*

and

Proposed Conforming and Consequential Amendments to Other ISAs

Issued by the **Auditing and Assurance Standards Board**

Australian Government
Auditing and Assurance Standards Board

Obtaining a Copy of this Consultation Paper

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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ISSN 2201-3644

Important Note and Disclaimer

This Consultation Paper is issued by the AUASB to provide information to auditors and assurance practitioners about IAASB Exposure Draft *Proposed ISA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs.*

This Consultation Paper does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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CONSULTATION PAPER

Exposure of the IAASB's Proposed ISA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued *Exposure Draft, Proposed ISA 570 (Revised), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs* (**IAASB ED**).

2. The Australian Auditing and Assurance Standards Board (AUASB) is seeking feedback from stakeholders to inform us when responding to the IAASB on the IAASB ED, and to identify potential compelling reasons[1] to modify ISA 570 (Revised) for application in Australia.

3. This Consultation Paper provides an overview of how the AUASB is requesting feedback from Australian stakeholders on the proposed changes detailed in the IAASB ED, and their impact on the Australian assurance environment.

Overview

Purpose

4. The aim of this Consultation Paper is to:

   (a) provide stakeholders with information about the IAASB ED;

   (b) provide stakeholders with information as to how the IAASB ED is being exposed by the AUASB; and

   (c) seek stakeholder feedback.

Materials issued as part of this Consultation

5. The following materials have been issued to seek Australian stakeholder feedback:

   (a) AUASB Consultation Paper to the IAASB ED (this document); and

   (b) IAASB ED.

6. The IAASB ED includes the IAASB's Explanatory Memorandum (IAASB EM) which provides the full background to, and an explanation of, the IAASB's proposed amendments to ISA 570 (Revised).

7. The IAASB ED and the related IAASB EM are included within this Australian Consultation Paper as an attachment – refer to Attachment 2.

Request for Comments

8. The AUASB requests comments on all matters relating to the IAASB ED, but specifically in relation to the IAASB Exposure Draft[2] questions at Attachment 1 by **14 August 2023**. Stakeholders' responses to these questions will be used to inform the AUASB in their formal response to the IAASB due by **24 August 2023**. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final Australian standard, including

[1] Refer to paragraphs 23-24 for an explanation of compelling reasons.
[2] IAASB Explanatory Memorandum, *Section 3 Request for Comments.*

assessing compelling reasons[3] for any Australian-specific enhancements. Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by the questions.

9. Stakeholders are requested to clearly indicate whether they agree or do not agree with the proposed amendments. Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording.

Background (Refer to IAASB Explanatory Memorandum, paragraphs 2-10, for detail)

IAASB Project and Key Proposals on Going Concern

10. A strategic objective of the IAASB is to ensure the International Standards on Auditing (ISAs) continue to form the basis for high quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments.

11. The IAASB ED is part of the IAASB's commitment towards facilitating trust in the financial reporting process by serving the needs of stakeholders. This includes clarifying the interaction between ISA 570 and the other International Auditing Standards.

12. The more significant changes proposed in IAASB ED have:

    (a) Introduced a definition of the phrase "material uncertainty" and provided clarity for other terminology used in the standard.

    (b) Increased the period of the auditor's evaluation of management's assessment of going concern to at least twelve months from the date the financial statements are approved.

    (c) Introduced new requirements for the auditor to evaluate the intent and ability of a third or related party, including the entity's owner-manager, when financial support by such parties is necessary to support management's assessment of going concern.

    (d) Strengthened the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional scepticism.

    (e) Modernised ISA 570 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, such as those relating to public sector entities, and the impact of technology on the auditor's work related to going concern.

    (f) Enhanced transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

13. For a further understanding of the significant matters dealt with in the Consultation Paper stakeholders should refer to the IAASB EM - Section 2, paragraphs 14 to 112.

[3] Refer to paragraphs 23-24 of this Consultation Paper for an explanation of compelling reasons.

Specific AUASB Considerations

14. The current ASA 570 includes paragraphs with requirements and application material additional to the extant version of ISA 570 that are identified with the prefix "Aus". The table below contains the current Aus paragraphs and Appendices in current ASA 570, and a preliminary view on how the AUASB expects to address these in any revised version of ASA 570:

Aus Paragraph/Appendix		**AUASB's Preliminary View**
3.1	Refers to the responsibilities of those charged with governance under the *Corporations Act 2001* to make a formal statement in relation to the solvency of the entity.	Still applicable as the requirements in the *Corporations Act 2001* relating to solvency statements have not changed.
13.1	Requires the auditor to assess the appropriateness of management's going concern assumption for the relevant period (detailed in para 13.2 below).	No longer required as IAASB ED covers this sufficiently.
13.2	Defines the relevant period of the auditor's evaluation of management's assessment of going concern which is the period of approximately twelve months from the **date of the auditor's current report to the expected date of the next auditor's report.**	The current ISA 570 requires management's assessment to cover at least twelve months from the **date of the financial statements**. IAASB ED proposes to extend the date of the period of management's assessment to be at least twelve months from the **date of approval of the financial statements** which is different to the Aus paragraph requirement. Whilst these dates in most instances will align, they may not in all circumstances. The AUASB's preliminary view is that the difference in time period between the IAASB ED and ASA 570 is likely to be minimal, and it is appropriate to adopt the IAASB's period of assessment i.e., do not amend ISA 570 for this matter. Refer to question 18 where we are seeking views on whether to retain Aus 13.2 or to adopt the IAASB's proposed period of assessment.

Aus Paragraph/Appendix		AUASB's Preliminary View
A15.1	Application material to clarify that, other than enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management.	No longer required as covered by IAASB ED paragraph A40, which states that other than the enquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management.
A21.1	Refers to [Aus] Appendix 1 which contains an explanatory diagram mapping going concern considerations and types of audit opinions.	Dependent on the question below however the AUASB considers this is still applicable as stakeholders have previously expressed strong support for this Appendix.
A33.1	Refers to the inclusion of Illustration 4A of Appendix 2.	Still applicable.
A35.1	Refers to the auditor's responsibilities under the *Corporations Act* in relation to the reporting of insolvent trading.	Still applicable as the requirements under the *Corporations Act* in relation to the reporting of insolvent trading have not changed.
Appendix 1	Contains an explanatory diagram mapping going concern considerations and types of audit opinions.	The AUASB's view is that this is still applicable as stakeholders have expressed strong support for this Appendix.
Appendix 2	Contains illustrations of auditor's reports relating to going concern.	The illustrative auditor's reports will be revised and updated for Australian requirements.

15. The AUASB is seeking feedback on whether to retain or amend the Aus paragraphs and Appendices, as described in the table above, in any revised version of ASA 570.

16. Additionally, the AUASB is interested in receiving feedback from stakeholders on any potential impact of the proposed IAASB ED in relation to alignment with existing financial reporting requirements and the current version of ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

Proposed Application Date

17. It is proposed that the revised standard will be applicable for audits of financial reporting periods **beginning on or after approximately 18 months after the approval of a final ISA**. This application date corresponds with that of the equivalent ISA.

The AUASB's Approach in Seeking Stakeholder Feedback

18. The IAASB ED is issued for comment in Australia by the AUASB without modification.

19. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. In accordance with its mandates under section 227 of the ASIC Act 2001 and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.[4]

20. The AUASB's approach, in accordance with the AUASB International Strategy, is to actively influence the international standard setting process to produce international standards that serves as the most effective base possible from which to develop equivalent Australian Auditing Standards. As part of this strategy, the AUASB actively monitors the development of new IAASB Standards and revisions to IAASB Standards and provides continual feedback to raise issues with the IAASB throughout the international standard's development process.

21. The AUASB makes formal submissions on Exposure Drafts issued by the IAASB to contribute to the setting of international standards. Stakeholders' feedback in response to this Consultation Paper will be used to inform the AUASB in its formal response to the IAASB. Additionally, responses will be used in AUASB deliberations regarding the issuance of the final revised Australian Standards, including assessing compelling reasons for any Australian-specific enhancements.

22. Following the consultation process, influencing the development of IAASB ED and assessing implications for the Australian market (focusing on the need for any compelling reasons), the AUASB will consider for approval a revised ASA 570, which will be based on the final approved revised ISAs.

23. In accordance with the AUASB Policy and Process for International Conformance and Harmonisation of Standards, international standards should only be modified if there are compelling reasons to do so. The Compelling Reason Test[5] for modification of an international standard is triggered when the international standard does not reflect, or is not consistent with, Australian legal and regulatory arrangements, or principles and practices that are considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB). Any such changes must not result in a requirement that is lesser than or in conflict with the requirements of the equivalent international standard.

24. Any deletion from the international standards will be clearly noted, and any addition or other modification will be clearly marked as an Australian paragraph ("Aus" prefix). However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the Australian standard as a modification to the international standard where the intent remains unchanged.

Additional Website Resources

25. The AUASB welcomes stakeholders' input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the AUASB and the IAASB to obtain further information.

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4 The AUASB's principles of convergence with the ISAs can be found in *AUASB Policy and Process for International Conformance and Harmonisation of Standards*. For further background on the AUASB's mandate and strategic directive, and the principles and process adopted by the AUASB to develop Australian Standards based on equivalent ISAs, refer to the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

5 Refer to *AUASB Policy and Process for International Conformance and Harmonisation of Standards*, for an explanation of the compelling reasons for modification of international standards and application of the Compelling Reasons Test.

ATTACHMENT 1

Overall Questions

1. Do you agree that the proposals in IAASB ED are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in Appendix 1 (see IAASB EM)?

2. Do you believe that the proposals in IAASB ED, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?

3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?

4. Do the requirements and application material of IAASB ED appropriately reinforce the auditor's application of professional scepticism in relation to going concern?

Specific Questions

5. Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast significant doubt"?

6. Does IAASB ED appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

7. Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of IAASB ED)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of IAASB ED in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

8. Do you support the enhanced approach in IAASB ED that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

9. Does IAASB ED appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

10. Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

11. Will the enhanced requirements and application material to communicate with those charged with governance (TCWG) encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

13. This question relates to the implications for the auditor's report for **audits of financial statements of all entities,** i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.

    Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

14. This question relates to the additional implications for the auditor's report for **audits of financial statements of listed entities,** i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

    Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

15. Is it clear that IAASB ED addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with IAASB ED and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

16. Are there any other matters you would like to raise in relation to IAASB ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

17. Effective Date - Recognising that IAASB ED is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ASA?

Australian specific questions

The AUASB is especially interested in stakeholders' views on:

18. Whether you agree with the AUASB's preliminary view in relation to the Aus paragraphs and Appendices contained in the current ASA 570 (refer to paragraph 14 above)? In particular do you agree with the AUASB's preliminary view on the period of evaluation of management's assessment? If not, provide reasons why.

19. Whether the proposed changes in the IAASB ED are adequately aligned with existing financial reporting requirements?

20. Whether the proposed changes in the IAASB ED have any corresponding impact on the current requirements of ISRE/ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*?

21. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted?

22. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 20-22 of this Consultation Paper).

23. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 20-22 of this Consultation Paper).

24. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

    (a) Where those costs are likely to occur;

    (b) The estimated extent of costs, in percentage terms (relative to audit fee); and

    (c) Whether expected costs outweigh the benefits to the users of audit services?

25. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 570 (specific questions/examples would be helpful)?

Are there any other significant public interest matters that stakeholders wish to raise?

ATTACHMENT 2

Exposure Draft
April 2023
Comments due: August 24, 2023

International Standard on Auditing

Proposed International Standard on Auditing 570 (Revised 202X)

Going Concern

and

Proposed Conforming and Consequential Amendments to Other ISAs

International Auditing and Assurance Standards Board

About the IAASB

This document has been prepared and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Foundation for Ethics and Audit (IFEA).

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REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 570 (Revised 202X), *Going Concern* was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by August 24, 2023.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

CONTENTS OF THE EXPOSURE DRAFT

EXPLANATORY MEMORANDUM

CONTENTS

Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 570 (Revised 202X), *Going Concern* (ED-570), which was approved for exposure by the IAASB in March 2023.

Background

2. Extant ISA 570 (Revised), *Going Concern* was last revised as part of the IAASB's project to revise the Auditor Reporting Standards.[1] The key enhancements included the following revisions to the auditor's report in relation to going concern:

   - A description of the respective responsibilities of management and the auditor for going concern; and
   - Reporting a separate section under the heading "Material Uncertainty Related to Going Concern" when a material uncertainty exists and is adequately disclosed.

   In addition, a new requirement was included to evaluate the adequacy of disclosures, in view of the requirements of the applicable financial reporting framework, in situations when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (i.e., "close call" situations).

Drivers for the Project

3. Corporate failures across the globe in recent years have brought the topic of going concern to the forefront and led to stakeholder demands for enhanced transparency on going concern. Conditions, such as war and the global pandemic, have also caused heightened risks focusing attention on the challenges and issues pertaining to the auditor's responsibilities and work related to management's assessment of an entity's ability to continue as a going concern,[2] and the reporting thereof. In addition, the ongoing uncertainties in the broader economic environment and the more recent turmoil in the financial sector have again put a spotlight on the topic of going concern, further emphasizing the need for a more robust standard. The input from, and timely response by, stakeholders therefore is crucial in ensuring that proposed ISA 570 (Revised 202X) remains fit-for-purpose in the current and future macroeconomic and geopolitical environments.

4. Since 2015, some stakeholders, including the PIOB, have continued to encourage the IAASB to consider further enhancements and clarifications to the IAASB's auditing standard on going concern. The IAASB is also aware of recent standard-setting action in certain jurisdictions that have addressed the topic of going concern, as well as other current initiatives underway globally to consider what more can be done by auditors as it relates to going concern, further highlighting the broader public interest in this topic.

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[1] The new and revised Auditor Reporting Standards were issued in January 2015, after due process approval by the PIOB, and became effective for audits of financial statements for periods ending on or after December 15, 2016. For further information, see the Auditor Reporting project page or the Auditor Reporting focus area page.

[2] Further referred to as "management's assessment of going concern" or "management's assessment."

5. In early 2020, the IAASB commenced information-gathering and research activities on going concern in an audit of financial statements, which included the development of the Discussion Paper (DP), *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*, that was published in September 2020 for consultation. In relation to going concern specifically, the objective of the consultation was to obtain feedback about the issues and challenges in applying extant ISA 570 (Revised) in light of the changing environment, jurisdictional developments and evolving public expectations, including whether more informative communication about going concern with those charged with governance (TCWG) and in the auditor's report was appropriate or needed.

6. In addition, from 2019-2021, the IAASB undertook a post-implementation review (PIR) of the new and revised Auditor Reporting Standards to help the IAASB understand whether the revisions made are being consistently understood and implemented, and to help inform considerations of any further possible actions.[3] The IAASB incorporated the feedback from the PIR to supplement its information gathering and research activities relating to going concern.

Project to Revise Extant ISA 570 (Revised)

7. In March 2022, the IAASB approved a project proposal to undertake certain targeted actions to revise extant ISA 570 (Revised). The project objectives that support the public interest, which are described in Section III of the project proposal, included enhancing or clarifying extant ISA 570 (Revised) to:

    - Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern;
    - Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism; and
    - Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

8. The project proposal provides further background about the scope of the project, including the going concern-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal.

Liaison and Engagement with Accounting Standard Setting Bodies

9. During the course of the project, the IAASB engaged with other stakeholders in the financial reporting ecosystem and in particular those with a direct influence on financial reporting. This engagement included continued dialogue with the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB).

10. In developing ED-570, the IAASB remained mindful that certain issues are not solely within the IAASB's remit as well as that it is necessary for the proposed changes in ED-570 to remain aligned with recognized financial reporting frameworks, such as the IFRS Accounting Standards of the IASB, and the standards of the IPSASB. To meet stakeholder expectations in this regard, when developing

[3] For further information on the PIR, see the Auditor Reporting Implementation project page.

the proposals for ED-570, the IAASB remained cognizant of the requirements in IAS 1[4] and IPSAS 1[5] (see paragraphs 20, 39, 71 and 110) and leveraged educational and other agenda materials of the IASB (see paragraphs 23–24 and 83).

Coordination with Other IAASB Task Forces, Working and Consultation Groups, and IESBA

IAASB Task Forces, Working Groups and Consultation Groups

11. In developing ED-570, the IAASB adhered to the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines.[6] Since the approval of the project proposal, coordination activities with other IAASB task forces, working and consultation groups included:

- Auditor Reporting Consultation Group: Informing the approach when developing the proposals for updating the illustrative independent auditor's reports in the appendix of ED-570.
- Professional Skepticism Consultation Group: Discussions focused on the approach taken, and changes proposed to address professional skepticism in ED-570.
- Technology Consultation Group: Proposed enhancements to the application material to incorporate examples of automated tools and techniques and to emphasize the impact of technology on the auditor's work related to going concern.
- Audits of Less Complex Entities Task Force: Discussions about the approach used to address scalability in the application material of ED-570 and the examples relevant for smaller or less complex entities.
- IAASB-IASB Liaison Working Group: Support in the continued dialogue and engagement with the IASB on issues of mutual interest relating to going concern.

12. In addition, in developing ED-570, consideration was given to the following matters that are being contemplated by other ongoing IAASB projects:

- Audit Evidence Project: The IAASB considered proposed ISA 500 (Revised), *Audit Evidence* that was issued for exposure in October 2022. Any further alignment changes that may be necessary for certain proposals in ED-570 as a result of proposed ISA 500 (Revised) will be considered once the final revised standard on audit evidence is approved.
- Fraud Project: Given that the fraud project is also considering possible changes, among other proposed actions, to enhance transparency in the auditor's report, the IAASB are aware of the impact the collective changes would have on the auditor's report. The IAASB is also mindful about coordinating the possible effective date for ED-570 and the revised standard on fraud.
- Listed Entity and Public Interest Entity (PIE) Project: The project is addressing narrow scope amendments arising from the recently completed equivalent project of the International Ethics Standards Board for Accountants (IESBA),[7] through actions to develop an objective for

[4] International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

[5] International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*

[6] See the CUSP Drafting Principles and Guidelines.

[7] The final pronouncement from IESBA's project, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, was issued in April 2022.

establishing differential requirements for certain entities in the ISQMs[8] and ISAs, and to consider replacing the definition of listed entity with IESBA's definition of "publicly traded entity" and introducing the definition of "PIE". The IAASB recognizes that further alignment changes may be necessary for certain proposals related to enhancing transparency in the auditor's report in ED-570 that apply to listed entities. Such matters will be further considered once the IAASB's deliberations on the Listed Entity and PIE project are concluded.

IESBA

13. The Going Concern Task Force liaised with IESBA Staff to ensure that ED-570 is aligned with the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). Matters discussed included the proposed requirement to report to an appropriate authority outside of the entity when law, regulation or relevant ethical requirements require the auditor to do so or establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances (see paragraphs 65-67).

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-570, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in ED-570, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

Respondents are also free to address only questions relevant to them (i.e., respondents may respond to all questions or only those questions where they have specific comments).

Section 2 Significant Matters

Section 2-A – Public Interest Issues Addressed in ED-570

14. In developing ED-570, the IAASB considered the qualitative standard-setting characteristics set out in paragraph 36 of the project proposal and those included in the Public Interest Framework (PIF)[9] as criteria to assess the proposed standard's responsiveness to the public interest.

15. **Appendix 1** to this Explanatory Memorandum sets out a table that maps the proposed revisions to enhance or clarify proposed ISA 570 (Revised 202X) to the standard-setting actions included in the project proposal as the actions are directly related to the project objectives that support the public interest. **Appendix 1** to this Explanatory Memorandum also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action. These qualitative standard-setting characteristics are summarized in the box below.

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8 International Standards on Quality Management

9 See the Monitoring Group report *Strengthening the International Audit and Ethics Standard-Setting System* (pages 22–23 of the PIF's section on "What qualitative characteristics should the standards exhibit?").

Qualitative Standard-Setting Characteristics Considered

- *Scalability* – addresses both less and more complex circumstances, commensurate with the nature and circumstances of the entity (e.g., through the scalability examples provided in the application material).
- *Proportionality* – addresses the issues in a proportionate manner by considering the relative impact that the proposals may have on different users (e.g., by considering the differing needs or heightened expectations of intended users to appropriately identify those requirements that are specifically relevant to the audits of financial statements of listed entities).
- *Relevance* – focuses on responding to emerging issues, evolving stakeholder needs and perceptions and changes in business environments and technology (e.g., through robustly addressing the auditor's identification of going concern-related events or conditions, the impact of events or conditions subsequent to the period of management's assessment of going concern, and enhanced application material addressing the use of automated tools and techniques).
- *Clarity and conciseness,* including overall *understandability* – addresses minimizing the likelihood of differing interpretations (e.g., in relation to the proposed definition of Material Uncertainty (Related to Going Concern) and other clarifications proposed related to terminology, as well as providing clear and definitive direction on key matters such as the timeline of the going concern assessment, the auditors evaluation of management's assessment, and communication and auditor reporting requirements).
- *Implementability* and ability of being *consistently applied and globally operable* – focuses on improving comparability and consistency across auditor reports globally about the auditor's responsibilities and work related to going concern (e.g., by reporting going concern matters in the auditor's report either in a section on Going Concern or Material Uncertainty Related to Going Concern and by reinforcing the benefit to users of a management's assessment of going concern that includes more current information).
- *Coherence* – with the overall body of ISAs (e.g., by building appropriately on the foundational requirements in ISA 315 (Revised 2019)[10] and adequately articulating the concepts introduced from ISA 540 (Revised),[11] such as in relation to the auditor's evaluation of management's method, assumptions, and data).

Section 2-B – Overview of the Key Changes Proposed in ED-570

16. **Appendix 2** to this Explanatory Memorandum shows a chart that presents the key elements of enhanced or clarified ED-570. The chart depicts a walkthrough of the auditor's decision-making process in respect of whether a material uncertainty related to going concern exists, (presented in dark gray boxes), recognizing the iterative nature of an audit.

17. The paragraph references in the chart relate to the paragraphs of ED-570. Also, in developing the chart, the IAASB referred to management's responsibilities for assessment of the entity's ability to

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[10] ISA 315 (Revised 2019), *Identifying and Assessing the Risk of Material Misstatement*

[11] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

continue as a going concern required by International Accounting Standard (IAS) 1, *Presentation of Financial Statements* and in doing so leveraged the education material issued by the IFRS Foundation in January 2021.

Section 2-C – Terminology

18. Respondents to the DP supported providing clarity for key concepts and terminology associated with going concern, such as describing or defining "Material Uncertainty Related to Going Concern" and "significant doubt." Respondents noted that these terms are inconsistently understood and may therefore have varying interpretations, as well as that some financial reporting frameworks may describe or define these terms differently.

Defining Material Uncertainty (Related to Going Concern)

19. In ED-570, the IAASB included a new definition for the concept "Material Uncertainty (Related to Going Concern)" by relocating and repurposing the essential material included in paragraph 18 of extant ISA 570 (Revised). Given the pervasive use of the concept throughout the requirements of the standard, the IAASB believes that including the definition in ED-570 enables *clarity and conciseness,* by enhancing the standard's *understandability* and facilitates *consistency* in practice by minimizing the likelihood of varying interpretations that could occur.

20. The IAASB believes that the proposed definition:

- Does not give rise to inconsistencies with recognized financial reporting frameworks, given that the term "material uncertainty", for example, remains undefined by the IFRS Accounting Standards.[12]
- Remains consistent with the auditor's objective stated in paragraph 9(b) of ED-570 and paragraph 9(b) of extant ISA 570 (Revised) that set an obligation for the auditor to conclude (irrespective of management's conclusion) whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Paragraph A4 of ED-570 recognizes that different reporting frameworks may use the same or another equivalent term. Regardless of whether or how the applicable financial reporting framework defines a "material uncertainty", consistent with paragraph 18 of extant ISA 570 (Revised) the auditor is required by ED-570 to conclude whether such a material uncertainty exists.

21. In developing the proposed definition, the IAASB considered whether the defined term should be "Material Uncertainty Related to Going Concern" as this would align with the heading of the section in the auditor's report required to be used by paragraphs 34–35 of ED-570. However, the IAASB decided to include the phrase "Related to Going Concern" in brackets because:

- The term "material uncertainty" is consistent and aligns with the key concepts and terminology

[12] The IASB had previously considered narrow focused amendments to IAS 1 (see Agenda Item AP3A discussed by the IASB in March 2013) to clarify certain aspects of the standard, however, such proposals were not ultimately pursued by the IASB. Those proposals included factors relevant to management's judgments when identifying whether the uncertainties about an entity's ability to continue as a going concern are material (such as the nature of the uncertainty, the magnitude of the potential impact on the entity if the event or condition giving rise to the uncertainty occurs, likelihood of that event or condition occurring and the likely timing of the event or condition giving rise to the uncertainty).

used in the IFRS Accounting Standards.

- The approach avoids unnecessary substantial changes in aligning terminology used throughout the proposed standard, including for the objective stated in paragraph 9(b) of ED-570, as well as other conforming and consequential amendments to other ISAs.
- The inclusion of the clarifying phrase in brackets is consistent with the approach undertaken for other definitions in the ISAs, in particular in ISA 500[13] for defining the terms "Appropriateness (of audit evidence)" and "Sufficiency (of audit evidence)."

22. The IAASB considered and made alignment changes to ED-570 for consistency of terminology with the definition of Material Uncertainty (Related to Going Concern). In certain instances, where the context was appropriate, this included simplifications by replacing the "long form" of the phrase (i.e., "material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern") with the "short form" (i.e., "material uncertainty"). However, in considering the alignment changes for terminology, the IAASB also believed that it is still appropriate to retain the "long form" in certain instances, for example, when providing the explicit statements in the auditor's report (see paragraphs 75-78). This was considered necessary to keep the wording aligned with the auditor's responsibilities section of the auditor's report as required by ISA 700 (Revised).[14]

Clarifying the Phrase "May Cast Significant Doubt"

23. The IAASB included new application material in paragraph A5 of ED-570 to clarify the phrase "*may cast significant doubt*" used in the definition of Material Uncertainty (Related to Going Concern). The IAASB believes this is appropriate because it is:

    - Reflective of the "threshold" for when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions.
    - Better aligned with the use of the phrase in IAS 1 and the Financial Accounting Standards Board (FASB) definition for "Substantial Doubt about an Entity's Ability to Continue as a Going Concern" [15] (e.g., where the threshold of "probable" is used).

24. Consistent with financial reporting frameworks such as IFRS Accounting Standards (see IAS 1 and other IASB materials[16]) and US GAAP,[17] the application material highlights that management is required to consider the impact of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern both before and after considering the effect of mitigating factors:

    - *Before* mitigating factors relating to events or conditions that could cause the entity to liquidate or to cease trading (in IAS 1) or not to be able to meet its obligations as they become due within one year after the date that the financial statements are issued (in US GAAP).

[13] ISA 500, *Audit Evidence*

[14] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 39(b)(iv)

[15] See the FASB glossary of Accounting Standards Update Subtopic 205-40, *Presentation of Financial Statements–Going Concern*.

[16] See Agenda Item AP12 of the November 13-14, 2012 IASB meeting and Agenda Item 8B of the November 2013 IASB meeting.

[17] The FASB Accounting Standards Codification is the source of authoritative, nongovernmental US generally accepted accounting principles (GAAP).

- *After* management has deployed remedial actions, outside of the normal course of business, to mitigate the adverse effects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Section 2-D – Risk Identification and Assessment

Approach to the Proposed Revisions for Risk Identification and Assessment

25. Respondents to the DP supported a clearer link between the requirements in ISA 315 (Revised 2019) and extant ISA 570 (Revised). Considering the *coherence* of the overall body of its standards, in developing its approach to enhance ED-570 for risk identification and assessment the IAASB had the following objectives:

    - Strengthen the standard while avoiding repeating material already in ISA 315 (Revised 2019), to the extent that there is no loss of *understandability*. This included adding incremental requirements and application material relevant for going concern matters that supplement the broader requirements of ISA 315 (Revised 2019).
    - Incorporate the key concepts, as well as the structural elements from ISA 315 (Revised 2019) related to performing risk assessment procedures to improve the relationship and integration between ISA 315 (Revised 2019) and extant ISA 570 (Revised).

Risk Assessment Procedures and Related Activities

26. The risk assessment procedures in extant ISA 570 (Revised) are focused on inquiry and discussion as a basis for determining 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.

27. There was support from the feedback to the DP that the auditor should be required to perform specific risk assessment procedures in relation to going concern that are beyond inquiry and discussion because this would:

    - Enable the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern earlier in the course of the audit.
    - Support the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that have not been identified by management.

28. Considering respondents support, the IAASB proposes elevating the extant requirements from "inquiry and discussion" to a more robust approach as reflected in paragraph 11 of ED-570. The auditor is now required to design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions relevant to the auditor's conclusion stated in paragraph 30 of ED-570.

29. Paragraphs A8–A9 of ED-570 highlight the connection with the broader requirements of ISA 315 (Revised 2019), explain why the risk assessment procedures and related activities for matters addressing going concern are relevant, and emphasize that the auditor uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of the standard.

30. Certain examples of audit procedures previously included in paragraph A16 of extant ISA 570 (Revised) were reallocated to the application material for the risk assessment procedures and related

activities in paragraph A11 of ED-570, given they provide examples of procedures that may be relevant to identifying events or conditions. This paragraph is also intended to:

- Enhance the robustness and timeliness of the risk assessment procedures performed.
- Align the nature of the procedures with those in paragraph 14 of ISA 315 (Revised 2019).
- Link to aspects of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for which the auditor is required to obtain an understanding in ISA 315 (Revised 2019).

Examples of Events or Conditions

31. As suggested by respondents to the DP, the IAASB enhanced and modernized the examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in paragraph A6 of ED-570. In addition, the IAASB:

    - Added a clarification to draw attention that the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified by the auditor before consideration of any related mitigating factors included in management's plans for future actions (i.e., on a "gross basis").
    - Emphasized that the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are considered individually or collectively.
    - Aligned the description of the events or conditions with those set out in the appendices of ISA 315 (Revised 2019) and ISA 240,[18] i.e., where the event or condition being described is the same, but wording used in the description is different. The alignment seeks to improve *understandability* and support the auditor in connecting the understanding of events or conditions in ISA 315 (Revised 2019) and ISA 240 with that in ED-570.

32. Also, the IAASB included new application material in paragraph A7 of ED-570 to draw attention to circumstances when an identified event or condition may also present a fraud risk factor to be further considered and addressed in accordance with ISA 240. The application material aims to improve the linkage between the standards and support the auditor maintaining professional skepticism when applying ED-570.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework, and the Entity's System of Internal Control

33. New requirements and related application material are included in paragraphs 12 and A15–A22 of ED-570 when performing risk assessment procedures, focusing on specific going concern matters by expanding on the foundational requirements in paragraphs 19–26 of ISA 315 (Revised 2019).

34. The structure of the new requirements is consistent with the approach taken in ISA 540 (Revised)[19] and ISA 600 (Revised)[20] with the objective to improve the linkages between the understanding being obtained in accordance with ISA 315 (Revised 2019) and the auditor's work in respect of going

[18] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

[19] ISA 540 (Revised), paragraph 13

[20] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 30

concern by:

- The use of separate headings, i.e., for the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.
- Following the same order as paragraphs 19-26 of ISA 315 (Revised 2019).

35. Given the desire to avoid repetition and remain *coherent* with the overall body of standards, the IAASB reflected on whether it is appropriate to include application material in ED-570 that is also addressed in ISA 315 (Revised 2019), such as application material in respect of business risks (see paragraph A15 of ED-570). On balance, the IAASB formed the view that it would be important to address the guidance in the application material of ED-570 rather than to cross-reference to ISA 315 (Revised 2019) or by providing a separate appendix to the standard because:

    - The application material is appropriate given its relevance to specific going concern matters addressed by the requirements (i.e., the going concern 'lens') and because such guidance would support proper and *consistent* application of the requirements of the standard.
    - This approach may be more helpful to firms who integrate the requirements and application material in their audit methodologies and may therefore also facilitate more effective *implementation* of the standard.

Other Proposed Enhancements for Risk Identification and Assessment

36. To address auditor's procedures relevant for going concern when applying ISA 315 (Revised 2019), new requirements were included in paragraphs 14–15 of ED-570 in relation to events or conditions that have not been previously identified or disclosed by management and for control deficiencies within the entity's system of internal control. The enhancements related to control deficiencies specifically build on paragraph 27 of ISA 315 (Revised 2019).

Section 2-E – Timeline Over Which the Going Concern Assessment is Made

Period of Management's Assessment

37. Respondents to the DP expressed mixed views about extending the minimum period of management's assessment of going concern beyond twelve months. Comments were made that as the time period for assessing going concern increases, the assessment becomes less meaningful due to the higher level of uncertainty and difficulty for the auditor to obtain sufficient appropriate audit evidence. However, respondents were supportive of exploring a change in the commencement date of the twelve-month period of management's assessment, which is used as the basis for the auditor's evaluation. Paragraph 13 of extant ISA 570 (Revised), uses the date of the financial statements as defined in ISA 560.[21]

38. The IAASB is also aware that certain jurisdictions such as Australia, New Zealand, the United Kingdom, and the United States, have amended their national equivalent going concern standards to require the commencement date of the twelve-month period of management's assessment to be the date the financial statements are issued or approved or when the auditor's report is signed.

[21] ISA 560, *Subsequent Events*

39. In its deliberations on ED-570, the IAASB considered the support from respondents to the DP, jurisdictional developments, and education material issued by the IFRS Foundation[22] and concluded that pursuing a different commencement date of the twelve-month period of management's assessment of going concern would not be inconsistent with the requirements of recognized financial reporting frameworks. Such frameworks establish a minimum ("at least, but not limited to") twelve-month period, not a cap, i.e. emphasizing that the outlook is not limited to twelve months.[23] The IAASB believes that it is therefore *relevant* for ED-570 to acknowledge that the recognized financial reporting frameworks specify a minimum period for which management is required to take into account all available information as this would acknowledge that a longer time frame than the minimum period can be considered.

40. The IAASB believes that pursuing a different commencement date in ED-570 of the twelve-month period of management's assessment of going concern:

- Enables greater *comparability* and *consistency* among jurisdictions globally, given that some jurisdictions have already adopted a different commencement date of the period of the auditor's evaluation in their national equivalent auditing standards.
- Aligns with evolving practice whereby a different commencement date of the period of the auditor's evaluation is often applied, although not required by extant ISA 570 (Revised).
- Reinforces the benefit to users of a management's assessment of going concern that includes more current information, as the commencement date of the assessment would be extended.

41. In considering which date should be used in ED-570 as the commencement date of the twelve-month period of management's assessment of going concern, the IAASB considered several possible dates as defined in ISA 560, including the date of approval of the financial statements, the date of the auditor's report and the date the financial statements are issued. The IAASB decided to refer to a period of at least twelve months from the date of approval of the financial statements because in most jurisdictions, this date is a widely recognized date that may be prescribed in statutory requirements for when management, TCWG or those with recognized authority assert that they have taken responsibility for the financial statements.

Management Unwilling to Make or Extend its Assessment

42. Extant ISA 570 (Revised) requires the auditor to consider the implications to the auditor's report if management is unwilling to make or extend its assessment when requested to do so by the auditor. The IAASB recognized that as a consequence of the proposed change discussed in paragraph 41 above, it was appropriate to provide certain flexibility in ED-570 to enable the auditor to obtain sufficient appropriate audit evidence and issue an unmodified opinion when the circumstances are such that management is able to provide additional information to support the appropriateness of their use of the going concern basis of accounting, even when the period used in their assessment

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22 In the education material, the IFRS Foundation clarified that considering time periods longer than twelve months is not inconsistent with the requirements in IAS 1, which establishes a minimum period, not a cap, as well as that requiring consideration of going concern for twelve months from the date that financial statements are authorized for issue as required by some national regulations is not inconsistent with IAS 1.

23 IAS 1, the IFRS for SMEs Accounting Standard, and IPSAS 1, require a date, which is at least, but is not limited to, twelve months from the end of the reporting period, the reporting date, or the approval of the financial statements, respectively.

is less than twelve months from the date of approval of the financial statements. In doing so, the IAASB remained mindful not to weaken the extant requirements.

43. The IAASB:

- Added a new requirement and application material in paragraphs 22 and A43–A44 of ED-570 for the auditor to discuss with management, or where appropriate, with TCWG if management is unwilling to make or extend its assessment when requested to do so by the auditor, which provides the flexibility described in paragraph 42. This enables the auditor to appropriately address a situation where, for example, management's assessment does not cover a period of at least twelve months from the date of approval of the financial statements, however, the entity has profitable operations and no liquidity concerns, and management or TCWG have not identified any events or conditions that may cast significant doubt on the entity's ability to continue as going concern beyond the period of assessment they have chosen.
- Strengthened the requirement in paragraph 23 of ED-570 by scoping it more widely, i.e., for the auditor to determine the implications for the audit rather than to consider the implications to the auditor's report alone.

44. To emphasize the connection with the overarching documentation requirements for the auditor to document significant professional judgments made,[24] which may also extend to the appropriateness of the period used by management in its going concern assessment, the IAASB proposed a consequential amendment to paragraph A10 of ISA 230. This included adding an example that the basis for the auditor's conclusion on the reasonableness of areas of subjective judgments made by management may include management's judgments in relation to the going concern basis of accounting.

Section 2-F – Evaluating Management's Assessment of Going Concern

Evaluating Management's Assessment of Going Concern

45. Extant ISA 570 (Revised) requires the auditor to evaluate management's assessment of going concern. However, the auditor is required to perform certain additional audit procedures on management's assessment of going concern only in circumstances when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.[25]

46. Paragraphs 3–4 of extant ISA 570 (Revised) describe management's responsibility for assessment of the entity's ability to continue as a going concern, including that management's assessment is fundamental to support management's assertion (which may be explicit or implicit) that it is appropriate to prepare the financial statements using the going concern basis of accounting. Management's assessment of going concern is underpinned by assumptions and judgments related to events or conditions, including in relation to management's determination as to whether such events or conditions may cast significant doubt on the entity's ability to continue as a going concern, and whether a material uncertainty exists.

47. Respondents to the DP emphasized the need to strengthen the standard by providing for more rigorous procedures to appropriately challenge management's assumptions and judgments underpinning its assessment of the entity's ability to continue as a going concern.

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[24] ISA 230, *Audit Documentation*, paragraph 8

[25] See paragraphs 12 and 16 of extant ISA 570 (Revised).

48. In this regard, the IAASB proposed in paragraph 17 of ED-570 for the auditor to "design and perform audit procedures" to evaluate management's assessment of the entity's ability to continue as a going concern. Also, in paragraph 16 of ED-570, the auditor is required to request management to make its assessment of going concern, if such an assessment has not yet been performed. These revisions enable a more robust approach in ED-570 as the auditor is required to perform audit procedures on management's assessment in all circumstances, recognizing that management's assumptions and judgments underpinning its assessment of the entity's ability to continue as a going concern includes management's determination as to whether or not events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exist.

49. The IAASB also clarified in paragraph A29 of ED-570 that management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- A material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The IAASB emphasized the two components included in management's assessment of going concern given the objectives in paragraph 9 of ED-570 and the auditor's conclusions required by paragraphs 29–30 of ED-570. The application material also acknowledges that in situations when, in the auditor's professional judgment, management has not performed an appropriate analysis to support its assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.[26]

Method, Assumptions and Data Used in Management's Assessment

50. Respondents to the DP supported applying concepts introduced in ISA 540 (Revised) when the auditor evaluates management's assessment of going concern.

51. The IAASB proposed in ED-570:

- A new requirement in paragraph 19 to evaluate the method, assumptions and data used by management to make its assessment of going concern. In doing so, the IAASB leveraged paragraphs 23–25 of ISA 540 (Revised).
- Application material in paragraphs A34–A37 that facilitates the auditor to more appropriately challenge the method, assumptions and data used by management to make its assessment, including to consider the risk of management bias. This supports the auditor maintaining professional skepticism when applying ED-570.

Information Used in Management's Assessment

52. The requirement in extant ISA 570 (Revised) for the auditor to consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit has been retained (see paragraph 24 of ED-570). In addition, the IAASB strengthened this section by introducing a new requirement for when events or conditions have been identified that may cast

[26] ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged With Governance*

significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor (see paragraph 25 of ED-570).

Section 2-G – Evaluating Management's Plans for Future Actions

53. With respect to the auditor's evaluation of management's plans for future actions, respondents to the DP supported further clarity related to when written evidence to provide financial support is obtained from a third-party, and for whether, and in what circumstances this constitutes sufficient appropriate audit evidence. There was also support for addressing the concept of obtaining audit evidence about management's "intent" and "ability" regarding its plans for future actions.

54. Considering this support, the IAASB:

- Strengthened the requirements for the auditor to evaluate management's plans for future actions to also include whether management has the intent and ability to carry out the specific courses of action (see paragraph 26 of ED-570).
- Added a new requirement for the auditor to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide necessary financial support (see paragraph 27 of ED-570).

55. New application material was also developed that among other matters (see paragraphs A47–A54 of ED-570):

- Provides examples of auditor's procedures that may be relevant when evaluating management's plans for future actions.
- Emphasizes that, when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion as to whether a material uncertainty exists is dependent on the auditor's evaluation of management's plans for future actions.
- Sets out guidance for circumstances when the auditor may consider requesting an external confirmation of the existence and terms of borrowing facilities with external finance providers or consider requesting written confirmation of third parties or related parties, including the entity's owner-manager about their intent to provide necessary financial support.

56. The IAASB also aligned the requirements for written representations for the changes referenced in paragraph 54 and added an example in the application material to highlight that the auditor may still request a written representation from management as to the validity of the related terms and conditions in the written confirmation obtained from a related party, including the entity's owner-manager.

Section 2-H – Professional Skepticism

57. The IAASB incorporated the concept of professional skepticism in several parts of ED-570, including for risk assessment procedures and related activities, when evaluating management's assessment of going concern and when evaluating whether sufficient appropriate audit evidence has been obtained.

58. Paragraph A10 of ED-570 draws attention to the foundational requirement in paragraph 13 of ISA 315 (Revised 2019) that requires the auditor to design and perform risk assessment procedures in a

manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Given that ISA 315 (Revised 2019) sets out the overarching requirements which also apply to risks of material misstatement related to going concern, the IAASB believes that it is not necessary to repeat this requirement in ED-570 to maintain the *coherence* of its standards.

59. Paragraph 18 of ED-570 leverages paragraph 18 of ISA 540 (Revised) and requires the auditor to design and perform the audit procedures to evaluate management's assessment of going concern in an unbiased manner. The IAASB believes that it is *relevant* to include a similar requirement in ED-570, given that ISA 540 (Revised) is not a foundational standard that sets out overarching requirements that apply to the audit procedures related to going concern. New application material has been provided in paragraph A32 of ED-570 with examples of contradictory and corroborative information when evaluating management's assessment of going concern.

60. Paragraph 29 of ED-570 requires the auditor to evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible management bias and, if so, to evaluate the implications for the audit (application material in paragraphs A57–A60 of ED-570 supports the proper application of the requirement). In addition, the auditor is required to "stand back" and consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

61. The IAASB believes that including these requirements in ED-570 will assist in supporting the maintenance of professional skepticism and would further supplement the enhancements already proposed in ED-570 that support the auditor's application of professional skepticism discussed in paragraphs 32 and 51 above.

Section 2-I – Transparency About the Auditor's Responsibilities and Work Related to Going Concern

62. Respondents to the DP supported more transparency about the auditors work in relation to going concern and expressed differing ways in which this could be achieved.[27]

Communication with TCWG

63. Respondents to the DP emphasized that extant ISA 570 (Revised) should be improved to encourage early transparent dialogue among the auditor, management and TCWG and to enhance two-way communication with TCWG for matters related to going concern.

64. To address the robustness and timeliness of the communications with TCWG, the IAASB:

- Added a new requirement in paragraph 12(f) of ED-570 for the auditor to obtain an understanding of how TCWG exercise oversight over management's assessment of going concern. The requirement aims to promote two-way communication with TCWG about what they consider to be identified events or conditions that may cast significant doubt on the entity's

[27] Supportive respondents to the question included respondents who were in the following categories: (i) Supportive of enhanced transparency both with TCWG and in the auditor's report, (ii) Supportive of enhanced transparency with TCWG, but not in the auditor's report, (iii) Supportive of enhanced transparency in the auditor's report, but not with TCWG, and (iv) Supportive of enhanced transparency in other areas (e.g., with regulatory authorities).

ability to continue as a going concern and support the auditor's identification of areas of potential focus regarding management's assessment of going concern at the planning stage of the audit.

- Strengthened the requirements in paragraph 39 of ED-570 for communication with TCWG when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as are going concern. The requirement now includes communication for broader matters, including the adequacy of the disclosures that describe the significant judgments made by management and the mitigating factors in management's plans, the basis for the auditor's conclusions and an overview of the audit procedures performed, and when applicable management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern.
- Included new application material in paragraphs A87–A89 of ED-570 to provide examples of the nature, timing and extent of the communications expected, emphasizing the ongoing nature of the communications.

Communication with Appropriate External Parties

65. Respondents to the DP recognized increased expectations from stakeholders regarding the public interest role of the auditor and supported a requirement in ED-570 to report to an appropriate external authority when the auditor determines it is necessary to include a Material Uncertainty Related to Going Concern section in the auditor's report or issue a modified opinion in respect of going concern. This goes beyond the application material in paragraph A34 of extant ISA 570 (Revised) which recognizes that when the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

66. The IAASB is also aware of developments in certain jurisdictions[28] where national standards or regulations already require the auditor to communicate with oversight, regulatory and enforcement authorities in the circumstances described in paragraph 65.

67. In response to these developments and considering respondents support, the IAASB agreed to include in paragraph 40 of ED-570 a requirement to communicate with appropriate external parties when law, regulation or relevant ethical requirements require, or establish responsibilities permitting, the auditor to report to an appropriate authority outside the entity, and to seek stakeholder feedback whether such a requirement would be useful for those jurisdictions.

Transparency About Going Concern in the Auditor's Report

Background

68. Respondents to the DP provided various suggestions about what additional information is needed in the auditor's report to enhance transparency about the auditor's work and responsibility about going concern. Respondents cautioned against adding more boilerplate statements, length, and complexity to the auditor's report and supported that the IAASB should consider:

    - Requiring more explicit statements regarding going concern in the auditor's report.

[28] For example, in the United Kingdom and in the European Union.

- Requiring disclosures in the auditor's report about management's going concern assessment that are less binary in nature, for example by providing more information in the auditor's reports about when the entity's going concern status is in the "no material uncertainty" stage.
- Requiring the auditor to provide information about the nature, timing and extent of the auditor's work or procedures on going concern in the auditor's report, as well as the results and any significant findings.
- Including more information in the Material Uncertainty Related to Going Concern section so as to align to the extent of communicating required for key audit matter(s) (KAM). Respondents commented that it could be perceived as disproportionate that the Material Uncertainty Related to Going Concern section provides less information relative to communicating KAM and may therefore be perceived by users as having less relative importance.

69. There also was consistency in the feedback provided by stakeholders through the information-gathering activities and the key findings from the PIR which indicated that the following aspects related to reporting on going concern matters were challenging:[29]

- Lack of clarity with respect to KAM, Material Uncertainty Related to Going Concern and Emphasis of Matter (EOM) paragraphs in the auditor's report. Respondents commented that the interaction between the requirements and guidance in various ISAs (e.g., ISA 701,[30] ISA 706 (Revised)[31] and extant ISA 570 (Revised)), and the interrelationships and differences of the use of KAM, Material Uncertainty Related to Going Concern and EOM, is not always obvious and straightforward.[32]
- Communication about going concern in "close call" situations. Stakeholder feedback indicated that there is lack of clarity about these situations as well as about the related auditor reporting requirements in the standards.

70. The IAASB is also aware that certain jurisdictions[33] have already implemented changes to their national going concern standards to improve transparency about going concern in the auditor's report, as well that other jurisdictions[34] are also exploring the need and options for additional disclosures in the auditor's report that include matters related to going concern.

Overarching Considerations

71. In developing the proposed revisions to ED 570 to enhance transparency in the auditor's report, the IAASB considered the following overarching principles:

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29 See Agenda Item 3 that includes the feedback from the Stakeholder Survey and other information gathering activities in relation to the PIR presented to the IAASB at its February 2021 mid-quarter meeting and the Auditor Reporting PIR Feedback Statement.

30 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

31 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

32 In August 2022, the IAASB published a non-authoritative Frequently Asked Questions publication to address some of the common questions related to reporting going concern matters in the auditor's report.

33 For example, in the United Kingdom, the Financial Reporting Council (FRC) published a revised *International Standard on Auditing (UK) 570 Going Concern* in September 2019 and in the Netherlands the Board of the Royal Nederlandse Beroepsorganisatie van Accountants (NBA) approved amendments to the Dutch auditing equivalent standard of ISA 700 (Revised) that requires reporting on fraud and going concern in the auditor's report.

34 For example, in June 2021, the Independent Regulatory Board for Auditors (IRBA) published the consultation document "*Enhancing Disclosures in the Auditor's Reports in South Africa: Addressing the Needs of Users of Financial Statements.*"

- Focus on enhancements that would be most *relevant* for users of audited financial statements, increasing transparency about going concern matters in a *concise* and *understandable* manner.
- Propose changes that would align with the requirements in the applicable financial reporting framework addressing management's disclosures for going concern.
- Address the issues in a *proportionate* manner by considering the relative impact that the proposals may have on different users.
- Consider improvements that would promote global *comparability and consistency* across auditor's reports about the auditor's responsibilities and work related to going concern.

Overview of the IAASB Proposals When the Auditor's Opinion is not Modified in Relation to Going Concern

72. The IAASB intends that all matters to be communicated in the auditor's report regarding the auditor's conclusions about, and work related to, going concern are addressed in ED-570, in a separate section in the auditor's report for such communication. The separate section shall either have the heading "Going Concern" when paragraph 33 of ED-570 applies, or a heading "Material Uncertainty Related to Going Concern" when paragraphs 34–35 of ED-570 apply. Paragraph A1 of ED-570 clarifies that this standard (and not ISA 701) addresses the implications for the auditor's report when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists. In addition, a proposed conforming and consequential amendment to paragraph 4 of ISA 701 clarifies that communicating KAM in the auditor's report is not a substitute for reporting in accordance with ED-570. The relevant requirements are further highlighted in paragraphs 75-86, below.

73. In addition, the IAASB deliberated about the judgments relevant for *proportionality*, *comparability* and *consistency* reflected in its standard-setting proposals. The box below explains the IAASB rationale in this respect.

Proportionality

► The proposals outlined in the table in paragraph 74 below, reflect the IAASB views that it is in the public interest to enhance transparency in the auditor's report about going concern in *all instances* (i.e., for audits of all entities). The IAASB believes the proposed approach is an appropriate response to stakeholder feedback given that going concern matters are relevant to audits of all entities, regardless of size or complexity. However, the IAASB considers that certain aspects of its proposals should apply only for audits of listed entities.

► In forming its view, the IAASB considered the rationale, as part of its project to revise the Auditor Reporting Standards, for establishing the applicability of ISA 701 and requiring the communication of KAM for audits of listed entities (or when required by law or regulation with voluntary application permitted for entities other than listed). The IAASB recognized at that time that the information needs of intended users of auditor's reports of entities can differ, the distinction being between those intended users that have access to further information and insights about the auditor's work beyond the financial statements and the auditor's report, and those that do not. It was noted by the IAASB that intended users of listed entities usually do not have direct access to auditor communications with management about their work, including for the issues that were identified and addressed in the course of the audit. For such users, there is a clear public interest benefit, equivalent as for requiring the communication of KAM, in providing more informational content about the auditor's work and inclusion of additional commentary about going concern in the auditor's report.

► For other entities, the IAASB believe that intended users of financial statements of entities other than listed entities may have access to this type of information through direct interaction with management and TCWG, thereby obviating the need for the additional commentary. For example, owner-managed entities have direct access to auditors and an understanding of their work. There may be circumstances where intended users of audited financial statements of entities other than listed entities may include lenders and other creditors that may not have access to information about the audit, beyond the financial statements and the auditor's report. However, the IAASB are of the view that in such circumstances, akin to communicating KAM, the auditor would not be precluded from voluntarily including the additional commentary in their auditor's report.

Comparability and Consistency

► The proposals outlined in the table in paragraph 74 below, reflect the IAASB views that any commentary related to going concern should be included in a separate section of the auditor's report with either a heading on "Going Concern" (when no material uncertainty exists) or a heading, "Material Uncertainty Related to Going Concern" (when a material uncertainty exists). This would apply in all instances (i.e., for audits of all entities).

► The IAASB believes that alignment of the going concern commentary in the proposed sections appropriately reflects the public interest as it enables greater consistency across auditor's reports and enhances auditor reporting comparability globally. The IAASB also believes that it is not in the public interest for users to have to navigate through the various sections of the auditor's report in order to access relevant commentary about going concern matters as highlighted in paragraph 69.

74. The table below provides an overview of the key revisions proposed in ED-570 to enhance transparency about going concern in the auditor's report when the auditor issues an unmodified opinion.

Going Concern Basis of Accounting is Appropriate – Auditor's Opinion is Not Modified in Relation to Going Concern		
Applicability	**Going Concern Section**	**Material Uncertainty Related to Going Concern Section**
All Entities	State that the auditor: ► Concluded that management's use of the going concern basis of accounting is appropriate. ► Based on the audit evidence obtained, has not identified a material uncertainty. See paragraphs 75-78.	State that: ► The auditor concluded that management's use of the going concern basis of accounting is appropriate. ► A material uncertainty exists. ► The auditor's opinion is not modified in respect of the matter. Include: ► A reference to the related disclosure(s) in the financial statements. See paragraphs 84-86.
Listed Entities	In addition, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern, **but no material uncertainty exists**, include: ► A reference to the related disclosure(s) in the financial statements, if any. ► A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. See paragraphs 79-83.	In addition, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern **and a material uncertainty exists**, include: ► A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. See paragraphs 84-86.

Explicit Statements About Going Concern in the Auditor's Report

75. The inclusion of explicit statements about going concern in the auditor's report was initially proposed by the Invitation to Comment: *Improving the Auditor's Report* and included requiring auditors to provide in their auditor's reports two statements, relating to the auditor's responsibilities under extant ISA 570 (Revised), to:

- Evaluate whether sufficient appropriate audit evidence has been obtained, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and

- Based on the audit evidence obtained, conclude whether, in the auditor's judgment, 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.

While in the course of the project to revise the Auditor Reporting Standards the proposed requirements had been subject to extensive consultation and deliberation by the IAASB, it was ultimately decided not to include them in extant ISA 570 (Revised).[35]

76. However, feedback to the DP indicated that there were respondents who continue to support making explicit, in all auditor's reports, the auditor's responsibilities and work relating to going concern. The IAASB therefore believed there was merit to further explore providing explicit statements about going concern.

77. Consequently, the new requirement in paragraph 33(a) of ED-570 proposes to include two explicit statements (illustrated in the box). This requirement applies to audits of all entities (i.e., for audits of both listed and other than listed entities) whereby the auditor's conclusions about going concern are explicitly communicated in a separate section on Going Concern in the auditor's report.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

** Extract from the auditor's report in Illustration 1 in the Appendix of ED-570.*

78. The IAASB believes that the proposed requirement:

(a) Would offer transparency to users that the auditor has fulfilled their responsibilities in paragraphs 29-30 of ED-570 and paragraphs 17–18 of extant ISA 570 (Revised) that extend to all audits, for the auditor:

- To evaluate whether sufficient appropriate audit evidence has been obtained regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- Based on the audit evidence obtained, to conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

(b) Is consistent with the description provided in the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report as required by ISA 700 (Revised). This requirement extends to all audits and includes a description of the auditor's responsibilities to conclude on:

35 See the *Basis For Conclusions: Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments*.

- The appropriateness of management's use of the going concern basis of accounting.
- Based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Enhanced Communication in the Auditor's Report When Events or Conditions Have Been Identified, But No Material Uncertainty Exists

79. Extant ISA 570 (Revised) did not include requirements in respect of the auditor's report in circumstances when there are events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

80. The absence of auditor reporting requirements in extant ISA 570 (Revised) did not preclude an auditor from providing further transparency in the auditor's report in a "close call" situation. In such a situation, communication in the auditor's report is considered as follows:

(a) ISA 701. The auditor may communicate a KAM provided that, in the auditor's professional judgment, the matter was one of most significance in the audit of the financial statements of the current period and therefore determined to be a KAM. If so, the requirements of ISA 701 are followed. Paragraph A41 of ISA 701 notes in particular that the auditor may determine that one or more matters relating to the conclusion that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are key audit matters.

(b) ISA 706 (Revised). When ISA 701 does not apply[36] or when ISA 701 applies but the auditor has determined that the matter is not a KAM, the auditor may include an EOM paragraph to draw attention to the going concern disclosures in the financial statements when, based on the auditor's professional judgment, such disclosures are fundamental to the users' understanding of the financial statements.

81. Paragraph 33(b) of ED-570 instead proposes a revised approach, for audits of listed entities, for the auditor to provide transparency about how they evaluated management's assessment of the entity's ability to continue as a going concern when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. This utilizes the separate Going Concern section in the auditor's report, including drawing attention to the related disclosure(s), if any, in the financial statements (illustrated in the box). The IAASB is of the view that this new approach to enhance transparency in the auditor's report will support *consistency* and *comparability* of auditor's reports globally, whereby matters related to going concern would be consistently referred to in a single section of the auditor's report. In addition, the proposed approach addresses respondents' comments who requested further clarity and transparency for when the entity's going concern status is in a "no material uncertainty" stage in light of the exacerbated challenges and issues related to various ongoing uncertainties in the broader business environment.

[36] ISA 701 does not apply to audits of financial statements of entities other than listed entities, unless required for such audits by law or regulation, or unless voluntarily applied by the auditor to such audits.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

82. In forming its view about the applicability of the requirement, the IAASB believes that for intended users of audited financial statements of listed entities there is a clear public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about going concern in the auditor's report. Accordingly, the IAASB has proposed for the requirement in paragraph 33(b) of ED-570 to apply to audits of listed entities. Paragraph A71 of ED-570 clarifies that law or regulation may require the auditor to provide the information required by paragraph 33(b) of ED-570 for an audit of financial statements of an entity other than a listed entity, or the auditor may decide to do so voluntarily.

83. To support the application of the new requirement in paragraph 33(b) of ED-570, the IAASB included new application guidance to:

- Explain when the auditor would expect disclosures in the financial statements about identified events or conditions that may cast significant doubt on the entity's ability to continue as going concern. New application material was added in paragraph A62 of ED-570 to clarify that, in view of the requirements of the applicable financial reporting framework, "significant management judgment" is an appropriate threshold to apply when determining if disclosure(s) should be made about events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.[37]
- Provide guidance on what to address in the description about how the auditor evaluated management's assessment of the entity's ability to continue as a going concern, factors that may affect the amount of detail to be provided, and taking care in using language that, amongst other considerations, relates the description directly to the specific circumstances of the entity and that does not contain or imply discrete opinions on separate elements of the financial statements (see paragraphs A73-A75 of ED-570).
- Draw attention that it is appropriate for the auditor to seek to avoid providing original information about the entity in the auditor's report when describing how the auditor evaluated management's assessment about going concern (see paragraphs A76–A77 of ED-570). In doing so, the IAASB leveraged existing guidance in ISA 701. In addition, to alleviate the risk for the auditor providing original information about events or conditions that may cast significant

37 In developing the application material the IAASB considered the agenda decision of the IFRS Interpretations Committee (see IFRIC-Update-July-2014.pdf (ifrs.org)) and the IFRS Foundation education material that clarify and address the going concern disclosure requirements in IAS 1.

doubt on the entity's ability to continue as a going concern that are not otherwise required to be disclosed by certain financial reporting frameworks, the IAASB focused the requirement on describing how the auditor evaluated management's assessment. In doing so, the requirement remains focused on providing a description of matters in the context of the audit.

<u>Enhanced Informational Content for the Material Uncertainty Related to Going Concern Section in the Auditor's Report</u>

84. As part of the IAASB's project to revise the Auditor Reporting Standards it was agreed that when a Material Uncertainty Related to Going Concern exists, the implications for the auditor's report are in accordance with extant ISA 570 (Revised) and in the KAM section of the auditor's report a statement is provided that the KAM are those in addition to the matter described in the Material Uncertainty Related to Going Concern section. The IAASB believes that this approach remains appropriate in the context of the ED-570.[38]

85. The IAASB is also of the view that it is important to maintain the prominence of the Material Uncertainty Related to Going Concern section in the auditor's report because it would not be in the public interest to blur the line between commentary related to going concern when no material uncertainty exists, and when the auditor concluded that a material uncertainty related to going concern exists. Equally the IAASB believes it is important that the Material Uncertainty Related to Going Concern section continues to clearly state that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists and not to undermine such disclosure (e.g., by excessively listing auditor's procedures which may inadvertently create a perception of a positive resolution of the matter).

86. Given the support from respondents to the DP to enhance the informational content for the Material Uncertainty Related to Going Concern section in the auditor's report, the IAASB believes it is appropriate to do so for audits of all entities. Accordingly, the IAASB proposed new requirements in paragraph 34 of ED-570, as follows (illustrated in the box):

- *For all entities* – provide a statement that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate and a material uncertainty exists. The auditor is also required to state that the auditor's opinion is not modified in respect of the matter. A reference is provided to the related disclosure(s) in the financial statements that adequately disclose the matter.
- *For listed entities* – provide a description how the auditor evaluated management's assessment of going concern. Similar to the proposals discussed in paragraph 82, the IAASB believes that for intended users of audited financial statements of listed entities there is a clear public interest benefit in providing more informational content about the auditor's work and inclusion of additional commentary about going concern in the auditor's report.

[38] Paragraph 15 of ISA 701 and paragraph A1 of ED-570 continue to acknowledge that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is by its nature a KAM, but is reported in accordance ED-570.

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

[For listed entities only: Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Our opinion is not modified in respect of this matter.

** Extract from the auditor's report in Illustrations 3 and 4 in the Appendix of ED-570.*

Modifications to the Auditor's Report

87. As a result of the proposals to state (either in the Going Concern section or in the Material Uncertainty Related to Going Concern section of all auditor's reports) that the auditor has concluded that management's use of the going concern basis of accounting is appropriate, the requirement in paragraph 35 of ED-570 when the auditor expresses a qualified or adverse opinion due to inadequate disclosure about a material uncertainty was aligned (illustrated in the box).

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, as described in the *Basis for Qualified (Adverse) Opinion* section of our report, a material uncertainty exists that has not been adequately disclosed in the financial statements.

** Extract from the auditor's report in Illustrations 5 and 6 in the Appendix of ED-570.*

88. The IAASB also considered whether any revisions are necessary for when the auditor disclaims an opinion. In the case of a disclaimer of opinion, paragraph 29 of ISA 705 (Revised)[39] prohibits the inclusion of a section on KAM in accordance with ISA 701 or a section on Other Information in accordance with ISA 720 (Revised),[40] unless required by law or regulation. During the IAASB's project to revise the Auditor Reporting Standards, the IAASB agreed that such prohibition is appropriate because any discussion of KAM unrelated to the disclaimer of opinion may suggest that the financial statements are more credible in relation to those matters than would be appropriate in the circumstances and would overshadow the disclaimer of an opinion on the financial statements as a whole.

89. The IAASB is of the view that a similar approach should be taken in ED-570, whereby when a disclaimer of opinion is provided, the auditor shall not provide further information about Going

[39] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[40] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Concern or a Material Uncertainty Related to Going Concern in a separate section of the auditor's report (see paragraph 36 of ED-570).

90. However, as a consequence of the proposals to provide explicit statements in the auditor's report about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists, the IAASB has proposed a conforming amendment to paragraph 19 of ISA 705 (Revised) (see paragraph 96 below and also illustrated in the box), that includes providing a statement in the Basis for Disclaimer of Opinion that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists.

Basis for Disclaimer of Opinion

…

We are unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

** Refer to the Conforming and Consequential Amendments arising from ED-570; extract from the auditor's report in Illustrations 4 and 5 of ISA 705 (Revised).*

91. New application material was included in paragraph A83 of ED-570 that explains it is not appropriate to include a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when a disclaimer of opinion is provided because in such circumstances the auditor would not be able to obtain sufficient appropriate audit evidence to support its conclusion. In addition, the application material draws attention to the consequential amendment to paragraph 19 of ISA 705 (Revised).

Illustrative Auditor's Reports

92. The IAASB updated and developed new illustrative auditor's reports in the Appendix of ED-570 to demonstrate the statements and descriptions that are required to be included in the auditor's report for both listed entities and other than listed entities, when the IFRS Accounting Standards is the applicable financial reporting framework.

93. In updating the illustrations, the IAASB's aimed to word the sections on Going Concern and Material Uncertainty Related to Going Concern as directly and plainly as possible. In addition, the IAASB kept the explicit statements about going concern together, given the need for consistency across the illustrations presented in the Appendix of ED-570.

Section 2-J – Conforming and Consequential Amendments

94. The IAASB is proposing a number of conforming and consequential amendments arising from ED-570. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided.

95. In many cases, the changes relate to aligning the terminology and wording with ED-570 or to appropriately reference the title of the revised standard. Conforming amendments were also made to the illustrative auditor's reports included in the appendices for ISA 510,[41] and ISAs of the 700 and 800 series.

Relationship with ISAs of the 700 Series

96. More substantive consequential amendments were proposed to clarify the relationship between ED-570 and ISA 700 (Revised), ISA 701, ISA 705 (Revised) and ISA 706 (Revised). The IAASB considered this necessary so as not to cause confusion about which standard's requirements are applicable when reporting matters related to going concern. This included:

- Removing the phrase "where applicable" in paragraphs 29 and 50(f) of ISA 700 (Revised), because the auditor's report would include a separate section reporting going concern matters, unless the auditor disclaims an opinion in accordance with ISA 705 (Revised) or when the going concern basis of accounting is inappropriate.
- Clarifying the relationship between ISA 701 and ED-570, in view of the proposals that when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor of a listed entity would be required to report going concern matters in the Going Concern section of the auditor's report instead of communicating KAM. As a result, amendments have been proposed to paragraphs 4(c) and A41 of ISA 701.
- Adding in paragraph 29 of ISA 705 (Revised) the prohibition to report a Going Concern section or a Material Uncertainty Related to Going Concern section in accordance with ED-570 when the auditor disclaims an opinion (see paragraph 90 above). Amendments were also proposed to paragraph A26 of ISA 705 (Revised) to address this prohibition. In addition, adding in paragraph 19 and illustrations 4-5 of the Appendix to ISA 705 (Revised) a statement that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists.
- Clarifying the relationship with ISA 706 (Revised) given the proposed revisions to ED-570 to report matters related to going concern, either in a Going Concern section or a Material Uncertainty Related to Going Concern section of the auditor's report. Amendments were also proposed to clarify the placement of an EOM paragraph.

Auditor's Responsibilities for the Audit of Financial Statements Section of the Auditor's Report

97. The IAASB considered whether any consequential amendments are necessary for the Auditor's Responsibilities for the Audit of Financial Statements section of the auditor's report as required by paragraph 39(b)(iv) of ISA 700 (Revised). This included consideration as to whether it is appropriate to acknowledge in this section of the auditor's report that for a listed entity, ED-570 also requires to provide a description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

98. Upon deliberation, the IAASB formed the view that a consequential amendment is not necessary in this regard because this section of the auditor's report does not need to state every aspect addressed by the requirements of the ISAs. In addition, the Auditor's Responsibilities for the Audit of Financial

[41] ISA 510, *Initial Audit Engagements–Opening Balances*

Statements section of the auditor's report remains appropriately aligned with the auditor's obligations stated in the objectives in paragraph 9 of ED-570 and does not give rise to inconsistencies with the revisions being proposed.

Review Engagements

99. A review of financial statements also includes consideration of the entity's ability to continue as a going concern. However, because ISRE 2410[42] is still in a pre-clarity format, the IAASB has not pursued conforming and consequential amendments for this standard so as not to give a perception that the standard is up to date. Equally, ISRE 2410 has not been updated for conforming and consequential amendments in relation to other recent projects of the IAASB (e.g., the quality management projects) and a revision of the standard is already being contemplated in the IAASB Strategy and Work Plan for 2024–2027.[43]

100. Further, the IAASB has not pursued further conforming and consequential amendments to ISRE 2400 (Revised)[44] given that:

- The revisions to ED-570 are being developed in view of stakeholder feedback to the DP relevant to the auditor's work and responsibility about going concern in an audit of financial statements. The IAASB is of the view that it would be necessary to undertake further information gathering to determine whether those revisions are appropriate to the scope of a limited assurance engagement.
- The necessary revisions would likely be out of the scope of conforming and consequential amendments, and beyond the targeted nature of the actions outlined in the project proposal because they involve broader matters[45] that can be only addressed by a holistic revision of the standard.

101. The IAASB also highlights that the proposed definition of Material Uncertainty (Related to Going Concern) only apples to the ISAs. The proposed definition would however become part of the IAASB Glossary of Terms,[46] subject to public exposure and approval of the final pronouncement by the IAASB. The IAASB believes that the lack of definition addressing Material Uncertainty (Related to Going Concern) in ISRE 2400 (Revised) would not impact the practitioner's work under the standard because the term "material uncertainty" is not addressed in the requirements of this standard.

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[42] International Standard on Review Engagements (ISRE 2410), *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

[43] See the [Consultation Paper] on the IAASB's Strategy and Work Plan for 2024–2027.

[44] ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

[45] As part of its project to revise the Auditor Reporting Standards, the IAASB determined not to amend the auditor's reports for review and other assurance engagements. Consequently, the new elements introduced to the auditor's report are not reflected in the practitioner's report, such as enhanced sections that discuss the auditor's responsibilities and the responsibilities of management and TCWG in relation to going concern.

[46] The IAASB Glossary of Terms is a non-authoritative document and is updated by IAASB Staff to include all defined and other terms in IAASB Standards in connection with the finalization of the IAASB Handbook.

Section 2-K – Other Matters

Audit Techniques – Use of Technology

102. In developing ED-570, the IAASB remained mindful of the need to modernize the standard, so it remains *relevant* to changes in technology and current practice. In developing the revisions, the IAASB considered the impacts of evolving technologies on the auditor's work related to going concern and enhanced the application material to incorporate examples of automated tools and techniques. This included adding:

- Cyber security risks in the examples of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see paragraph A6 of ED-570).
- Examples to support the auditor's use of technology in the risk assessment procedures and related activities (see paragraph A12 of ED-570).
- New application material to support the auditor's use of technology when evaluating the method, assumptions and data used by management in making its assessment of going concern (see paragraphs A36 and A38 of ED-570).

Leveraging Information from Sources External to the Entity

103. Respondents to the DP emphasized the importance for considering information from sources external to the entity when evaluating whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. Stakeholders also recognized the importance to the auditor of considering information from sources external to the entity when evaluating management's plan for future actions, especially to support or refute, the internal information used in management's plan.

104. The IAASB made enhancements to several paragraphs in the application material to emphasize how information from sources external to the entity can be leveraged in the auditor's work related to going concern (see paragraphs A16, A25 and A47–A54 of ED-570).

Information Subsequent to Management's Assessment

105. Given recent developments in the broader business environment that have caused heightened risks and ongoing uncertainties, the IAASB discussed that it is *relevant* for ED-570 to robustly address the impacts of events or conditions that may cast significant doubt to the entity's ability to continue as a going concern subsequent to the period of management's assessment.

106. The IAASB retained the requirement in paragraph 20 of ED-570, previously paragraph 15 of extant ISA 570 (Revised), for the auditor to inquire of management as to its knowledge of events or conditions beyond the period of management's assessment. In addition, a new requirement is included in paragraph 28 of ED-570 for the auditor to consider whether any additional information has become available after the date of the auditor's report but before the financial statements are issued that is related to management's assessment of going concern. In such circumstances the auditor is required to perform procedures in accordance with ISA 560. This new requirement in ED-570 is intended to work with and apply in the context of the requirements in ISA 560 relating to facts which become known to the auditor after the date of the auditor's report but before the financial statements are issued.

Scalability Considerations

107. The IAASB believes that it is important to address *scalability* considerations in ED-570 given that going concern matters are relevant to audits of all entities, regardless of size or complexity. This approach supports the *comprehensiveness* of the standard by limiting the exceptions from the principles that apply and demonstrates how a requirement applies to all entities regardless of whether their nature and circumstances are less complex or more complex.

108. Consistent with the approach taken in both ISA 315 (Revised 2019) and ISA 540 (Revised) in relation to *scalability*, the IAASB included in ED-570 examples to demonstrate how the nature and extent of the auditor's going concern related audit procedures may vary based on the nature and circumstances of the entity and depending on the method, assumptions and data used by management to assess the entity's ability to continue as a going concern (see paragraphs A13, A31 and A38 of ED-570).

109. Certain of the considerations specific for smaller entities of extant ISA 570 (Revised) were retained and repurposed within the scalability examples, as the IAASB believed they remained relevant and highlighted aspects important for smaller or less complex entities (see paragraphs A14 and A54 of ED-570).

Considerations Specific to Public Sector Entities

110. The IAASB remained cognizant of the fact that management's use of the going concern basis of accounting is also relevant to public sector entities. In considering the enhancements for the public sector perspectives in ED-570, the IAASB believes it is appropriate to add new application material in paragraph A66 of ED-570 to recognize that there may be additional disclosure requirements for public sector entities that may be relevant, such as disclosures related to long-term fiscal sustainability matters.

Effective Date

111. Given that extant ISA 570 (Revised) was last revised as part of the project to revise the Auditor Reporting Standards, the convention applied then for the effective date paragraph of the standard was aligned with that commonly used for the ISAs of the 700 series (i.e., "periods ending on or after [month, day, year]"). However, as the requirements of the standard apply from the planning and performing stages of the audit, the IAASB supported the convention commonly used for other ISAs in the 500 series (i.e., "period beginning on or after [month, day, year]").

112. The IAASB anticipates that the final pronouncement will be approved in December 2024. Recognizing the need to coordinate effective dates with the fraud project that is also considering actions that may result in changes to the auditor's report, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after approval of the final pronouncement. The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the standard, for national adoption processes to occur, and for practitioners to update templates and associated internal materials.

Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability, and practicality of application of the requirements and related application material of ED-570, including, as appropriate, any concerns in this regard or suggestions for improvement.

Recognizing that the IAASB utilizes software to support our analysis of comments received from respondents to public consultations, you can assist our review of the comments by bearing the following in mind in preparing your comment letter:

- Respond directly to the questions below and provide the rationale for your answers.
- We appreciate all your feedback, and respondents may respond to all questions or only those questions where they have specific comments. However, when a respondent agrees with proposals in ED-570, it will be helpful for the IAASB to be made aware of this view.
- You do not need to include a covering letter that provides a summary of your key issues – it is best to keep your comments together with each question.
- Use headings that clearly identify each question you are responding to. When formulating your comments to a question, it is most helpful to identify the specific aspects of ED-570 that your response relates to, for example, by reference to sections or headings or paragraphs in the proposed standard.
- When possible, avoid using tables or text boxes when presenting responses to questions.

Overall Questions

1. Do you agree that the proposals in ED-570 are responsive to the public interest, considering the qualitative standard-setting characteristics and project objectives that support the public interest as set out in **Appendix 1**?
2. Do you believe that the proposals in ED-570, considered collectively, will enhance and strengthen the auditor's judgments and work relating to going concern in an audit of financial statements, including enhancing transparency through communicating and reporting about the auditor's responsibilities and work?
3. Do you believe the proposed standard is scalable to entities of different sizes and complexities, recognizing that general purpose financial statements are prepared using the going concern basis of accounting and that going concern matters are relevant to all entities?
4. Do the requirements and application material of ED-570 appropriately reinforce the auditor's application of professional skepticism in relation to going concern?

Specific Questions

5. Do you support the definition of Material Uncertainty (Related to Going Concern)? In particular, do you support the application material to the definition clarifying the phrase "may cast significant doubt"?
6. Does ED-570 appropriately build on the foundational requirements in ISA 315 (Revised 2019) in addressing risk assessment procedures and related activities, to support a more robust identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

7. Do you support the change in the commencement date of the twelve-month period of management's assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)?

8. Do you support the enhanced approach in ED-570 that requires the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances and irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

9. Does ED-570 appropriately incorporate the concepts introduced from ISA 540 (Revised) for the auditor's evaluation of the method, assumptions, and data used in management's assessment of going concern?

10. Do you support the enhanced requirements and application material, as part of evaluating management's plans for future actions, for the auditor to evaluate whether management has the intent and ability to carry out specific courses of action, as well as to evaluate the intent and ability of third parties or related parties, including the entity's owner-manager, to maintain or provide the necessary financial support?

11. Will the enhanced requirements and application material to communicate with TCWG encourage early transparent dialogue among the auditor, management and TCWG, and result in enhanced two-way communication with TCWG about matters related to going concern?

12. Do you support the new requirement and application material for the auditor to report to an appropriate authority outside of the entity where law, regulation or relevant ethical requirements require or establish responsibilities for such reporting?

13. This question relates to the implications for the auditor's report **for audits of financial statements of all entities**, i.e., to communicate in a separate section in the auditor's report, under the heading "Going Concern" or "Material Uncertainty Related to Going Concern", explicit statements about the auditor's conclusions on the appropriateness of management's use of the going concern basis of accounting and on whether a material uncertainty has been identified.

    Do you support the requirements and application material that facilitate enhanced transparency about the auditor's responsibilities and work relating to going concern, and do they provide useful information for intended users of the audited financial statements? Do the proposals enable greater consistency and comparability across auditor's reports globally?

14. This question relates to the additional implications for the auditor's report **for audits of financial statements of listed entities**, i.e., to also describe how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).

    Do you support the requirements and application material that facilitate further enhanced transparency about the auditor's responsibilities and work relating to going concern? Should this be extended to also apply to audits of financial statements of entities other than listed entities?

15. Is it clear that ED-570 addresses all implications for the auditor's report relating to the auditor's required conclusions and related communications about going concern (i.e., auditor reporting is in accordance with ED-570 and not in accordance with ISA 701 or any other ISA)? This includes when a material uncertainty related to going concern exists or when, for audits of financial statements of listed entities, events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

16. Are there any other matters you would like to raise in relation to ED-570? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Request for General Comments

17. The IAASB is also seeking comments on the matters set out below:

    (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-570.

    (b) Effective Date—Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the fraud project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Appendix 1 – Mapping the Key Changes Proposed in ED-570 to the Actions and Objectives in the Project Proposal that Support the Public Interest

<table>
<tr><th rowspan="2">Proposed Actions in the <u>Project Proposal</u>
(Ref. Section VI, paragraph 35)</th><th colspan="2">Key Changes Proposed in ED-570</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [47]</th></tr>
<tr><th>Paragraph</th><th>Description</th></tr>
<tr><td colspan="4">A. Project Objective: Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.
B. Project Objective: Strengthen the auditor’s evaluation of management’s assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism.</td></tr>
<tr><td>AB.1: Requirements and Application Material – Risk Identification and Assessment
Enhance requirements and application material through making targeted revisions to ISA 570 (Revised) to drive the auditor to obtain information that is relevant to timely identification of events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
In doing so, more explicitly emphasizing the going concern aspects of the auditor’s understanding of the entity and the entity’s system of internal control (including how management undertakes the assessment of going concern) when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019).</td><td>Paras. 11–15</td><td>Requirements
Enhanced and new requirements to:
• Enable a more robust approach for performing risk assessment procedures that will provide audit evidence to support an appropriate basis for the timely identification by the auditor of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
• Perform risk assessment procedures related to going concern matters to obtain an understanding about the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control by building on the foundational requirements in ISA 315 (Revised 2019).</td><td>• Scalability
• Relevance
• Implementability, and ability of being consistently applied and globally operable
• Coherence</td></tr>
</table>

[47] The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	**Key Changes Proposed in ED-570**		**Qualitative Standard-Setting Characteristics Considered [47]**
	Paragraph	**Description**	
	Paras. A6–A28	*Application Material* New application material to: • Address scalability. In particular, to provide examples that demonstrate where the nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity. • Provide more current examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • Strengthen the link to ISA 240 where the identified events and conditions that may cast significant doubt on the entity's ability to continue as a going concern may also be indicative of fraud risk factors. • Provide guidance and examples in respect of the auditor's application of ISA 315 (Revised 2019) through a "going concern lens."	
AB.2: Requirements or Application Material – Timeline for Assessment *Consider enhancing the requirements or application material to:* • *Extend the timeline for the assessment period to at least twelve months from the date of approval of the financial statements, or the date the*	Paras. 20–23; 28	*Requirements* • Change in the commencement date of the twelve-month period of management's assessment, which is used as the basis for the auditor's evaluation, from the date of the financial statements to the date of approval of the financial statements.	• *Relevance* • *Clarity and conciseness* • *Implementability,* and ability of being *consistently applied and globally operable*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	**Key Changes Proposed in ED-570**		**Qualitative Standard-Setting Characteristics Considered [47]**
	Paragraph	**Description**	
auditor's report is signed. • *Evaluate the reasonableness of management's assessment period based on conditions specific to the entity's facts and circumstances, including subsequent events.* In doing so, consider applicable financial reporting framework requirements that address the timeline for assessment.		• Enhanced requirements and stronger links to ISA 560 by requiring the auditor to consider information that becomes available after the date of the auditor's report but before the financial statements are issued. • Strengthened requirements when management is unwilling to make or extend its assessment.	
	Paras. A39–A45; A55	*Application Material* • New application material to explain that management and TCWG may provide the auditor additional information to support the appropriateness of the period used by management in its assessment or about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. • New application material in support of the proposed and strengthened requirements, including emphasis when the auditor may consider requesting management to extend its assessment period beyond twelve months from the date of approval of the financial statements. • Enhanced linkages to the requirements in ISA 560 when facts become known to the auditor after the date of the auditor's	

<table>
<tr><th rowspan="2">Proposed Actions in the Project Proposal
(Ref. Section VI, paragraph 35)</th><th colspan="2">Key Changes Proposed in ED-570</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [47]</th></tr>
<tr><th>Paragraph</th><th>Description</th></tr>
<tr><td></td><td></td><td>report but before the date the financial statements are issued.</td><td></td></tr>
<tr><td rowspan="2">AB.3: Requirements or Application Material – Information from Sources External to the Entity
• Enhance application material to emphasize consideration of information from sources external to the entity (e.g., media releases, industry outlooks) when evaluating whether events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern.
• Enhance requirements or application material to clarify the considerations, including the intent and ability, related to when written evidence to provide financial support is obtained from a third-party, and for whether and in what circumstances this constitutes sufficient appropriate audit evidence.</td><td>Para. 26–27</td><td>Requirements
• New requirement for the auditor to evaluate the intent and ability of a third or related party, including the entity’s owner-manager, when financial support by such parties is necessary to support management’s assessment of going concern.</td><td rowspan="2">• Scalability
• Relevance</td></tr>
<tr><td>Paras. A16; A25; A47–A54</td><td>Application Material
New application material to:
• Provide guidance for the auditor’s consideration of requesting a written confirmation from third or related parties, including the entity’s owner-manager, and for the terms and conditions of borrowing facilities, including scalability considerations.
• Provide guidance when finance providers are reluctant to confirm to an entity or the auditor that borrowing facilities will be renewed.
• Emphasize how information from sources external to the entity can be leveraged in the auditor’s work related to going concern.</td></tr>
</table>

<table>
<tr><th rowspan="2">Proposed Actions in the Project Proposal
(Ref. Section VI, paragraph 35)</th><th colspan="2">Key Changes Proposed in ED-570</th><th rowspan="2">Qualitative Standard-Setting Characteristics Considered [47]</th></tr>
<tr><th>Paragraph</th><th>Description</th></tr>
<tr><td rowspan="2">AB.4: Definitions and Application Material – “Material Uncertainty Related to Going Concern” and Other Terminology in ISA 570 (Revised)
Consider if it is necessary to describe or define “Material Uncertainty Related to Going Concern” and enhance application material to clarify key concepts such as “significant doubt,” and other related terminology.
In doing so, consider:
• The importance of alignment between definitions and descriptions set out in financial reporting frameworks and the auditing standards.
• How national standard setters (NSS) have addressed this issue at jurisdictional levels.</td><td>Para. 10</td><td>Definitions
• A newly defined term – “Material Uncertainty (Related to Going Concern).”</td><td rowspan="2">• Clarity and conciseness
• Implementability, and ability of being consistently applied and globally operable</td></tr>
<tr><td>Paras. A4–A5</td><td>Application material
• Repurposing previous application material and developing new application material to clarify the phrase “may cast significant doubt.”</td></tr>
<tr><td>AB.5: Application Material – Technology
Enhance application material in ISA 570 (Revised) to reflect the auditor’s use of technology to perform the auditor’s work related to going concern.
In doing so, remaining mindful of maintaining a balance of not ‘dating’ the standard by referring to technologies that may change and evolve, including consulting with a technology expert(s) or the Technology Consultation Group, as needed.</td><td>Paras. A6; A12; A36; A38</td><td>Application Material
• Enhanced and new application material to incorporate examples of automated tools and techniques and emphasize the impact of technology on the auditor’s work related to going concern.</td><td>• Relevance</td></tr>
<tr><td>AB.6: Requirements and Application Material – Management’s Assessment of Going Concern
Enhance requirements and application material to</td><td>Paras. 16–17; 19; 24–25</td><td>Requirements
Enhanced and new requirements to:
• Perform audit procedures to evaluate</td><td>• Scalability
• Clarity and conciseness
• Implementability, and ability</td></tr>
</table>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	Key Changes Proposed in ED-570		Qualitative Standard-Setting Characteristics Considered [47]
	Paragraph	Description	
strengthen the auditor's evaluation of management's assessment of going concern. In doing so, applying the concepts introduced in ISA 540 (Revised), such as in relation to the auditor's evaluation of management's method, assumptions and data, and recognizing circumstances when specialized knowledge or skill is needed.		management's assessment of going concern, irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. • Perform audit procedures to evaluate the method, assumptions and data used by management to make its assessment of going concern by leveraging concepts in ISA 540 (Revised). • New requirement to explicitly request management to update its assessment and for the auditor to perform audit procedures, when necessary, on such revised assessment when the auditor identifies events or conditions that may cast doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor.	of being *consistently applied and globally operable* • *Coherence*
	Paras. A29–A31; A33–A38; A46	*Application Material* New application material to: • Address scalability. In particular, to provide examples that demonstrate how the auditor's procedures may vary depending on the method, assumptions and data used by management to assess the entity's ability to continue as a going concern. • More robustly challenge the method,	

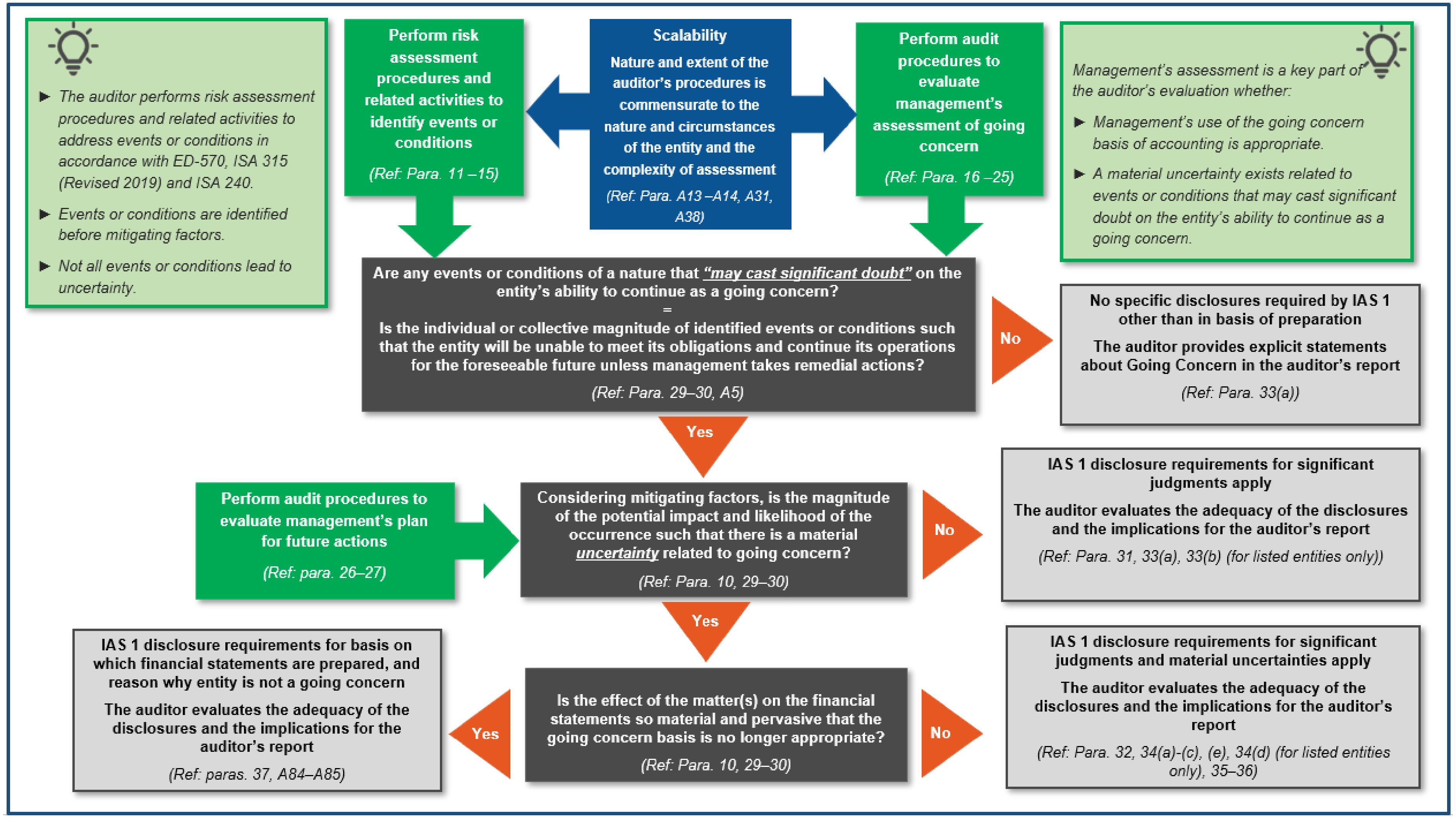
Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	Key Changes Proposed in ED-570		Qualitative Standard-Setting Characteristics Considered [47]
	Paragraph	Description	
		assumptions and data used by management to make its assessment of going concern, including to consider the risk of management bias.	
AB.7: Requirements and Application Material – Professional Skepticism *Emphasize the robust exercise of professional skepticism when performing procedures related to going concern, through:* • *Enhancing requirements and application material for the auditor to design and perform procedures that are not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory.* • *Enhancing requirements and application material for the auditor to evaluate whether judgments made by management in making their assessment, even if they are individually reasonable, include indicators of possible management bias.* • *Using action-oriented language in the revised standard.* In doing so, take into account how the concept of professional skepticism has been incorporated in recently revised standards (e.g., ISA 315 (Revised 2019) and ISA 540 (Revised)).	Paras. 17; 29	*Requirements* • New requirement to emphasize the importance of professional skepticism when evaluating management's assessment in a manner that is not biased towards obtaining audit evidence that may be corroborative or excluding audit evidence that may be contradictory. • New requirement to evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if they are individually reasonable, are indicators of possible management bias.	• *Relevance* • *Coherence*
	Paras. A10; A32; A56–A60	*Application Material* • Enhanced link to the requirement in ISA 315 (Revised 2019) for the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. • New application material to emphasize the	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	Key Changes Proposed in ED-570		Qualitative Standard-Setting Characteristics Considered [47]
	Paragraph	Description	
		relevance of identifying indicators of possible management's bias and the impact to the audit.	
C. Project Objective: Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.			
C.8: Requirements and Application Material – Communication with TCWG *Enhance the requirements and application material to strengthen required communications with TCWG, including encouraging more appropriate two-way communication, addressing the timeliness of the communications, and emphasising the ongoing nature of communications with TCWG.*	Paras. 12(f); 39	*Requirements* • Strengthened communication requirements with TCWG to enhance transparency and timely, two-way communication throughout the audit when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. • New requirement to obtain an understanding, as part of the risk assessment procedures and related activities, how TCWG exercise oversight over management's assessment of going concern.	• *Relevance* • *Clarity and conciseness*
	Paras. A19–A20; A87–A89	*Application Material* • New application material in support of the proposed requirements and added emphasis for circumstances when it may be appropriate to consider whether a significant deficiency in internal control related to going concern should be communicated to TCWG.	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	Key Changes Proposed in ED-570		Qualitative Standard-Setting Characteristics Considered [47]
	Paragraph	Description	
C.9: Requirements and Application Material – Communication with Appropriate External Parties *Enhance the requirements and application material in ISA 570 (Revised) with respect to the auditor's communications with external parties, including with relevant regulatory authorities (as applicable), when issues are identified relating to going concern, including instances when no further action is taken by management or TCWG.* In doing so, monitor any implementation feedback for extended communication requirements made in certain jurisdictions and consider if similar changes on a global level would be useful.	Para. 40	*Requirements* • New requirement for the auditor to consider whether law or regulation require or establish responsibilities under which reporting is required to an appropriate authority for circumstances when a Material Uncertainty Related to Going Concern is included in the auditor's report or a modified opinion is issued.	• *Relevance* • *Clarity and conciseness*
	Paras. A90–A93	*Application Material* • Examples and factors for the auditor to consider when reporting to an appropriate authority.	
C.10: Requirements and Application Material – Transparency About Going Concern in the Auditor's Report *Enhance the requirements and application material in ISA 570 (Revised), where appropriate, to increase transparency in the auditor's report about the auditor's responsibilities and work related to going concern.* This includes considering enhancing auditor reporting for situations where: • The auditor concludes that no material uncertainty exists, and management's use of the going concern assumption is appropriate. • Significant judgment was required to conclude	Paras. 33–37	*Requirements* New requirements to: • Provide explicit statements about going concern in a separate section of the auditor's report when the basis of accounting is appropriate, and no material uncertainty exists. • When events or conditions have been identified that may cast doubt on the entity's ability to continue as a going concern or when a Material Uncertainty Related to Going Concern section is provided, describing in the auditor's report of a listed entity how the auditor evaluated	• *Proportionality* • *Relevance* • *Clarity and conciseness* • *Implementability,* and ability of being *consistently applied and globally operable*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 35)	Key Changes Proposed in ED-570		Qualitative Standard-Setting Characteristics Considered [47]
	Paragraph	Description	
that no material uncertainty related to going concern exists, after having identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (i.e., "close call" situations). • A "Material Uncertainty Related to Going Concern" paragraph is required (i.e., to expand the informational content of such paragraph to describe how the auditor addressed this matter in the audit).		management's assessment of going concern.	
	Paras. A62; A67–85	*Application Material* • New application material, leveraging on ISA 701, to support consistent application of the proposed auditor reporting requirements. • New application material to clarify when the auditor would expect disclosures and factors to consider regarding the amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment.	

Appendix 2 – Walkthrough of the Auditor's Decision-Making Process Whether a Material Uncertainty Exists



PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REVISED 202X)

GOING CONCERN

(Effective for audits of financial statements for periods beginning on or after [DATE])

CONTENTS

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. Although this ISA applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial statements of listed entities. (Ref: Para. A1)

Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

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

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.[1] The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation. (Ref: Para. A3)

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

    - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the minimum period for which management is required to take into account all available information.

[1] IAS 1, *Presentation of Financial Statements*, paragraphs 25–26

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

7. However, as described in ISA 200,[2] the potential effects of 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. Accordingly, the absence of a reference to an identified material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after [DATE].

Objectives

9. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;

   (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

   (c) To report in accordance with this ISA.

Definition

10. For purposes of the ISAs, the following term has the meaning attributed below:

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2 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A53–A54

Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

Requirements

Risk Assessment Procedures and Related Activities

11. In applying ISA 315 (Revised 2019),[3] the auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6–A14)

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

12. In applying ISA 315 (Revised 2019),[4] the auditor shall perform risk assessment procedures to obtain an understanding of: (Ref: Para. A8–A14)

The Entity and Its Environment

(a) The entity's business model, objectives, strategies and related business risks relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A15)

(b) Industry conditions, including the competitive environment, technological developments, and other external factors affecting the entity's financing.

(c) The measures used, internally and externally, to assess the entity's financial performance, including forecasts, future cash flows, and management's budgeting processes. (Ref: Para. A16)

The Applicable Financial Reporting Framework

(d) The requirements of the applicable financial reporting framework relating to going concern, and the related disclosures that are required to be included in the entity's financial statements. (Ref: Para. A17)

(e) The basis for management's intended use of the going concern basis of accounting. (Ref: Para. A18)

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3 ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 13-14

4 ISA 315 (Revised 2019), paragraphs 19-27

The Entity's System of Internal Control

(f) Unless all of those charged with governance are involved in managing the entity,[5] how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A19–A20)

(g) The entity's risk assessment process to identify, assess and address business risks relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

(h) How management identifies the relevant method, assumptions and data that are appropriate in assessing the entity's ability to continue as a going concern. (Ref: Para. A21)

(i) How the entity's financial reporting process addresses disclosures related to the entity's ability to continue as a going concern. (Ref: Para. A22).

Remaining Alert Throughout the Audit for Information about Events or Conditions

13. The auditor shall remain alert throughout the audit for information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A23–A25)

Events or Conditions not Previously Identified or Disclosed by Management

14. In applying ISA 315 (Revised 2019),[6] the auditor shall determine whether the audit evidence obtained from risk assessment procedures and related activities indicates the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. (Ref: Para: A26–A27)

Control Deficiencies Within the Entity's System of Internal Control

15. In applying ISA 315 (Revised 2019),[7] based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies in respect of management's assessment of going concern have been identified. (Ref: Para. A28)

Evaluating Management's Assessment

16. Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its assessment.

17. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A29–A31)

18. In designing and performing the audit procedures required by paragraph 17, the auditor shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A32)

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5 ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

6 ISA 315 (Revised 2019), paragraph 35

7 ISA 315 (Revised 2019), paragraph 27

Method, Assumptions and Data Used in Management's Assessment

19. The audit procedures required by paragraph 17 shall include evaluating: (Ref: Para. A30, A33, A38)

    (a) The method used by management to assess the entity's ability to continue as a going concern, including whether the:

        (i) Method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; and (Ref: Para. A34)

        (ii) Calculations are applied in accordance with the method and are mathematically accurate. (Ref: Para. A35)

    (b) Whether the assumptions on which management's assessment is based are: (Ref: Para. A36).

        (i) Appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; and

        (ii) Consistent with each other and with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit.

    (c) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate. (Ref: Para. A37)

Period Beyond Management's Assessment

20. 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. (Ref: Para. A39–A41)

Requesting Management to Extend Its Assessment

21. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of approval of the financial statements as defined in ISA 560,[8] the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A42)

Management Unwilling to Make or Extend its Assessment

22. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. (Ref: Para. A43–A44)

23. In circumstances where the auditor believes it is necessary for management to make or extend its assessment and management is unwilling to do so, the auditor shall determine the implications for the audit. (Ref: Para. A45)

Information Used in Management's Assessment

24. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider whether management's assessment includes all relevant information of which

[8] ISA 560, *Subsequent Events*, paragraph 5(b)

the auditor is aware as a result of the audit.

25. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor, the auditor shall:

(a) Discuss the matter with management to understand the effects of those events or conditions on management's assessment of the entity's ability to continue as a going concern;

(b) Determine whether it is necessary to request management to revise its going concern assessment to address the effect of those events or conditions; and (Ref: Para. A46)

(c) If applicable, design and perform additional audit procedures to evaluate management's revised assessment of the entity's ability to continue as a going concern in accordance with paragraphs 17-19.

Evaluating Management's Plans for Future Actions

26. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall evaluate management's plans for future actions in relation to its going concern assessment, including whether: (Ref: Para. A47–A51)

(a) The outcome of these plans is likely to improve the situation;

(b) Management's plans are feasible in the circumstances; and

(c) Management has both the intent and ability to carry out specific courses of action.

Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager

27. If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall evaluate the intent and ability of those parties to maintain or provide the necessary financial support. (Ref: Para. A52–A54)

Information Becomes Available After the Date of the Auditor's Report

28. The auditor shall consider whether any additional information has become available to the auditor after the date of the auditor's report but before the date the financial statements are issued that is related to management's assessment of the entity's ability to continue as a going concern. If so, the auditor shall perform procedures in accordance with ISA 560. (Ref: Para. A55)

Evaluating the Audit Evidence Obtained and Concluding

29. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. In doing so, the auditor shall (Ref: Para. A56):

(a) Evaluate whether the judgments and decisions made by management in making its assessment of the entity's ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A57–A60)

(b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

30. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's professional judgment, a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Adequacy of Disclosures

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

31. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A61–A64, A66)

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

32. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A65–A66)

(a) Adequately disclose 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 for future actions 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.

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

33. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A67–A68)

(a) State that the auditor: (Ref: Para. A69–A70)

(i) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

(ii) Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

(b) For an audit of financial statements of a listed entity, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists: (Ref: Para. A71–A72, A78)

(i) Include a reference to the related disclosure(s), if any, in the financial statements; and (Ref: Para. A61–A64, A66)

(ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A73–A77)

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

34. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and: (Ref: Para. A67–A68, A79–A80)

(a) State that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

(b) Include a reference to the related disclosure(s) in the financial statements; (Ref: Para. A65–A66)

(c) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern;

(d) For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; and (Ref: Para. A73–A77)

(e) State that the auditor's opinion is not modified in respect of the matter.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A67–A68, A79, A81)

(a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);[9]

(b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists and that the financial statements do not adequately disclose this matter;

(c) Include in the auditor's report a separate section under the heading "Material Uncertainty Related to Going Concern" and:

(i) State that the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

(ii) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor's report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements.

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[9] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Considerations When the Auditor Disclaims an Opinion on the Financial Statements

36. When the auditor disclaims an opinion on the financial statements, unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.[10] (Ref: Para. A82–A83)

Use of Going Concern Basis of Accounting Is Inappropriate

37. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate: (Ref: Para. A84–A85)

    (a) The auditor shall express an adverse opinion; and

    (b) Unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.

Written Representations

38. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern the auditor shall request written representations from management[11] and, where appropriate, those charged with governance, regarding: (Ref: Para. A86)

    (a) Their plans for future actions;

    (b) The feasibility of these plans; and

    (c) Whether management has the intent to carry out specific courses of action and has the ability to do so.

Communication with Those Charged with Governance

39. Unless all those charged with governance are involved in managing the entity,[12] the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A87–A88)

    (a) Whether the events or conditions constitute a material uncertainty;

    (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

    (c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions;

    (d) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant judgments made by management and the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions;

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[10] ISA 705 (Revised), *paragraph 29*

[11] ISA 580, *Written Representations*

[12] ISA 260 (Revised), paragraph 13

(e) When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and

(f) The implications for the audit or the auditor's report. (Ref: Para. A89)

Reporting to an Appropriate Authority Outside of the Entity

40. When the auditor considers it necessary to include a separate section under the heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issue a modified opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A90–A93)

(a) Require the auditor to report to an appropriate authority outside the entity.

(b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

***

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

A1. ISA 701[13] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.[14] However, in such circumstances, the implications for the auditor's report are in accordance with this ISA. In addition, for audits of financial statements of listed entities, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, this ISA requires the auditor to disclose under the heading of "Going Concern" within the auditor's report how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Going Concern Basis of Accounting

Considerations Specific to Public Sector Entities (Ref: Para. 2)

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.[15] Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

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[13] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[14] ISA 701, paragraph 15

[15] IPSAS 1, *Presentation of Financial Statements,* paragraphs 38–41

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern (Ref: Para. 3)

A3. The circumstances in which entities prepare financial statements on a going concern basis of accounting may vary. For example, IAS 1 explains that those circumstances could range from when an entity has a history of profitable operations and ready access to financial resources, to when management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.[16]

Definition (Ref: Para. 10)

A4. The applicable financial reporting framework may or may not explicitly use the term "material uncertainty" when describing the uncertainties that are required to be disclosed in the financial statements related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, the term "material uncertainty" is used in IAS 1. In some other financial reporting frameworks, the term "significant uncertainty" is used in similar circumstances. The auditor is required by paragraph 30 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a "material uncertainty."

A5. The applicable financial reporting framework may not define or describe the phrase "may cast significant doubt" or may use other terms or phrases. For the purposes of this ISA, the phrase "may cast significant doubt" is used in circumstances when the individual or collective magnitude of identified events or conditions is such that the entity will be unable to meet its obligations and continue its operations for the foreseeable future unless management takes remedial actions to mitigate the effects of these events or conditions. Remedial actions may include, for example, that management realizes assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity's ability to continue as a going concern. In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take remedial action, the more significant the uncertainty may be about the entity's ability to continue as a going concern.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 11)

A6. The auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is before consideration of any related mitigating factors included in management's plans for future actions. The auditor considers such mitigating factors in accordance with paragraphs 26–27. Some events or conditions may not be significant when considered individually, however when considered collectively with other events or conditions they may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

The following events or conditions are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

[16] IAS 1, paragraph 26

These examples are not all-inclusive.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Recurring negative cash flows from operations or inability to generate cash flows from operations indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Non-compliance or marginal ability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing to stay competitive, including for financing or major research and development, capital expenditures, essential new product development and other essential investments.
- Exposure to liquidity risk as a result of the maturity mismatch of financial assets and liabilities.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key personnel and management without replacement.
- Significant declines in customer demand.
- Loss of a major market, significant customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Significant or sustained business interruption due to a cyber attack (e.g., denial of access to information or inability to provide service).
- Non-compliance or marginal ability to meet capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions or

exchange listing requirements.

- Pending litigation and contingent liabilities arising from matters such as sales warranties, financial guarantees and environmental remediation or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity, including sustainability related matters.
- Substantial decrease in share price.
- Significant exposures to volatile markets, such as exchange rates, commodities (e.g., crude oil prices), equities or interest rates.
- Uninsured or underinsured catastrophes or business interruption losses when they occur (e.g., an earthquake).
- Changes in the environment such as war, civil unrest, outbreaks of disease expected to adversely affect the entity or physical risks related to climate change (e.g., extreme flooding).

A7. In certain circumstances, the auditor may identify fraud risk factors arising from events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 240.[17]

Examples:

- Recurring negative cash flows from operations or an inability to generate cash flows from operations may create a threat of bankruptcy, foreclosure, or hostile takeover that may indicate an incentive or pressure to commit fraud.
- Non-compliance or marginal ability to meet debt covenant requirements may threaten the ability to renew borrowings and indicate an incentive or pressure to improve the business performance or to intentionally misstate the financial statements.

Risk Assessment Procedures and Related Activities (Ref: Para. 11–12)

A8. ISA 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, and the identification and assessment of the risks of material misstatement whether due to fraud or error. The requirements and guidance in this ISA refer to, or expand on, what is required by ISA 315 (Revised 2019) relevant to identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A9. The risk assessment procedures and related activities assist the auditor in determining whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. In particular, when performing risk assessment procedures, such as those required by paragraphs 11–12, the auditor may identify information about certain events or conditions that, when considered individually or collectively, indicate that there are events or

[17] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 24

conditions that may cast significant doubt on the entity's ability to continue as a going concern. These procedures also allow for more timely discussions with management, including a discussion of management's plans for future actions and resolution of any identified going concern issues when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. The auditor uses professional judgment to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISA.

A10. ISA 315 (Revised 2019)[18] requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Designing and performing risk assessment procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information. This may assist the auditor in maintaining professional skepticism when identifying whether the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern give rise to a risk of management bias in the preparation of the financial statements (also see paragraphs A57–A60).

A11. The following are examples of risk assessment procedures that may be relevant:

Examples:

The Entity and its Environment

- Inquiries of financial planning and analysis personnel related to cash flow, profit and other relevant forecasts to understand the sensitivity analysis related to future earnings included in management's assessment of going concern.
- Inquiries of the entity's legal counsel about the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Review of previous forecasts (retrospective review) to obtain information regarding the effectiveness of management's process for assessing going concern.
- Inspecting the terms of debentures and loan agreements and determining whether any have been breached.

The Applicable Financial Reporting Framework

- Review of disclosures about the significant judgments and assumptions management makes about the future included in the entity's latest available financial statements that may be indicative of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control

- Inspecting the minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

A12. The auditor may also use automated tools and techniques when designing and performing risk

[18] ISA 315 (Revised 2019), paragraph 13

assessment procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples: The auditor may use automated tools and techniques when: • Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events. • Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for bankruptcy prediction).

Scalability (Ref: Para. 11–12)

A13. The nature and extent of the auditor's risk assessment procedures may vary based on the nature and circumstances of the entity.

Examples: The Entity and its Environment • The nature and extent of the auditor's risk assessment procedures to obtain an understanding of the measures used, internally and externally, to assess the entity's financial performance are likely to be more extensive for entities with a complex structure and business activities. Such entities may also have complex borrowing arrangements with lenders, suppliers or group entities. In contrast, for smaller or less complex entities whose business activities are simple with few lines of business and with uncomplicated borrowing arrangements the nature of the auditor's risk assessment procedures is likely to be less extensive. The Applicable Financial Reporting Framework • When the entity's business activities are affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the related disclosures in the entity's financial statements may be straightforward and the applicable financial reporting requirements may be simpler to apply. In such circumstances, the auditor's procedures to obtain an understanding of the basis for management's intended use of the going concern basis of accounting are likely to be less extensive. The Entity's System of Internal Control • The nature and extent of the auditor's risk assessment procedures may also depend on the extent to which certain matters apply in the circumstances. For example, those charged with governance in smaller or less complex entities may not include independent or outside members who exercise oversight over management's assessment of the entity's ability to continue as a going concern. In addition, the entity's risk assessment process may be

undertaken through the direct involvement of the owner-manager.

A14. The following considerations may be relevant for smaller or less complex entities:

- The size of an entity may affect its ability to withstand adverse conditions. Smaller entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- Conditions of particular relevance to smaller entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

The Entity and Its Environment (Ref: Para. 12(a), 12(c))

A15. The entity's business model, objectives, strategies and related business risks may give rise to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some business risks may be so significant that they have implications for the conclusion as to the appropriateness of the entity's use of the going concern basis of accounting and whether a material uncertainty exists.

Examples:

- Industry developments, such as the lack of access to appropriate personnel or expertise to deal with the changes in the industry or loss of significant customers or market share.
- New products and services that may lead to increased product liability.
- Expansion of the entity's business, and demand that has not been accurately estimated.
- Regulatory requirements resulting in increased legal exposure or financial impacts or restrictions on business activities, including those arising from sustainability related matters.
- Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet certain predetermined revenue metrics.
- Incentives and pressures on management, which may result in management bias, and therefore affect the reasonableness of assumptions used in management's assessment of the entity's ability to continue as a going concern.

A16. Management will likely use information available about the future as well as historical information from internal and external sources when identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Obtaining an understanding of the measures used, internally or externally, may highlight unexpected results or trends that may indicate the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

- Internal performance measures may indicate an unusual deterioration in sales volume when compared to that of other entities in the same industry that may be indicative of a significant decline in market share or loss of customers.

- External information sources, such as pricing data, comparable data about competitors (benchmarking data) or macro-economic data may indicate competitive, industry, economic and other factors that are used in the entity's forecasts, future cash flow and budgeting processes.
- The analysis of the entity's financial performance by external parties, such as analysts, credit agencies or institutional investors, may highlight inconsistencies with management's performance measures.

The Applicable Financial Reporting Framework (Ref: Para. 12(d), 12(e))

A17. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with information about the recognition, measurement and presentation criteria in the applicable financial reporting framework, and how they apply in the preparation of the financial statements under the going concern basis of accounting. The applicable financial reporting framework may also include disclosure requirements about the significant judgments and assumptions management makes in concluding whether or not there is a material uncertainty related to going concern. Law or regulation may also include disclosure and other detailed requirements when preparing financial statements on the going concern basis of accounting.

A18. The nature, extent, timing and frequency of management's assessment of the entity's ability to continue as a going concern may vary from entity to entity. In some entities, management may make assessments of the entity's ability to continue as a going concern more frequently as part of continuous monitoring, while in other entities it may be made on an annual basis. If such an assessment has not yet been performed, the auditor may obtain an understanding of the basis for the intended use of the going concern basis of accounting through discussion with management and inquire of management whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

The Entity's System of Internal Control (Ref: Para. 12(f), 12(h), 12(i))

A19. Obtaining an understanding of the oversight by those charged with governance may be particularly important when the assessment of the entity's ability to continue as a going concern:

- Requires significant judgment by management to assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- Is complex to make, for example, because of the use of multiple data sources or assumptions with complex interrelationships.

A20. The effectiveness of management's assessment of the entity's ability to continue as a going concern may be influenced by the oversight exercised by those charged with governance. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the appropriateness of the method used by management in assessing the entity's ability to continue as a going concern.
- Have the skills or knowledge to understand whether management's assessment of the entity's

ability to continue as a going concern has been made in accordance with the requirements of the applicable financial reporting framework.

- Are independent from management, have the information required to evaluate on a timely basis how management made the assessment of the entity's ability to continue as a going concern, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate.
- Oversee management's process for making the assessment of the entity's ability to continue as a going concern.

A21. Aspects that may be relevant to the auditor's understanding of how management determines the relevant method, assumptions and data may include:

- The basis for management's selection of the method, assumptions and data used in assessing the entity's ability to continue as a going concern; and
- If alternative methods, assumptions or data were considered by management, including:
    - o How management determines that the assumptions are relevant and complete.
    - o How management determines the relevance, accuracy and completeness of the data used in the assessment.

A22. The disclosures related to the entity's ability to continue as a going concern may contain information that is obtained from other supporting records and information from outside of the general and subsidiary ledgers (e.g., information produced by an entity's risk management system about hedging strategies or sensitivity analysis derived from financial models that demonstrate management has considered alternative assumptions). As part of obtaining an understanding of the entity's system of internal control, the auditor may consider how management determines the appropriateness of such information used to develop the disclosures related to the entity's ability to continue as a going concern.

Remaining Alert Throughout the Audit for Information about Events or Conditions (Ref: Para. 13)

A23. As explained in ISA 315 (Revised 2019),[19] obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analyzing information and continues throughout the audit. Therefore, the auditor's identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern may change as new information is obtained.

Example: The auditor may identify a risk of a material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans because of a fall in real estate market values. The same event in combination with a severe economic downturn may have a longer-term consequence and a greater impact on the assessment of the risk of material misstatement that may also indicate an event or condition that may cast significant doubt on the entity's ability to

[19] ISA 315 (Revised 2019), paragraph A48

continue as a going concern.

A24. ISA 315 (Revised 2019) requires the auditor to revise the auditor's identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of risk.[20] If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk identification or assessments are made, in addition to performing the procedures in this ISA, the auditor's identification or assessment of the risks of material misstatement may need to be revised.

A25. The auditor may also become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern from:

- External information sources (e.g., publicly available information of the entity's financial performance by external parties, such as information about short-selling of shares, industry or macro-economic forward-looking information such as economic or earnings forecasts).
- Other engagements performed for the entity (e.g., an agreed-upon procedures engagement).
- The auditor's consideration of the other information in accordance with ISA 720 (Revised).[21]

Events or Conditions not Previously Identified or Disclosed by Management (Ref: Para. 14)

A26. If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, this may constitute a deficiency in internal control. ISA 265[22] deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

A27. When management has intentionally failed to identify or disclose to the auditor events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. ISA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.[23]

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 15)

A28. When the auditor identifies one or more control deficiencies with respect to management's assessment of going concern, ISA 265 requires the auditor to determine whether, individually or in combination, the deficiencies in internal control constitute a significant deficiency. Matters the auditor may consider in determining whether a significant deficiency in internal control exists related to management's assessment of going concern may include:

- Absence of a process established by management to identify, assess and address events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

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[20] ISA 315 (Revised 2019), paragraph 37

[21] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

[22] ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged with Governance*

[23] ISA 240, paragraphs 26-28

- Ineffective oversight by those charged with governance over management's assessment of the entity's ability to continue as a going concern.
- Evidence that management has failed to identify or disclose events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 17)

A29. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's evaluation whether:

- Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- A material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A30. It is not the auditor's responsibility to rectify a lack of analysis by management. In some circumstances, however, a lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when the entity has profitable operations and there are no liquidity concerns, management may make its assessment without detailed analysis. However, in situations when, in the auditor's professional judgment, management has not performed an appropriate assessment, this may be an indicator of a deficiency in internal control in accordance with ISA 265.

Scalability (Ref: Para. 17)

A31. The nature and extent of the auditor's procedures to evaluate management's assessment of the entity's ability to continue as a going concern is a matter of the auditor's professional judgment and may vary based on the nature and circumstances of the entity and the complexity of the method used by management to assess the entity's ability to continue as a going concern.

Examples:

- The auditor's procedures to evaluate the method used by management are likely to be more extensive when the entity's business activities are more complex or susceptible to a greater degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, in some larger or more complex entities, management's method may require input from multiple sources of historical and forward-looking data. The method may also include significant judgments or assumptions with multiple interrelationships between them or from sources of data external to the entity. Supporting analysis may include the effects of adverse scenarios or may employ sensitivity and scenario analysis to consider alternative outcomes related to the entity's current and expected profitability, its liquidity sources, financial obligations and the funds necessary to maintain the entity's operations for the foreseeable future. Supporting analysis may also reflect the interdependencies between risk variables that impact liquidity, market and credit risks.

- In other cases, management's method to assess the entity's ability to continue as a going concern may be straightforward because the business activities are simple or the business is affected to a lesser degree by uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. For example, in a smaller or less complex entity, management may determine that the most appropriate method is to prepare a simple cash flow forecast and budget or other equivalent analysis covering the appropriate assessment period.

Obtaining Audit Evidence in an Unbiased Manner (Ref: Para. 18)

A32. Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

Examples:

Contradictory information may include:

- The results of the auditor's procedures to evaluate the assumptions used by management in a cash flow forecast highlight inconsistencies with assumptions used for other purposes, such as forecasts used to evaluate the recoverability of deferred tax assets or impairment of assets.
- The outcome of the analysis performed for other account balances is indicative of deteriorating financial performance (e.g., increased inventory obsolescence, delays in payments from customers, changes in customer base, increased borrowings or delays in payments to creditors) that is not adequately considered by management when making its assessment of going concern.

Corroborative information may include:

- Publicly available information from external sources, such as analysts' expectations or industry data that is consistent with forecasts and assumptions used by management in its assessment of going concern.

Method, Assumptions and Data Used in Management's Assessment (Ref: Para. 19)

A33. The method, assumptions and data used by management in its assessment of the entity's ability to continue as a going concern support the judgments made by management about the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists.

Method (Ref: Para. 19(a))

A34. Matters that may be relevant to the auditor's evaluation of whether the method selected is appropriate in the context of the applicable financial reporting framework and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- When management has determined that different methods result in significantly different

outcomes, how management has investigated the reasons for these differences; and

- Whether the changes are based on new circumstances or new information. When this is not the case, the changes may not be reasonable or may be an indicator of possible management bias (also see paragraphs A57–A60).

A35. Matters that may be relevant to the auditor's evaluation of whether calculations are applied in accordance with the method used by management and are mathematically accurate may include whether management has provided adequate explanations for advanced or complex calculations or processing steps (e.g., multiple formulas or macros).

Assumptions (Ref: Para. 19(b))

A36. Considerations for the auditor's evaluation regarding the assumptions on which management's assessment is based may include:

- Management's rationale for the selection of the assumptions;
- Whether the assumptions used are consistent with those used in other areas of the entity's business activities, for example, business prospects, assumptions in strategy documents and assumptions used in making accounting estimates;
- Whether management considered alternative assumptions to determine the effect of changes in the assumptions on the data used in making the assessment, for example, performing a sensitivity analysis including 'pessimistic' and 'optimistic' scenarios; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When it is not the case, the change may not be reasonable or may be an indicator of possible management bias (also see paragraphs A57–A60).

> Example:
>
> The use of automated tools and techniques may assist the auditor when performing sensitivity analysis of management's assessment of going concern to understand how outcomes are affected by changes in input variables such as discount or growth rates.

Data (Ref: Para. 19(c))

A37. Considerations for the auditor's evaluation regarding the data on which management's assessment is based may include whether:

- The data used is consistent with data used elsewhere by management in the preparation of the financial statements; and
- Modifications made to the data are appropriate and supported by management's rationale.

Scalability (Ref: Para. 19)

A38. The nature and extent of the auditor's procedures may vary depending on the method, assumptions and data used by management to assess the entity's ability to continue as a going concern.

Examples:

Method

- The greater the complexity of the method used by management to assess the entity's ability to continue as a going concern, the more likely it is that management may need to apply specialized skills or knowledge in making its assessment. Also, the auditor's procedures to evaluate management's method will likely be more extensive. In such circumstances it may also be appropriate to involve members of the engagement team with specialized skills or knowledge to assist the auditor in applying the audit procedures or evaluating the results of those procedures.
- In contrast, the auditor's procedures may be less extensive when management's method is simpler, such as when the method used includes a simple budget, sales or cash flow forecast and an analysis of the entity's borrowing facilities and requirements.

Assumptions

- When the assumptions used by management inherently have a high level of subjectivity (e.g., assumptions based on internally developed plans for future restructuring of the entity's business units), the auditor's procedures are likely to be more extensive and may include consideration of forward-looking assumptions.
- In contrast, when management uses assumptions commonly used by other marketplace participants, the auditor's procedures to evaluate the assumptions used by management may be less extensive and may include the auditor comparing the assumptions to those obtained directly from the market or a third party.

Data

- When management's assessment of going concern includes large volumes of data from multiple sources, there may be inherent complexity in evaluating the reliability of the data used and the auditor's procedures may employ automated tools and techniques to evaluate the reliability of the data used by management.
- In contrast, when the source of the data is derived from a reputable external information source (e.g., from a central bank or statistical reports from reputable, authoritative sources) the auditor's procedures to consider the reliability of the information may not be as extensive.

Period Beyond Management's Assessment (Ref: Para. 20)

A39. The auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the events or conditions on its assessment of the entity's ability to continue as a going concern.

A40. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as required by paragraph 21, would be at least twelve months from the date of approval of the financial statements.

A41. When events or conditions have been identified in the period beyond management's assessment, depending on the nature and circumstances of such events or conditions, the auditor may consider requesting management to revise the period of assessment for example, by extending it beyond twelve months from the date of approval of the financial statements.

Requesting Management to Extend Its Assessment (Ref: Para. 21)

A42. Most financial reporting frameworks requiring an explicit management assessment about going concern specify the minimum period for which management is required to take into account all available information.[24] Paragraph 21 requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements. This requirement also applies when the applicable financial reporting framework does not specify the period to be covered by management's assessment of the entity's ability to continue as a going concern.

Management Unwilling to Make or Extend its Assessment (Ref: Para. 22–23)

A43. An unwillingness by management to make or extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. Accordingly, the auditor is required to discuss the matter with management, and where appropriate, with those charged with governance, and inquire as to the reasons for management's decision.

A44. Where management has chosen not to extend the period of assessment, management and those charged with governance may be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. For example, this may be the case when the entity has profitable operations and has no liquidity concerns, and management or those charged with governance have not identified any events or conditions that may cast significant doubt beyond the period of assessment they have chosen.

A45. If following the discussion required by paragraph 22 the auditor is unable to obtain sufficient appropriate audit evidence that supports the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, as a result of management's decision not to make or extend its assessment, the auditor may conclude that it is appropriate to:

- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).25 For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires

[24] For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period and IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

[25] ISA 315 (Revised 2019), paragraph 37

evaluation in accordance with ISA 240.

- Consider management's unwillingness to make or extend its assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ISA 705 (Revised), when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor expresses a qualified opinion or disclaims an opinion.

Information Used in Management's Assessment (Ref: Para. 25)

A46. Paragraphs A24, A26–A27 and A55 describe circumstances that are relevant when it may be necessary for the auditor to request management to revise its assessment.

Evaluating Management's Plans for Future Actions (Ref: Para. 26–27)

A47. Management's plans for future actions may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Such plans for future actions, may include plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

> Examples:
>
> - The risk of an entity being unable to make its normal debt repayments may be counterbalanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital.
> - The loss of a principal supplier may be mitigated by management's actions to secure a suitable alternative source of supply.

A48. The auditor's procedures to evaluate management's plans for future actions may include:

- Inquiry of management about its reasons for a particular course of action.
- Inquiry of management about the ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments and legal, regulatory, or contractual restrictions that could affect the feasibility of management's actions.
- Inquiry of those charged with governance or others within the entity to corroborate the responses to inquiries of management.
- Inspecting information about management's history of carrying out its stated intentions.
- Inspecting written plans and other documentation, including, when applicable, formally approved budgets, authorizations or minutes.
- Inspecting records and documents for support of any planned disposals of assets.
- Inspecting reports of regulatory actions.
- Inspecting correspondence with lenders and finance providers that could affect the feasibility of management's plans to carry out further actions.

- Reviewing events occurring subsequent to the date of the financial statements and up to the date of the auditor's report to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with third parties or related parties, including the entity's owner-manager and evaluating the financial ability of such parties to provide additional funds (also see paragraphs A49–A51).
- When prospective financial information is particularly significant to management's plans for future actions, analytical procedures by comparing:
    - The prospective financial information for recent prior periods with historical results; and
    - The prospective financial information for the current period with results achieved to date.
- When management's plans for future actions are based on information from internal sources, comparing to information from reputable independent sources external to the entity.

A49. In certain circumstances the auditor may consider requesting an external confirmation[26] of the existence and terms of borrowing facilities between the entity and external finance providers.

> Examples:
>
> Requesting an external confirmation may be appropriate when:
>
> - Borrowing facilities are being renewed in the assessment period.
> - There are limited financial resources available to the entity beyond those required to continue its operations.
> - The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the approval of the financial statements.
> - There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.
> - There is a significant deterioration in projected cash flows.
> - The value of assets granted as security for borrowing is declining.
> - The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

A50. Some finance providers may be reluctant to confirm in writing to an entity or their auditor that borrowing facilities will be renewed. When management's plans for future action are based on arrangements to maintain or secure borrowing facilities from external finance providers, the lack of an external confirmation may be a limitation on the audit evidence the auditor is seeking to obtain. In such circumstances, the auditor may consider inquiring of external finance providers. The auditor may also need to inquire of management as to whether there are alternative strategies or sources of financing that may mitigate the significance of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If alternative strategies or sources of

[26] ISA 330, *The Auditor's Responses to Assessed Risks,* paragraph 19

financing are not available, then a material uncertainty may exist.

A51. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion required by paragraph 30 is dependent on the auditor's evaluation of management's plans for future actions. If in the auditor's professional judgment, management's plans for future actions are not sufficient to mitigate the identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, then a material uncertainty may exist.

Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager

Intent (Ref: Para. 27)

A52. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by electronic or other medium[27] and may include:

- Terms and conditions of the commitment from those parties.
- When applicable, the legality and enforceability of the commitments.
- The period or the specific date to which the parties intend to provide the financial support.

Ability (Ref: Para. 27)

A53. The auditor's procedures to obtain sufficient appropriate audit evidence about the ability of the third parties or related parties, including the entity's owner-manager, to provide the financial support may include:

- Inquiries about the business rationale for the financial support and the basis on which such support is established (e.g., entity's business plans or other forecasts).
- Inquiries about the ability to provide the financial support in a timely manner for the entity to meet its obligations.
- Inquiries of others, such as external or internal legal counsel, who may have relevant knowledge and information about the ability of third parties or related parties, including the entity's owner-manager, to provide the financial support.
- Inspecting the records of past financial support provided by the parties when such support was needed.
- Inspecting the latest available audited financial statements or other supporting information to obtain audit evidence about the financial position of the parties to provide the necessary financial support to the entity.

[27] ISA 505, *External Confirmations,* paragraph 6(a)

Scalability (Ref: Para. 27)

A54. Financial support by an entity's owner-manager is often important to the ability of smaller or less complex entities to continue as a going concern. Where a smaller or less complex entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn.

> Example:
>
> The continuance of a smaller or less complex entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with the owner-manager's personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor evaluates the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Information Becomes Available After the Date of the Auditor's Report (Ref: Para. 28)

A55. ISA 560 requires the auditor to respond appropriately to facts that become known to the auditor after the date of the auditor's report but before the date the financial statements are issued, that, had they been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.[28] For example, this may be the case when the auditor is aware of a significant delay between the date of the auditor's report and the date the financial statements will be issued, and the auditor determines that such delay is related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating the Audit Evidence Obtained and Concluding (Ref: Para. 29)

A56. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, in accordance with ISA 705 (Revised) the auditor is required to consider the implications for the audit.

Indicators of Possible Management Bias (Ref: Para. 29(a))

A57. The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty, complexity and subjectivity in management's assessment of the entity's ability to continue as a going concern.

A58. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used by management to make its assessment of the entity's ability to continue as a going concern were appropriate.

[28] ISA 560, paragraphs 10-13

> Examples:
>
> - Management may tend to ignore observable marketplace assumptions or data and instead use their own internally-developed assumptions or select data that yields a more favorable outcome.
> - There may be changes in the method or assumptions from period to period without a clear and appropriate reason for doing so.
> - There may be significant influence of an owner-manager or a related party over the determination of the source of the information used in management's assessment of the entity's ability to continue as a going concern.
> - Management may be overly optimistic or fail to consider trends and patterns in historical information when evaluating future outcomes about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A59. When such indicators are identified, this may also affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,[29] including the need to further question the appropriateness of management's judgments in making its assessment of the entity's ability to continue as a going concern. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA 700 (Revised).[30]

A60. Indicators of possible management bias may also be fraud risk factors and may cause the auditor to reassess whether the auditor's risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.[31] When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

Adequacy of Disclosures

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 31, 33(b)(i))

A61. Even when no material uncertainty exists, paragraph 31 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;

[29] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures,* paragraphs A133-A136

[30] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements,* paragraph 11

[31] ISA 240, paragraph 25

- Management's plans that mitigate the effect of these events or conditions;
- The assumptions management makes about the future, and other sources of estimation uncertainty; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

A62. In assessing the entity's ability to continue as a going concern, management considers all relevant information about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any remedial actions to mitigate the effects of those events or conditions, management may conclude that there is no material uncertainty. For example, in response to declining customer demand and uncertainties faced in the broader economic environment, management may have started executing a turnaround strategy that is demonstrating evidence of success (e.g., reducing costs, optimising cash flows and preserving liquidity, to support the entity's ability to meet its obligations and continue its operations for the foreseeable future). However, when reaching the conclusion that no material uncertainty exists involved significant judgment by management, the applicable financial reporting framework may require additional disclosures to be provided in the financial statements related to the significant judgments made by management in concluding that there is no material uncertainty.

A63. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.[32] Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are specifically required by the applicable financial reporting framework regarding these circumstances.

A64. In accordance with ISA 705 (Revised),[33] the auditor is required to express a modified opinion in the auditor's report when the financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists (Ref: Para. 32, 34(b))

A65. Paragraph 32 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 32 may include disclosures about:

[32] ISA 700 (Revised), paragraph 14

[33] ISA 705 (Revised), *paragraphs 6 and A7*

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Considerations Specific to Public Sector Entities (Ref: Para. 31–32, 33(b)(i), 34(b))

A66. In the public sector, the auditor may need to consider public sector financial reporting disclosure requirements related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. For example, in certain jurisdictions public sector entities may be required to report on long-term fiscal sustainability of a public sector entity's finances.

Implications for the Auditor's Report (Ref: Para. 33–37)

A67. The Appendix to this ISA provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A68. The statements required by paragraphs 33–35 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. The Appendix of ISA 700 (Revised)[34] includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists (Ref: Para. 33)

A69. The auditor may provide additional information in the auditor's report that would supplement the statements required by paragraph 33(a) (e.g., to provide a reference to the relevant accounting policies or the notes in the financial statements).

A70. Illustration 1 of the Appendix to this ISA is an example of an auditor's report of an entity other than a listed entity when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and has concluded that no material uncertainty exists.

A71. For an audit of financial statements of an entity other than a listed entity, law or regulation may require the auditor to provide the information required by paragraph 33(b). The auditor also may decide that providing the information required by paragraph 33(b) for an entity other than a listed entity would be appropriate to enhance transparency for intended users of financial statements in the auditor's report. For example, the auditor may decide to do so for other entities, including those that may be of

[34] ISA 700 (Revised), *paragraphs 34 and 39.*

significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A72. There may be circumstances when, in the auditor's judgment, the disclosures of management's judgments relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the intended users' understanding of the financial statements. Also, there may be circumstances when the auditor, in addition to including a reference to the disclosure(s) in the financial statements, would consider it appropriate to draw attention to key aspects of them. In such circumstances, the information required by paragraph 33(b) can be supplemented to include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's judgments.

Description of How the Auditor Evaluated Management's Assessment of Going Concern (Ref: Para. 35(b)(ii), 36(d))

A73. The auditor may describe one or more of the following elements when providing the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:

- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures;
- Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; or
- Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A74. The amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern is a matter of professional judgment. When considering the amount of detail to provide in the auditor's report, the auditor may consider the following factors:

- The nature and extent of audit procedures performed to evaluate management's assessment to conclude that no material uncertainty exists.
- The level of subjectivity, complexity and estimation uncertainty involved in management's assessment.

A75. In order for intended users to understand the significance of the description in the context of the audit of the financial statements as a whole, care may be necessary so that language used in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern:

- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardized language.

- Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial statements, if any.
- Does not contain or imply discrete opinions on separate elements of the financial statements.
- When applicable, does not obscure that a material uncertainty exists.

A76. The nature and extent of the information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity). Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

A77. It is appropriate for the auditor to seek to avoid inappropriately providing original information about the entity in the description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. The description of how the auditor evaluated management's assessment of the entity's ability of going concern is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain aspects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to enhance users' understanding. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in light of the fact that the auditor will communicate how they were addressed in the auditor's report.

A78. Illustration 2 of the Appendix to this ISA is an example of an auditor's report of a listed entity when:

- The auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting;
- The auditor has concluded that no material uncertainty exists; and
- Adequate disclosure is provided in the financial statements about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Use of the Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists (Ref: Para. 34–35)

A79. The identification of a material uncertainty is a matter that is important to intended users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty exists alerts intended users to this circumstance.

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 34)

A80. Illustrations 3 and 4 of the Appendix to this ISA are examples of an auditor's report of an entity other than a listed entity and a listed entity, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 35)

A81. Illustrations 5 and 6 of the Appendix to this ISA are examples of auditor's reports for a listed entity and an entity other than a listed entity containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

Considerations When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 36)

A82. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate, in extremely rare circumstances, to express a disclaimer of opinion in accordance with paragraph 36. ISA 705 (Revised) provides guidance on this issue.[35]

A83. Paragraph 36 prohibits including separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation, as this would be inconsistent with the disclaimer of opinion on the financial statements as a whole and may suggest that the financial statements as a whole are more credible in relation to those matters. When the auditor disclaims an opinion, ISA 705 (Revised)[36] requires the auditor to state in the Basis for Disclaimer of Opinion section of the auditor's report that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Providing such a statement in the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users that may guard against inappropriate reliance on the financial statements.

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 37)

A84. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 37 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A85. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the

[35] ISA 705 (Revised), paragraph 10

[36] ISA 705 (Revised), paragraph 19

circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)[37] in the auditor's report to draw the intended user's attention to that alternative basis of accounting and the reasons for its use.

Written Representations (Ref: Para. 38)

A86. The auditor may consider it appropriate to obtain specific written representations in addition to those required in paragraph 38 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment. For example, if the auditor obtains written confirmation as described in paragraph A52 from a related party, including the entity's owner-manager, the auditor may still request written representation from management as to the validity of the written confirmation.

Communication with Those Charged with Governance (Ref: Para. 39)

A87. ISA 260 (Revised)[38] explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. The appropriate timing for communications will vary with the circumstances of the engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance.

> Example:
>
> When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance may provide them with an opportunity to provide further clarification where necessary. This also enables those charged with governance to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans for future actions that are of significance to overcoming the adverse effects of the events or conditions).

A88. Communication with those charged with governance about the audit procedures performed provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusions, and where applicable, the implications for the auditor's report. Examples of matters the auditor may communicate with those charged with governance include:

> Examples:
>
> - The auditor's views about the appropriateness of the disclosures in the financial statements in view of the recognition, measurement and presentation requirements of the applicable financial reporting framework.
> - Whether management has applied appropriate specialized skills or knowledge or engaged appropriate experts in making its assessment of the entity's ability to continue as a going concern.

[37] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[38] ISA 260 (Revised), paragraph A49

- Whether the method used by management to assess the entity's ability to continue as a going concern is appropriate in the context of the nature, conditions and circumstances of the entity or the requirements of the applicable financial reporting framework.
- The auditor's views about the reasonableness of assumptions on which management's assessment is based and the degree of subjectivity involved in the development of the assumptions.
- Whether assumptions are consistent with those used for other areas of the entity's business activities and whether management has considered alternative assumptions.
- Indicators of possible management bias in management's judgments and assumptions used in its assessment of the entity's ability to continue as a going concern.
- Significant deficiencies in internal control related to management's assessment of going concern (also see paragraphs A26 and A28).

A89. In the case of an entity other than a listed entity, in addition to the required statements to be provided in the auditor's report, when appropriate, the auditor may also communicate with those charged with governance additional matters, for example, describing how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Reporting to an Appropriate Authority Outside of the Entity (Ref: Para. 40)

A90. When the auditor includes a separate section with a heading "Material Uncertainty Related to Going Concern" in the auditor's report, or issues a modified opinion in respect of going concern matters, the auditor may be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to applicable regulatory, enforcement, supervisory or other appropriate authority outside of the entity.

Example:

In some jurisdictions, statutory requirements exist that provide early warning procedures for the auditor of a public interest entity to report to a supervisory authority when a material uncertainty exists.

A91. Law, regulation or relevant ethical requirements may not include requirements for the auditor to report to an appropriate authority outside the entity as described in paragraph A90. Nevertheless, law, regulation or relevant ethical requirements may provide the auditor with the right to report the matter to an appropriate authority outside the entity, unless disclosure of the information is precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.[39] In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

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[39] For example, paragraph R114.1(d) of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) may permit the disclosure of confidential information when there is a legal or professional duty or right to disclose. Paragraph 114.1 A1(c)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

> Example:
>
> When auditing the financial statements of a financial institution, the auditor may have the right under law or regulation to discuss with a supervisory authority when a material uncertainty exists.

A92. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, may include:

- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- The actual and planned actions taken to address or mitigate the situation.

A93. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgments. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Appendix

(Ref: Para. A67, A70, A78, A80–A81)

Illustrations of Independent Auditor's Reports Related to Going Concern

- Illustration 1: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has concluded that no material uncertainty exists.
- Illustration 2: An auditor's report of a listed entity containing an unmodified opinion when the auditor has concluded that no material uncertainty exists and disclosure in the financial statements about the events or conditions that may cast significant doubt on the entity's ability to continue as going concern is adequate.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 4: An auditor's report of a listed entity containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 5: An auditor's report of a listed entity containing a qualified opinion when the auditor has concluded that a material uncertainty exists and the financial statements are materially misstated due to inadequate disclosure.
- Illustration 6: An auditor's report of an entity other than a listed entity containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the required disclosures relating to the material uncertainty are omitted in the financial statements.

Illustration 1 – An Auditor's Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When No Material Uncertainty Exists

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[40] does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.[41]**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

[40] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[41] ISA 210, *Agreeing the Terms of Audit Engagements*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[42]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[43]

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42 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

43 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[44]]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

44 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 2 – An Auditor's Report of a Listed Entity Containing an Unmodified Opinion When No Material Uncertainty Exists and Disclosure in the Financial Statements About the Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as Going Concern Is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist.**
- **Management has disclosed information about identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and the disclosures are adequate in view of the applicable financial reporting framework.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[45]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

We draw attention to Note X in the financial statements, which describes the political and economic uncertainties faced by the Company and the range of mitigating actions that have been deployed to address the effects on the Company's business activities.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

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45 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[46]

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[47]*]*

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

46 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

47 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 3 – An Auditor’s Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[48]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[49]

[48] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[49] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[50]*]*

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

50 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 4 – An Auditor's Report of a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The disclosure of the material uncertainty in the financial statements is adequate.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[51]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to

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[51] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

be communicated in our report.

[Description of each key audit matter in accordance with ISA 701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[52]

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[53]*]*

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

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[52] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[53] Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 5 – An Auditor's Report of a Listed Entity Containing a Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. Note Y to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.**
- **The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[54]

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects (*or give a true and fair view of*), the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As discussed in Note Y, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, as described in the *Basis for Qualified Opinion* section of our report, a material uncertainty exists that has not been adequately disclosed in the financial statements.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

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54 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA 701.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[55]

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[56]*]*

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

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55 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

56 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Illustration 6 – An Auditor's Report of an Entity Other Than a Listed Entity Containing an Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[57]

Adverse Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (*or do not give a true and fair view of)*, the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, as described in the *Basis for Adverse Opinion* section of our report, a material uncertainty exists that has not been disclosed in the financial statements.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 7 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

Responsibilities of Management and Those Charged with Governance for the Financial

[57] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Statements[58]

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).[59]]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

58 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

59 Paragraphs 34 and 39 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 570 (REVISED 202X) – MARKED FROM EXTANT

ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

…

Application and Other Explanatory Material

…

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

…

Inherent Limitations of an Audit

…

Other Matters that Affect the Inherent Limitations of an Audit

A53. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

- Fraud, particularly fraud involving senior management or collusion. See ISA 240 for further discussion.
- The existence and completeness of related party relationships and transactions. See ISA 550[1] for further discussion.
- The occurrence of non-compliance with laws and regulations. See ISA 250 (Revised)[2] for further discussion.
- Future events or conditions that may cause an entity to cease to continue as a going concern. See ISA 570 (Revised 202X)[3] for further discussion.

Relevant ISAs identify specific audit procedures to assist in mitigating the effect of the inherent limitations.

…

ISA 210, AGREEING THE TERMS OF AUDIT ENGAGEMENTS

…

Application and Other Explanatory Material

…

1 ISA 550, *Related Parties*

2 ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

3 ISA 570 (Revised 202X), *Going Concern*

Agreement on Audit Engagement Terms

…

Audit Engagement Letter or Other Form of Written Agreement[4] (Ref: Para. 10–11)

…

Form and Content of the Audit Engagement Letter

A24. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on ISA 200.[5] Paragraphs 6(b) and 12 of this ISA deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- ~~The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ISA 701.[6]~~
- The fact that 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 ISAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that management will provide written representations (see also paragraph A13).
- The expectation that management will provide access to all information of which management is aware that is relevant to the preparation of the financial statements, including an expectation that management will provide access to information relevant to disclosures.
- The agreement of management to make available to the auditor draft financial statements, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information,[7] if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.

[4] In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.

[5] ISA 200, paragraphs 3–9.

~~[6] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*~~

[7] As defined in ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.
- The requirements for the auditor to describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).[8]
- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ISA 701.[9]

…

Appendix 1

(Ref: Para. A24–A26)

Example of an Audit Engagement Letter

…

[The responsibilities of the auditor]

We will conduct our audit in accordance with ISAs. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

…

- Conclude and report on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

…

ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

…

[8] ISA 570 (Revised 202X), *Going Concern,* paragraphs 33(b) and 34(d)

[9] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Application and Other Explanatory Material

…

Engagement Performance

…

Direction, Supervision and Review (Ref: Para. 30)

…

The Engagement Partner's Review (Ref: Para. 30-34)

…

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
    - Personnel using expertise in a specialized area of accounting or auditing;
    - The use of personnel from service delivery centers.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team. The engagement team's consideration of related party relationships and transactions and disclosures.
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
    - The proposed overall group audit strategy and group audit plan;
    - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work; and
    - The evaluation of work performed by component auditors and the conclusions drawn therefrom.

- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or matters related to going concern. ~~a "Material Uncertainty Related to Going Concern" paragraph.~~

…

ISA 230, AUDIT DOCUMENTATION

…

Application and Other Explanatory Material

…

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

…

Documentation of Significant Matters and Related Significant Professional Judgements (Ref: Para. 8(c))

…

A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

- The rationale for the auditor's conclusion when a requirement provides that the auditor "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor's conclusion on the reasonableness of areas of subjective judgments made by management, for example management's judgments in relation to the going concern basis of accounting.[10]
- The basis for the auditor's evaluation of whether an accounting estimate and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When ISA 701 applies,[11] the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

…

[10] ISA 570 (Revised 202X), *Going Concern*

[11] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA 250 (REVISED), CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

…

Application and Other Explanatory Material

…

The Auditor's Consideration of Compliance with Laws and Regulations

…

Procedures to Identify Instances of Non-Compliance—Other Laws and Regulations (Ref: Para. 6 and 15)

A13. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's ability to ~~continuance~~ continue as a going concern.[12] For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (e.g., for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

…

ISA 260 (REVISED), COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

…

Application and Other Explanatory Material

…

Matters to Be Communicated

…

Significant Findings from the Audit (Ref: Para. 16)

…

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

A21. Significant difficulties encountered during the audit may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.

[12] See ISA 570 (Revised 202X), *Going Concern*

- An unreasonably brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.[13]

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion. [14]

…

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

…

A24. Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the ISAs, and for which communication with those charged with governance is required, include when, for example:

- The auditor expects to modify the opinion in the auditor's report in accordance with ISA 705 (Revised).[15]
- A material uncertainty related to going concern is reported in accordance with ISA 570 (Revised 202X).[16]
- Key audit matters are communicated in accordance with ISA 701.[17]
- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with ISA 706 (Revised)[18] or is required to do so by other ISAs.
- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised).[19]

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

…

[13] See ISA 570 (Revised 202X), *Going Concern,* paragraph 39(e)

[14] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[15] ISA 705 (Revised), paragraph 30

[16] ISA 570 (Revised 202X), *Going Concern*, paragraph 39(f) ~~25(d)~~

[17] ISA 701, paragraph 17

[18] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

[19] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* paragraph 18(a)

Appendix 1

(Ref: Para. 3)

Specific Requirements in ISQM 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQM 1[20] and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* – paragraph 34(e)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 22, 39(c)(i) and 41–43
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12–13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements*—Opening Balances – paragraph 7
- ISA 540 (Revised*), Auditing Accounting Estimates and Related Disclosures* – paragraph 38
- ISA 550*, Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)–(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised 202X), *Going Concern* – paragraph 39~~25~~
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46.
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraphs 17–19

[20] ISQC 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

…

ISA 315 (REVISED 2019), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

…

Application and Other Explanatory Material

…

Risk Assessment Procedures and Related Activities (Ref: Para. 13-18)

A11. The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this ISA. However, the significance of fraud is such that further requirements and guidance are included in ISA 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.[21] In addition, the following ISAs provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- ISA 540 (Revised) [22] in regard to accounting estimates;
- ISA 550 in regard to related party relationships and transactions;
- ISA 570 (Revised 202X) [23] in regard to going concern; and
- ISA 600 (Revised)[24] in regard to group financial statements.

…

Evaluating the control environment (Ref: Para 21(b))

…

Information obtained from outside of the general and subsidiary ledgers

A138. Financial statements may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information that the auditor may consider include:

- Information obtained from lease agreements relevant to disclosures in the financial statements.
- Information disclosed in the financial statements that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial statements.
- Information disclosed in the financial statements that has been obtained from models, or from other calculations used to develop accounting estimates recognized or disclosed in the

21 ISA 240, paragraphs 12–27

22 ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

23 ISA 570 (Revised 202X), *Going Concern*

24 ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

financial statements, including information relating to the underlying data and assumptions used in those models, such as:

- Assumptions developed internally that may affect an asset's useful life; or
- Data such as interest rates that are affected by factors outside the control of the entity.

- Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognized or disclosed in the financial statements that has been obtained from an entity's tax returns and records.
- Information disclosed in the financial statements that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.[25]

…

Identifying and Assessing Risks of Material Misstatement at the Financial Statement Level

A195. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance or disclosure level (e.g., risk of management override of controls). Rather, they represent circumstances that may pervasively increase the risks of material misstatement at the assertion level. The auditor's valuation of whether risks identified relate pervasively to the financial statements supports the auditor's assessment of the risks of material misstatement at the financial statement level. In other cases, a number of assertions may also be identified as susceptible to the risk, and may therefore affect the auditor's risk identification and assessment of risks of material misstatement at the assertion level.

Example:
The entity faces operating losses and liquidity issues and is reliant on funding that has not yet been secured. In such a circumstance, the auditor may ~~determine~~ conclude that management's use of the going concern basis of accounting gives rise to a risk of material misstatement at the financial statement level. In this situation, the accounting framework may need to be applied using a liquidation basis, which would likely affect all assertions pervasively.

…

Appendix 1

(Ref: Para. A61-A67)

Considerations for Understanding the Entity and its Business Model

…

[25] ISA 570 (Revised 202X), paragraphs 31-32~~19-20~~

Objectives and Scope of an Entity's Business Model

…

4. A business risk may have an immediate consequence for the risk of material misstatement for classes of transactions, account balances, and disclosures at the assertion level or the financial statement level. For example, the business risk arising from a significant fall in real estate market values may increase the risk of material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans. However, the same risk, particularly in combination with a severe economic downturn that concurrently increases the underlying risk of lifetime credit losses on its loans, may also have a longer-term consequence. The resulting net exposure to credit losses may indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If so, this could have implications for management's, and the auditor's, conclusion as to the appropriateness of the entity's use of the going concern basis of accounting, and ~~determination~~ conclusion as to whether a material uncertainty exists. Whether a business risk may result in a risk of material misstatement is, therefore, considered in light of the entity's circumstances. Examples of events and conditions that may give rise to the existence of risks of material misstatement are indicated in **Appendix 2.**

…

ISA 450, EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

…

Application and Other Explanatory Material

…

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 10–11)

…

A17. In addition, each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial statements as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgment. Examples where such misstatements may be material include:

- Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
- The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.
- Inadequate disclosures about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.[26]
- The incorrect description of an accounting policy relating to a significant item in the statement

[26] ISA 570 (Revised 202X), *Going Concern*, paragraph 31

of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.

- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities.

…

ISA 500, AUDIT EVIDENCE

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

2. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example, ISA 315 (Revised) [27]), the audit evidence to be obtained in relation to a particular topic (for example, ISA 570 (Revised 202X) [28]), specific procedures to obtain audit evidence (for example, ISA 520[29]), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200[30] and ISA 330[31]).

…

ISA 510, INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES

…

Application and Other Explanatory Material

…

Appendix

(Ref: Para A8)

Illustrations of Auditors' Reports with Modified Opinions

Note: Throughout these illustrative auditor's reports, the Opinion section has been positioned first in accordance with ISA 700 (Revised), and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new Basis for Opinion section.

---

27 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

28 ISA 570 (Revised 202X), *Going Concern*

29 ISA 520, *Analytical Procedures*

30 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

31 ISA 330, *The Auditor's Responses to Assessed Risks*

Illustration 1:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[32] does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).[33]**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[34]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Other Matter

…

Illustration 2:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

---

32 ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

33 ISA 570 (Revised 202X), *Going Concern*

34 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**

…

Independent Auditor's Report

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[35]

Opinions

…

Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Matter

…

ISA 540 (REVISED), AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

…

Application and Other Explanatory Material

…

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 4, 16)

…

Estimation Uncertainty (Ref: Para. 16(a))

…

[35] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

A75. In some cases, the estimation uncertainty relating to an accounting estimate may affect the auditor's professional judgment as to whether a material uncertainty exists related to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern. ISA 570 (Revised 202X)[36] establishes requirements and provides guidance in such circumstances.

…

Indicators of Possible Management Bias (Ref: Para. 32)

…

A135. Indicators of possible management bias may affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,[37] including the need to further question the appropriateness of management's judgments in making accounting estimates. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA 700 (Revised).[38]

…

ISA 560, SUBSEQUENT EVENTS

…

Application and Other Explanatory Material

…

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. 6–9)

…

Inquiry (Ref: Para. 7(b))

A9. In inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- Whether new commitments, borrowings or guarantees have been entered into.
- Whether sales or acquisitions of assets have occurred or are planned.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.

[36] ISA 570~~,~~ (Revised 202X), *Going Concern*

[37] ISA 570 (Revised 202X), paragraphs A57-A60

[38] ISA 700 (Revised), paragraph 11

- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the appropriateness of management's use of the ~~validity of the~~ going concern basis of accounting in the preparation of the financial statements ~~assumption~~.
- Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.

…

ISA 580, WRITTEN REPRESENTATION

…

Appendix 1

(Ref: Para 2)

List of ISAs Containing Requirements for Written Representations

This appendix identifies paragraphs in other ISAs that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 40
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 17
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraph 14
- ISA 501, *Audit Evidence—Specific Considerations for Selected Items* – paragraph 12
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 37
- ISA 550, *Related Parties* – paragraph 26
- ISA 560, *Subsequent Events* – paragraph 9
- ISA 570 (Revised 202X), *Going Concern* – paragraph 38~~16(e)~~
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 9
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c)

…

Appendix 2

(Ref: Para A21)

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of ISA 570 (Revised 202X)[39] to obtain a written representation 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.

…

ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

…

Requirements

…

Understanding the Group and its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

…

Considerations When Component Auditors Are Involved

31. The group auditor shall communicate to component auditors on a timely basis: (Ref: Para. A106)

    (a) Matters that the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for the purposes of the group audit;

    (b) In applying ISA 550,[40] related party relationships or transactions identified by group management, and any other relayed parties of which the group auditor is aware, that are relevant to the work of the component auditor; and (Ref: Para. A107)

    (c) In applying ISA 570 (Revised 202X),[41] events or conditions identified by group management or the group auditor, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.

…

[39] ISA 570 (Revised 202X), *Going Concern*

[40] ISA 550, *Related Parties,* paragraph 17

[41] ISA 570 (Revised 202X), *Going Concern*

Appendix 1

(Ref: Para. A42)

Illustration of Independent Auditor's Report Where the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised <u>202X</u>).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.[42]**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements[43]

Qualified Opinion

…

Basis for Qualified Opinion

…

<u>Going Concern</u>

<u>We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.</u>

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

---

[42] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[43] The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

…

ISA 610 (REVISED 2013), USING THE WORK OF INTERNAL AUDITORS

…

Application and Other Explanatory Material

…

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

…

Judgments in planning and performing audit procedures and evaluating results (Ref: Para. 18(a), 30(a))

…

A19. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 18. Significant judgments include the following:

- Assessing the risks of material misstatement;
- Evaluating the sufficiency of tests performed;
- Evaluating the appropriateness of management's use of the going concern ~~assumption~~ <u>basis of accounting</u>;
- Evaluating significant accounting estimates; and
- Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

…

ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

…

Requirements

…

Auditor's Report

…

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

…

Going Concern

29. ~~Where applicable, t~~The auditor shall report in accordance with ISA 570 (Revised 202X).[44]

…

Responsibilities for the Financial Statements

…

34. This section of the auditor's report shall describe management's responsibility for: (Ref: Para. A45–A48)

    (a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

    (b) Assessing the entity's ability to continue as a going concern[45] and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A48)

…

Auditor's Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)

    (a) A title.

    (b) An addressee, as required by the circumstances of the engagement.

    (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 27).

    (d) An identification of the entity's financial statements that have been audited.

    (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

    (f) ~~Where applicable, a~~A section that addresses, and is not inconsistent with, the reporting requirements in paragraphs 33–34 and 35(c)~~22~~ of ISA 570 (Revised 202X).

---

44 ISA 570 (Revised 202X), *Going Concern,* paragraphs 33-37~~21-23~~

45 ISA 570 (Revised 202X), paragraph 2

(g) Where applicable, a Basis for Qualified (~~or~~ Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 35(b)~~23~~ of ISA 570 (Revised 202X).

(h) Where applicable, a section that includes the information required by ISA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA.[46] (Ref: Para. A72–A75)

(i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA 720 (Revised).

(j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.

(k) A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37–40. (Ref: Para. A50–A53)

(l) For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

(m) The auditor's signature.

(n) The auditor's address.

(o) The date of the auditor's report.

…

Appendix

(Ref: Para A19)

Illustrations of Independent Auditor's Reports on Financial Statements

…

Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**

[46] ISA 701, paragraphs 11-16

- **Key Audit Matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[47]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Key Audit Matters

…

Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key Audit Matters have been communicated in accordance with ISA 701.**

…

[47] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements[48]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Key Audit Matters

…

Illustration 3 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has not otherwise decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

48 The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

…

Illustration 4 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity required by law or regulation. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has not otherwise decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

…

ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

Scope of this ISA

…

4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:

   (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;

   (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with ISA 705 (Revised); [49]

   (c) A substitute for reporting in accordance with ISA 570 (Revised 202X);[50] ~~when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;~~

   (d) A separate opinion on individual matters. (Ref: Para. A5-A8)

…

Requirements

…

Communicating Key Audit Matters

…

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

15. A matter giving rise to a modified opinion in accordance with ISA 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X), are by their nature key

---

[49] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[50] ISA 570 (Revised 202X), *Going Concern*, paragraphs 33-37~~22-23~~

audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

(a) Report on these matter(s) in accordance with the applicable ISA(s); and

(b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

…

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 2)

…

Communicating Key Audit Matters

…

Reference to Where the Matter is Disclosed in the Financial Statements (Ref: Para. 13)

…

A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example~~: W~~when an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.

- ~~When the auditor concludes in accordance with ISA 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under ISA 570 (Revised) are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.[51]~~

…

~~[51] See paragraph A3 of ISA 570 (Revised).~~

ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

…

Requirements

…

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

Auditor's Opinion

…

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

    (a) State that the auditor does not express an opinion on the accompanying financial statements;

    (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

    (c) Amend the statement required by paragraph 24(b) of ISA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

    (d) State that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

…

Considerations When the Auditor Disclaims an Opinion on the Financial Statements

29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a section on:

    (a) ~~a~~ Key Audit Matters ~~section~~ in accordance with ISA 701;[52]

    (b) Going Concern in accordance with ISA 570 (Revised 202X);[53]

    (c) Material Uncertainty Related to Going Concern in accordance with ISA 570 (Revised 202X);[54] and

    (d) ~~An~~ Other Information ~~section~~ in accordance with ISA 720 (Revised).~~[55]~~[56] (Ref: Para. A26)

[52] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11–13

[53] ISA 570 (Revised 202X), *Going Concern*, paragraph 33

[54] ISA 570 (Revised 202X), *Going Concern*, paragraphs 34–35

~~[55] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11–13~~

[56] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph A54

…

Application and Other Explanatory Material

…

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

Illustrative Auditor's Reports (Ref: Para. 16)

A17. Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other ISAs that include reporting requirements, including ISA 570 (Revised 202X),~~[57]~~ also include illustrations of auditor's reports with modified opinions.

…

Considerations When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 29)

A26. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with ISA 720 (Revised) addressing the auditor's consideration of the consistency of the other information with the financial statements. Accordingly, paragraph 29 of this ISA prohibits ~~a Key Audit Matters section or an Other Information~~ certain sections from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

…

Appendix

(Ref: Para A17-A18, A25)

Illustrations of Independent Auditor's Reports with Modifications to the Opinion

…

~~[57] ISA 570 (Revised), *Going Concern*~~

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[58] does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not ~~exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[59]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Key Audit Matters

…

[58] ISA 600 (Revised), Special Considerations—*Audits of Group Financial Statements (Including the Work of Component Auditors)*

[59] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **ISA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements[60]

Adverse Opinion

…

Basis for Adverse Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Key Audit Matters

…

[60] The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements[61]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Key Audit Matters

…

61 The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements[62]

Disclaimer of Opinion

…

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company'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 the consolidated statement of changes in equity and the consolidated cash flow statement.

We are unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised), does not apply).**

…

62 The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[63]

Disclaimer of Opinion

…

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

<u>We are unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.</u>

…

ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

Scope of this ISA

…

3. ISA 570 (Revised <u>202X</u>)[64] and ISA 720 (Revised)[65] establishes requirements and provides guidance about communication in the auditor's report relating to going concern and other information respectively.

…

---

[63] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[64] ISA 570 (Revised <u>202X</u>), *Going Concern*

[65] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Application and Other Explanatory Material

…

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 4, 8)

…

A5. 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, that is not an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.[66]
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

…

Including an Emphasis of Matter Paragraph in the Auditor's Report (Ref: Para. 9)

…

A7. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

(a) A modified opinion in accordance with ISA 705 (Revised) when required by the circumstances of a specific audit engagement;

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or

(c) Reporting in accordance with ISA 570 (Revised 202X).[67] ~~when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.~~

…

Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)

A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ISA 700 (Revised). For example:

---

[66] ISA 560, paragraph 6

[67] ISA 570 (Revised 202X), Going Concern, paragraphs 33-37 ~~22-23~~

Emphasis of Matter Paragraphs

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,[68] the auditor may consider it necessary to place the paragraph immediately following the ~~Basis for Opinion~~ Going Concern or Material Uncertainty Related to Going Concern section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

Other Matter Paragraphs

…

Appendix 3

(Ref: Para A17)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

…

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[69] does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**

…

- **Key audit matters have been communicated in accordance with ISA 701.**

…

68 For example, as required by ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

69 ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[70]

Opinion

…

Basis for Opinion

…

<u>Going Concern</u>

<u>We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.</u>

…

Emphasis of Matter[71]

…

Key Audit Matters

…

Other Matter

…

Appendix 4

(Ref: Para A8)

Illustration of an Independent Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

…

[70] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[71] As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matter section based on the auditor's judgement as to the relative significance of the information included in the Emphasis of Matter paragraph.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised <u>202X</u>).**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[72]

Qualified Opinion

…

Basis for Qualified Opinion

…

<u>Going Concern</u>

<u>We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.</u>

…

Emphasis of Matter – Effects of a Fire

…

ISA 710, COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

…

Appendix

(Ref: Para A5, A7, A10)

Illustrations of Independent Auditors' Reports

72 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

…

Illustration 1 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[73] does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).[74]**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[75]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[76]

…

---

73 ISA 600 (Revised), Special Considerations—*Audits of Group Financial Statements (Including the Work of Component Auditors)*

74 ISA 570 (Revised 202X), *Going Concern*

75 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

76 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

Illustration 2 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[77]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[78]

…

Illustration 3 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

[77] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[78] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[79]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Matter

…

Illustration 4 – Comparative Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

[79] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[80]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements[81]

…

ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

…

Application and Other Explanatory Material

…

Reading and Considering the Other Information (Ref: Para. 14-15)

…

80 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

81 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

…

A32. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.[82]

…

Appendix 2

(Ref: Para. 21-22, A53)

Illustration of Independent Auditor's Reports Relating to Other Information

…

Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)[83] does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).[84]**
- **Key audit matters have been communicated in accordance with ISA 701.[85]**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

[82] ISA 570 (Revised 202X), *Going Concern*

[83] ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

[84] ISA 570 (Revised 202X), *Going Concern*

[85] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report.* The Kay Audit Matters section is required for listed entities only.

Report on the Audit of Financial Statements[86]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Key Audit Matters[87]

…

Illustration 2 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key Audit Matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[88]

86 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

87 The Kay Audit Matters section is required for listed entities only.

88 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Key Audit Matters

…

Illustration 3 – An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a listed entity, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Illustration 4 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of Financial Statements[89]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a

[89] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Key Audit Matters

…

Illustration 5 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Illustration 6 – An auditor's report of any entity, whether listed or other than listed, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Qualified Opinion

…

Basis for Qualified Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

Illustration 7 – An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**
- **Key audit matters have been communicated in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Adverse Opinion

…

Basis for Adverse Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

…

Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]

…

ISA 800 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

…

Application and Other Explanatory Material

…

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

A13. The Appendix to this ISA contains illustrations of independent auditor's reports on special purpose financial statements. Other illustrations of auditor's reports may be relevant to reporting on special purpose financial statements (see for example, the Appendices to ISA 700 (Revised), ISA 705 (Revised),[90] ISA 570 (Revised 202X),[91] ISA 720 (Revised),[92] and ISA 706 (Revised)).[93]

Application of ISA 700 (Revised) When Reporting on Special Purpose Financial Statements

…

Going Concern

A15. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions).[94] Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor's report of management's responsibilities[95] relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities[96] may also need to be adapted as necessary depending on how ISA 570 (Revised 202X) applies in the circumstances of the engagement.

…

Appendix

(Ref: Para. A14)

Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements

…

Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.**

…

[90] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[91] ISA 570 (Revised 202X), *Going Concern*

[92] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

[93] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[94] ISA 570 (Revised 202X), paragraph 2

[95] See ISA 700 (Revised), paragraphs 34(b) and A48.

[96] See ISA 700 (Revised), paragraph 39(b)(iv).

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**

…

- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements[97]

…

Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

[97] Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

- **Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist partners in preparing their individual income tax return. Management does not have a choice of financial reporting frameworks.**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X).**

…

- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Going Concern

We have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of the Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Partnership and its partners and should not be distributed to parties other than the Partnership or its partners. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements[98]

…

[98] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a listed entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**

…

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X). The disclosure of the material uncertainty in the financial statements is adequate.**

…

- **The auditor is required by the regulator to communicate key audit matters in accordance with ISA 701.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, ~~W~~we draw attention to Note ~~6~~X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note ~~6~~X, these events or conditions, along with other matters as set forth in Note ~~6~~X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

[Description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA 570 (Revised 202X).]

Our opinion is not modified in respect of this matter.

Emphasis of Matter – Basis of Accounting

We draw attention to Note Y~~X~~ to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section above, we have determined the matters described below to be key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA 701 as applied to this audit.]

Other Matter

…

ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

…

Requirements

…

Forming an Opinion and Reporting Considerations

…

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements

…

14. If the auditor's report on an entity's complete set of financial statements includes:

    (a) A modified opinion in accordance with ISA 705 (Revised);[99]

    (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with ISA 706 (Revised);[100]

    (c) A Material Uncertainty Related to Going Concern section in accordance with ISA 570 (Revised 202X);[101]

    (d) Communication of key audit matters in accordance with ISA 701;[102] or

---

[99] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[100] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[101] ISA 570 (Revised 202X), *Going Concern*, paragraphs 34-35~~22~~

[102] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 13

(e) A statement that describes an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised); [103]

the auditor shall consider the implications, if any, that these matters have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon. (Ref: Para. A23–A27)

…

Application and Other Explanatory Material

…

Considerations When Accepting the Engagement

Application of ISAs (Ref: Para. 7)

…

A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised 202X) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

…

Considerations When Planning and Performing the Audit (Ref: Para. 10)

A10. The relevance of each of the ISAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, ISAs such as ISA 240,[104] ISA 550[105] and ISA 570 (Revised 202X) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

…

[103] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* paragraph 22(e)(ii)

[104] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

[105] ISA 550, *Related Parties*

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

…

A17. Appendix 2 contains illustrations of independent auditor's reports on a single financial statement and on a specific element of a financial statement. Other illustrations of auditor's reports may be relevant to reporting on a single financial statement or on a specific element of a financial statement (see, for example, the Appendices to ISA 700 (Revised), ISA 705 (Revised), ISA 570 (Revised 202X), ISA 720 (Revised), and ISA 706 (Revised)).

Application of ISA 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement

…

Going Concern

A19. Depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, the description in the auditor's report of management's responsibilities[106] relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities[107] may also need to be adapted as necessary depending on how ISA 570 (Revised 202X) applies in the circumstances of the engagement.

…

Appendix 2

(Ref: Para. A17)

Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

…

Illustration 1: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a balance sheet (that is, a single financial statement) of an entity other than a listed entity.**

…

- **The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.**

…

[106] See ISA 700 (Revised), paragraphs 34(b) and A48.

[107] See ISA 700 (Revised), paragraphs 39(b)(iv).

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA 570 (Revised 202X). The disclosure of the material uncertainty in the single financial statement is adequate.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701 in the context of the audit of the balance sheet.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Material Uncertainty Related to Going Concern

We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statement is appropriate. However, ~~W~~we draw attention to Note ~~6~~X in the financial statement, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note ~~6~~X, these events or conditions, along with other matters as set forth in Note ~~6~~X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statement[108]

…

Illustration 2: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose framework.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a statement of cash and disbursements (that is, a single financial statement) of an entity other than a listed entity.**

…

- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.[109]**

108 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

109 ISA 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

…

- **The going concern basis of accounting is not relevant in the preparation of the statement of cash and disbursements.** ~~**Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**~~
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701 in the context of the audit of the statement of cash receipts and disbursements.**

…

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Emphasis of Matter – Basis of Accounting

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statement[110]

Management is responsible for preparation and fair presentation of the financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.~~

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

[110] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.[111]
- ~~Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.~~
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

…

[111] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

Illustration 3: An auditor's report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose framework.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).**

…

- **The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.** [112]

…

- **The going concern basis of accounting is not relevant in the preparation of the accounts receivable schedule. ~~Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).~~**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701 in the context of the audit of the statement of cash receipts and disbursements.**

…

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

…

Basis for Opinion

…

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to Note x to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Company and Regulator DEF and should not be distributed to parties other than the Company or Regulator DEF. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Schedule[113]

Management is responsible for the preparation of the schedule in accordance with [describe the financial

[112] ISA 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

[113] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

reporting provisions established by the regulator], and for such internal control as management determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

~~In preparing the schedule, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.~~

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this schedule.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. [114]
- ~~Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.~~

[114] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

…

ISA 810 (REVISED), ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

…

Requirements

…

Auditor's Report on Summary Financial Statements

…

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. A23)

19. When the auditor's report on the audited financial statements includes:

    (a) A qualified opinion in accordance with ISA 705 (Revised); [115]

    (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with ISA 706 (Revised); [116]

    (c) A Material Uncertainty Related to Going Concern section in accordance with ISA 570 (Revised 202X); [117]

    (d) A Going Concern section in accordance with ISA 570 (Revised 202X) if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists;[118]

    (e) Communication of key audit matters in accordance with ISA 701;[119] or

    (f) A statement that describes an uncorrected material misstatement of the other information in

[115] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[116] ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[117] ISA 570 (Revised 202X), ~~*Going Concern*,~~ paragraphs 34-35~~22~~

[118] ISA 570 (Revised 202X), paragraph 33(b)

[119] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

accordance with ISA 720 (Revised);[120]

and the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 16:

(i) State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a *Going Concern* section or a *Material Uncertainty Related to Going Concern* section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and (Ref: Para. A21)

(ii) Describe: (Ref: Para. A22)

a. The basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements;

b. The matter referred to in the Emphasis of Matter paragraph, the Other Matter paragraph, the *Going Concern* section or the *Material Uncertainty Related to Going Concern* section in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements;

c. The uncorrected material misstatement of the other information and the effect(s) thereof, if any, on the information included in a document containing the summary financial statements and the auditor's report thereon. (Ref: Para. A15)

…

Appendix

(Ref: Para. A23)

Illustrations of Independent Auditor's Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes *a Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

…

Illustration 1:

Circumstances include the following:

- **An unmodified opinion is expressed on the audited financial statements of a listed entity.**
- **…**

[120] ISA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*

- **The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section.**
- **The auditor's report on the audited financial statements includes communication of other key audit matters.[121]**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

…

Summary Financial Statements

…

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that:
    - States that we have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. However, we draw~~s~~ attention to Note ~~6~~X in the audited financial statements. Note ~~6~~X of the audited financial statements indicates that ABC Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note ~~6~~X of the audited financial statements, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note ~~5~~Y of the summary financial statements.[122]
- The communication of other [123] key audit matters. [Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.] [124]

…

[121] As explained in paragraph 15 of ISA 701, a material uncertainty related to going concern is, by its nature, a key audit matter but is required to be reported in a separate section of the auditor's report in accordance with paragraphs 36-37~~22~~ of ISA 570 (Revised 202X).

[122] The auditor may include additional description about how the auditor evaluated management's assessment of the entity's ability to continue as a going concern, in accordance with paragraph 33(d) of ISA 570 (Revised 202X)

[123] In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

[124] The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

IAPN 1000, SPECIAL CONSIDERATIONS IN AUDITING FINANCIAL INSTRUMENTS

…

Appendix

(Ref: Para. A14)

Examples of Controls Relating to Financial Instruments

…

17. Financial instruments may have the associated risk that a loss might exceed the amount, if any, of the value of the financial instrument recognized on the balance sheet. For example, a sudden fall in the market price of a commodity may force an entity to realize losses to close a forward position in that commodity due to collateral, or margin, requirements. In some cases, the potential losses may ~~be enough to~~ indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. The entity may perform sensitivity analyses or value-at-risk analyses to assess the future hypothetical effects on financial instruments subject to market risks. However, value-at-risk analysis does not fully reflect the extent of the risks that may affect the entity; sensitivity and scenario analyses also may be subject to limitations.

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